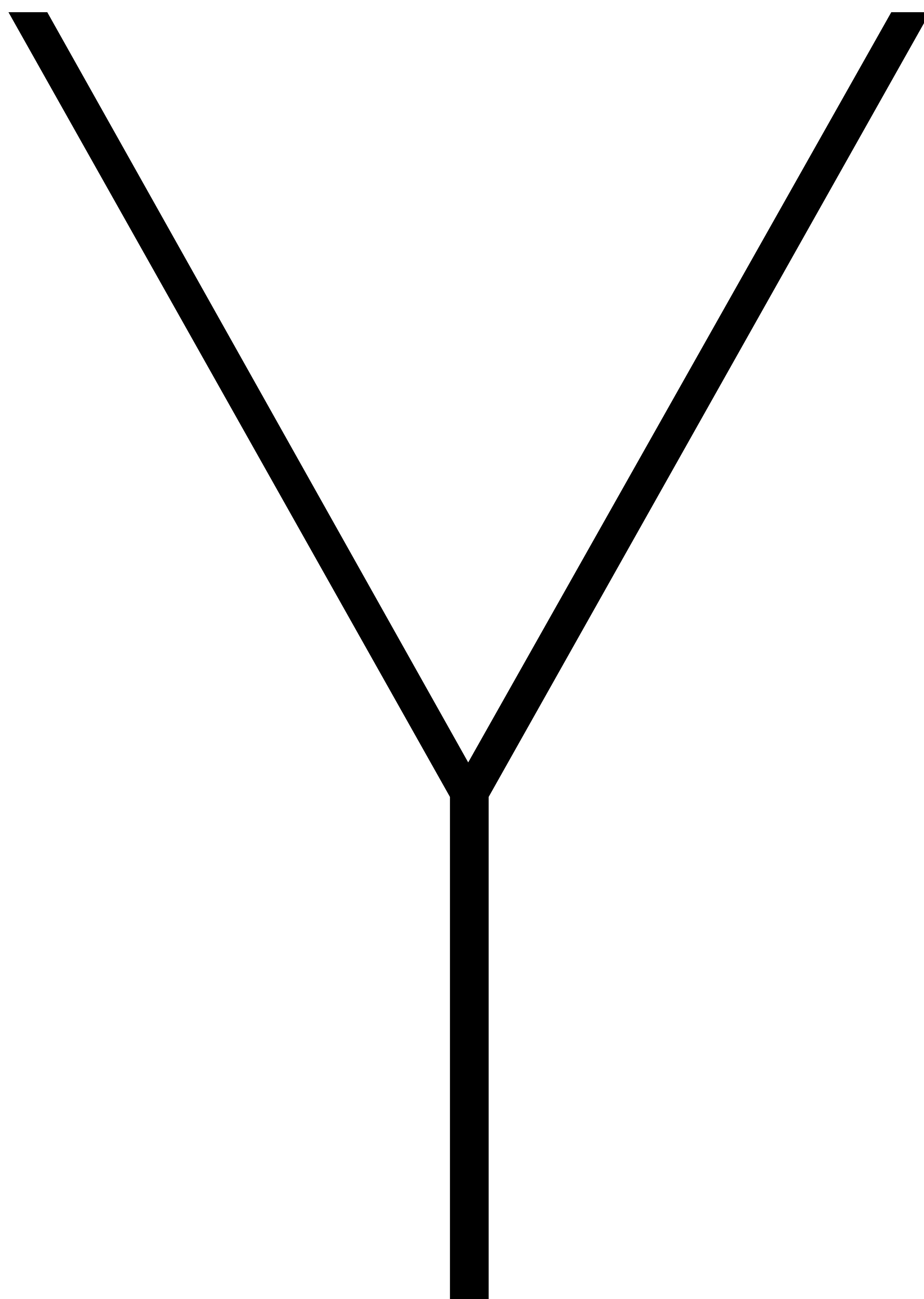
Y. ANNUAL FINANCIAL REPORT AT DECEMBER 31, 2012



PIRELLI

PIRELLI & C. S.p.A. – Milan

Y. ANNUAL FINANCIAL REPORT AT DECEMBER 31, 2012

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Y. ANNUAL FINANCIAL REPORT AT DECEMBER 31, 2012

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

O. REPORT ON CORPORATE GOVERNANCE AND STRUCTURE OF SHARE OWNERSHIP**

U. SUSTAINABILITY REPORT 2012

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

SPIRIT OF IN

CURIOSITY, FLEXIBI

THIS IS HOW WE CONFRONT THE CHALLENGE

WITH PERSEVERAN

WITH THE ABILITY TO CHANGE POINT

RAPIDLY CHANGIN

NNOVATION,
LITY AND HUMILITY.
S OF OUR WORK, DAY AFTER DAY.
NCE, BUT ALSO
OF VIEW IN THE FACE OF A
NG SCENARIO.

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

DEAR SHAR

REHOLDERS,

The year 2012 was a difficult one for the world economy and therefore for the tyre market, but Pirelli was able to deal firmly with the crisis which grew worse as the year progressed, above all in Europe.

We were able to respond to rapid change in the economy with equal speed, thanks to a lean and cross-referencing decision-making structure which enabled us to foresee the difficulties. The crisis in the European market pushed us to accelerate the process of strategic focus on the Premium segment, further reducing standard segment production, and to concentrate on rapidly growing markets to take advantage of their positive economic dynamics. This was the case in Mexico, where the launch of tyre production at the Silao factory to serve the entire Nafta area allowed us to reduce logistical costs and offer ever more efficient services to customers. But also in Indonesia, where we reached an agreement with a local partner to build a factory for the production of motorcycle tyres. The Nafta and Apac areas, together with Latin America, continue to grow in weight and were able – above all in the final part of 2012 – to compensate the difficulties in the European market.

Thanks to our geographic diversification, local-for-local strategy, focus on the Premium segment, stable pricing policy and incisive efficiency plan we were able to improve our profitability, bringing it to an annual record of 12.9%, at the same managing to contain debt to around 1.2 billion, after investments – both industrial and financial – of over 700 million euro to reinforce our presence in strategic countries, such as Russia, and to concentrate production in the Premium segment.

Despite the extraordinary teamwork that brought such decidedly positive results, even more so in the context of the economic crisis, we did not manage – due to the marked economic slowdown – to hit the even more ambitious debt target of around 1.1 billion euro which we had set in 2011 as the threshold to the incentive plan for management who, because of this, will not receive any bonuses for 2012.

In 2012 also and in respect of the commitments made, sustainable management characterized both our products and our way of production, in full and open harmony with the most responsible choices of those international companies attentive

to the great economic transformations under way, at the global level.

In 2013 we aim to defend our level of profitability and increase revenues thanks also to the contribution from emerging markets. To take advantage of the growing potential of all rapidly growing economies, Pirelli is increasing and reinforcing its commercial networks to reach, in a capillary fashion, all those geographic areas - Nafta and Apac foremost – which in the coming months will be the true drivers of the world economy, faced with a Europe that continues to show signs of great weakness. Our being present in all the biggest markets will allow us, however, to seize growth opportunities which we are not finding in the old continent, without hiding the fact that, undoubtedly, 2013 will be a complex year during which we aim to consolidate the position attained in this area.

To achieve these goals it is necessary to have a long-term vision of the economic scenario, something to which we dedicate ourselves each day and which will enable us to define by the end of the year a new 5-year industrial plan, to best face the challenges of the coming years.

Chairman and CEO
Marco Tronchetti Provera

FU

UTURE

PIRELLI IMAGINES THE FUTURE TOGETHE

KEEPING A WATCHFUL EYE ON THE WORLD, MAINTAIN
SOCIETY AND THEN ON THE MARKET: THIS
SUCCESS AS A LEAD
INNOVATION DURING THESE YEARS OF W

IN LINE WITH THIS CONCEPT, THIS YEAR PIRELLI CONCEIVED
TALENTED STUDENTS FROM INTERN
THEIR POINT OF VIE
ASKING THEM TO IDENTIFY THE MOST IMPORTANT VALU

A CALL FOR ENTRY WAS LAUNCHED THROUGH UNIVERSITY WEB SITES
CHANNELS, INVOLVING THE WEB IN A WOR
CONTRIBUTIONS BEING POSTED O

A JURY COMPOSED OF PROMINENT FIGURES REPRESENTING THE FIEL
THE 10 MOST INTERESTING DEFINITIO
BY LIZA DONNELLY, THE FAMOUS CARTOONIST OF THE NEW YORKER, AND

DURING 2013, THE 10 WINNIN
THE OPPORTUNITY TO DEMONSTRATE THEIR TALENT IN PIRELLI, WITH A TW

ER WITH YOUTHS ALL OVER THE WORLD.

NING RESPONSIVE ANTENNAS ON ALL THAT IS NEW IN
IS WHAT HAS CONTRIBUTED TO PIRELLI'S
DER OF INDUSTRIAL
WHIRLING AND DEEP TRANSFORMATION.

THE PROGRAM "IMAGINING THE FUTURE WITH...", INVITING
ATIONAL UNIVERSITIES TO EXPRESS
W ON THE FUTURE,
ES AND FUNDAMENTAL IDEAS OF THE WORLD TO COME.

AND SOCIAL NETWORKS, AS WELL AS PIRELLI'S ONLINE AND OFFLINE
RLDWIDE DISCUSSION, WITH HUNDREDS OF
ON THE PIRELLI FACEBOOK PAGE.

LDS OF TECHNOLOGY, ECONOMY, ART, CULTURE AND SPORT SELECTED
NS, WHICH WERE THEN ILLUSTRATED
THAT YOU NOW SEE PUBLISHED IN THE PAGES OF THIS ANNUAL REPORT.

NG STUDENTS WILL RECEIVE
WO MONTH WORK EXPERIENCE IN THE COMPANY'S MILAN HEADQUARTERS.

PIRELLI WANTS TO KNOW WHAT I THINK OF THE FUTURE, I BETTER HURRY UP AND DECIDE WHAT I WANT FOR LUNCH!
DONNELLY

LIZA DONNELLY IS A STAF
NEW YORKER MAGAZINE AND A WEEKLY
FIRST BEGAN SELLING
IN 1979, SHE WAS THE YOUNGEST AND ONE OF O

DONNELLY IS A PUBLIC SPEAKER AND HAS SPOKEN AT TED
AMONG MANY OTHER PLACES. SHE
THE STATE DEPARTMEN
TRAVELING AROUND THE WORLD SPEAKING ABOUT FR
A CHARTER MEMBER OF AN INTER
FOR PEACE, HELPING TO PROMOTE UNDERSTAN

AUTHOR/EDITOR OF FIFTEEN
"WHEN DO THEY SERVE THE WINE? THE FOLLY, FLEXIBIL
"WOMEN ON MEN" IS DUE OUT IN 2013. FURTHERMORE, SHE CONCEIVED OF A
CONTRIBUTORS AROU

DONNELLY TAUGHT AT VASS
A MEMBER OF PEN, AUTHORS GUILD AND THE NATIONAL CARTOONI
CARTOONIST, MICHAEL MASL

FF CARTOONIST WITH THE
COLUMNIST FOR FORBES.COM. WHEN SHE
TO THE NEW YORKER
ONLY THREE CARTOONISTS WHO WERE WOMEN.

D, THE UNITED NATIONS, AND THE NEW YORKER FESTIVAL,
IS A CULTURAL ENVOY AS PART OF
NT'S TALENT PROGRAM,
EEDOM OF SPEECH AND WOMEN'S RIGHTS. SHE IS ALSO
RNATIONAL PROJECT, CARTOONING
NDING AROUND THE WORLD THROUGH HUMOR.

BOOKS, HER MOST RECENT IS
ITY AND FUN OF BEING A WOMAN" AND HER NEW BOOK
AND IS EDITOR FOR WORLD INK, A SITE OF INTERNATIONAL CARTOONS FROM
UND THE GLOBE.

SAR COLLEGE AND IS
ST SOCIETY. SHE AND HER HUSBAND, NEW YORKER
IN, LIVE IN NEW YORK.

THE

TO SELECT T
INTERESTING VALUES
INTERNATIONAL JURY CO
FIGURES REP
THE FIELDS OF ECONOMY, TECHNOLOG

JURY

THE 10 MOST
WE HAVE CHOSEN AN
OMPOSED OF PROMINENT
PRESENTING
GY, ART, DESIGN, CULTURE AND SPORT.

BINA AGARWAL IS PROFE

ECONOMICS AND ENVIRONMENT AT THE UNIVERSIT
UNIVERSITIES OF CA
DELHI, HER LATEST BOOK, "GENDER AND GREEN GOVERNA
GENDER INCLUSIVE GOVER
CONSERVATION, DEMOCRATIC PAR

THOMAS GOETZ IS A WRIT

HE IS FOUNDER OF 1+1 LABS,
AUTHOR OF "T
TAKING CONTROL OF YOUR HEALTH I
FROM 2001 THRO
THE SHIP AT WIRED, GUIDING THE

STEVE MCCURRY IS AN

PHOTOGRAPHER A
OF THE 2013 PIRELLI CALENDAR
PHOTOS SINCE 1986, MANY OF HIS IMAGES
INCLUDING THE PREVIOUS
REFUGEE GIRL, CONSIDERED AS ONE OF THE MOST R

ESSOR OF DEVELOPMENT
TY OF MANCHESTER. EDUCATED AT THE
AMBRIDGE AND
ANCE", HIGHLIGHTS THE POSITIVE IMPACT OF
RNANCE ON FOREST
RTICIPATION, AND EQUITY.

TER AND ENTREPRENEUR.
AN INFORMATION-DESIGN FIRM, AND
HE DECISION TREE:
N THE NEW ERA OF PERSONALIZED MEDICINE".
UGH 2012 HE STEERED
E MAGAZINE TO AMPLE HONORS.

AWARD-WINNING
AND AUTHOR
R. MEMBER OF MAGNUM
S HAVE BECOME MODERN ICONS,
LY UNIDENTIFIED AFGHAN
ECOGNIZABLE PHOTOGRAPHS IN THE WORLD TODAY.

CARLO RATTI IS AN ARCHITE

PRACTICES IN ITALY A

THE MASSACHUSETTS INSTITUTE

HE DIRECTS THE SENSEABLE CITY LAB. HIS WORK HAS BEE

DIGITAL WATER PAVIL

WORLD EXPO WHICH TIME MAGAZINE HAILED A

GIUSEPPE TORNATO

SCREENWRITER AND PRODUCER. IN

WITH “NUOVO C

FOR WHICH HE IS ALSO A

FOR BEST FOREIGN LANGUAGE FILM.

WORLDWIDE OBTAINING

SEBASTIAN VETTEL

AND THREE TIMES WORLD

TITLE AS

FORMULA ONE

HE IS CURRENTLY

CHAMPION IN 20

THE YO

WORLD C

DRIVING FOR

CT AND ENGINEER. HE
AND TEACHES AT
OF TECHNOLOGY WHERE
N EXHIBITED WORLDWIDE AND INCLUDES THE
ION AT THE 2008
S ONE OF THE 'BEST INVENTIONS OF THE YEAR'.

ORE IS A FILM DIRECTOR,
N 1989 HE RECEIVES INTERNATIONAL ACCLAIM
CINEMA PARADISO",
AWARDED THE ACADEMY AWARD
SINCE THEN, HIS FILMS HAVE BEEN DISTRIBUTED
G PRIZES AND SUCCESS.

IS A FORMULA ONE DRIVER
10, 2011 AND 2012. JUST 25 YEARS OLD, HE HOLDS THE
OUNGEST EVER TRIPLE
HAMPION. OF GERMAN ORIGIN,
R THE AUSTRIAN TEAM RED BULL RACING.

THE VALUES
CORRESPOND
OUR TIMES
HOPES WE NURTURE, NO
REAL, TANGIBLE,

HAT EMERGED
TLY TO THE CLIMATE OF
AND TO THE
ER BASED ON UTOPIAS, BUT ON
IABLE INITIATIVES.

From consumption to values

In the ’80s, when consumption was considered a positive thing, goods could be presented just as they were, in all their materiality, and in the somewhat boorish role of status symbol. Nothing was ever too shiny, too colourful, too gaudy or too superfluous and nothing was ever too squalid, too primary, too neo-realist or too lowbrow. Material and symbolic needs could share centre stage: from salami to toilet paper, from luxury cars to designer perfume. The designer’s signature, in fact, was everywhere and signified economic capital and ostentation rather than creativity. Then goods began to lose their heft, their substance, taking refuge behind “the brand”, a brand that no longer denoted physical objects but rather lifestyles, world visions, pristine landscapes and harmony with nature.
Finally we had the “No logo” movement, 9/11 and the crisis that is still wreaking havoc on our economic certainties. Ostentation, in all its forms, has become obsolete. A display of status may indicate membership of the privileged classes, instigating criticism and dismay. Choosing a lifestyle these days requires a strong motivation, perhaps even some form of faith or ideal.

We are rediscovering values.

Since the '80s, the word "value" had ceased to mean anything. Or rather, its meaning in the context of social sciences had been replaced by its purely economic meaning: utilitarian value, exchange value, investment value. A famous advertisement of the period sought to motivate our buying decisions by attributing value first to the celebrity endorser: "Because I'm worth it", then to the consumer, looking them straight in the eye, "Because you're worth it." If you have value then you can invest in yourself; from your value you must derive your self-esteem. You have value and therefore you must make it show. Having value coincides with having success.
The word "value", in the moral sense, suggested antiquated environments. Not since the '70s, since pre-consumerism, had people talked of values in the "high" sense, right-wing and left-wing values, before the words "right" and "left" lost their own identity and meaning. The values of the left were solidarity, culture and equality. Values of the right included God, Country and Family, as well as meritocracy.

Then the word “value” became devalued.

I confess to being surprised when they told me that Pirelli had sponsored an international study among young people to identify the values of tomorrow, values we can refer to without rhetoric and without a pathetic sense of anachronism.

The term “value” has a weighty significance that can cause apprehension. According to the Treccani Encyclopaedia of Social Sciences, “First and foremost a value is not simply understood as the object of a preference, as that which is desired, but rather assumes a prescriptive connotation.” In other words, a value represents not so much a desire as a sort of “categorical imperative”.

We have moved from the realm of consumption, real or unsatisfied, to the realm of shared moral commitment. In the atmosphere of crumbling certainties and radical criticism that has marked the recent climate, it seemed impossible to refer to values, except those of economic recovery: spread, break-even and sacrifice.

The international financial crisis, the collapse of the traditional political parties and the search

for alternatives that are feasible while at the same time being inspired by different principles, has unexpectedly exposed a hunger for values. Values that are less sober, less abstract and less demanding but perhaps more basic and workable, more mundane and true.
They are the values that have developed in recent years from protest movements and internet solidarity, but also from corporate creativity and the struggle to innovative our way out of the crisis. They are the values of honesty and dedication to the common good. They are values to be applied not in the context of local culture, but rather in the context of multiculturalism.
Understanding others and communicating involves being flexible, changing perspective and thinking globally.

Pirelli's sponsorship of this research was prophetic. The values that emerged correspond perfectly to the climate of our times and to the hopes we nurture, no longer based on utopias, but on real, tangible, viable initiatives.

Carlo Freccero

GENERAL INFORMATION

CALL OF GENERAL MEETING

The ordinary shareholders of Pirelli & C. Società per Azioni are called to the Ordinary and Extraordinary Shareholders' Meeting in Milan, Viale Sarca n. 214 at 10:30 a.m. on Monday, May 13, 2013 on sole call to discuss and resolve on the following

AGENDA

Ordinary Part

- Annual Financial Report at December 31, 2012. Relevant and consequent resolutions.
- Election of three Directors and/or reduction in the number of seats on the Board of Directors.
- Remuneration Policy: consultation.
- Purchase and disposition of treasury shares. Relevant and consequent resolutions.

Extraordinary Part

- Amendments to Articles 7 (Shareholders' Meeting), 10 (Company Management), 16 (Board of Statutory Auditors) of the Bylaws and introduction of Article 21 (transitory clause) to the Bylaws. Relevant and consequent resolutions.

Board of Directors [1]	
Chairman and Chief Executive Officer	**Marco Tronchetti Provera**
Deputy Chairman	**Vittorio Malacalza**
Deputy Chairman	**Alberto Pirelli**
Independent Director	Carlo Acutis
Independent Director	Anna Maria Artoni
Director	Gilberto Benetton
Independent Director	Alberto Bombassei
Independent Director	Franco Bruni
Independent Director	Luigi Campiglio
Independent Director	Pietro Guindani
Director	Giulia Maria Ligresti
Independent Director	Elisabetta Magistretti
Director	Massimo Moratti
Director	Renato Pagliaro
Independent Director	Luigi Roth
Director	Carlo Salvatori
Lead Independent Director	Carlo Secchi
Independent Director	Manuela Soffientini
Secretary to the Board	Anna Chiara Svelto

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

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

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

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

Strategies Committee [3]	
Chairman of the Committee	**Marco Tronchetti Provera**
Independent Director	Alberto Bombassei
Independent Director	Franco Bruni
General Counsel and Corporate Affairs	Francesco Chiappetta
Deputy Chairman	Vittorio Malacalza
Director	Renato Pagliaro
Lead Independent Director	Carlo Secchi
Independent Director	Manuela Soffientini

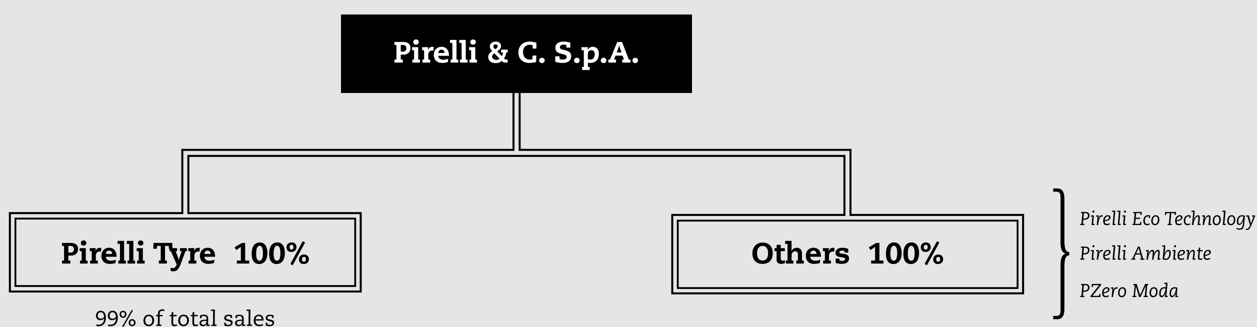
Independent Auditor [4]	
	Reconta Ernst & Young S.p.A.

Corporate Financial Reporting Manager [5]	
	Francesco Tanzi

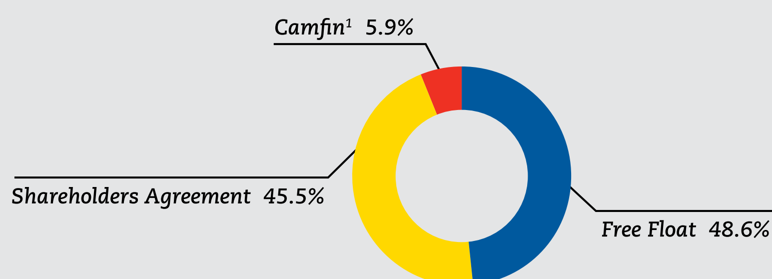
[1] Appointment: April 21, 2011. Expiry: Shareholders' Meeting called to approve the Annual Financial Report at December 31, 2013. Director Manuela Soffientini was co-opted by the Board of Directors on March 1, 2012, in replacement of Director Profumo, and was confirmed as Director by the Shareholders' Meeting on May 10, 2012. Director Giuseppe Vita, co-opted by the Board of Directors on March 1, 2012 and subsequently confirmed by the Shareholders' Meeting on May 10, 2012, resigned on May 25, 2012. Carlo Salvatori was co-opted on July 26, 2012 to replace him. On July 23, 2012 Giovanni Perissinotto gave notice of his resignation as Director of the Company. Mario Greco was co-opted on November 12, 2012 to replace him. Mario Greco resigned on March 4, 2013. Therefore, two seats are vacant following Mr Greco's resignation and the death of Prof. Paolo Ferro-Luzzi in November 2012. The Shareholders' Meeting called to approve the Annual Financial Report at December 31, 2012 is consequently asked to confirm Director Carlo Salvatori and resolve on the two vacant seats.
[2] Appointment: May 10, 2012. Expiry: Shareholders' Meeting called to approve the Annual Financial Report at December 31, 2014.
[3] Directors Alberto Bombassei and Manuela Soffientini were appointed to the Strategies Committee on July 27, 2012. Prof. Francesco Profumo (who resigned as Director on November 16, 2011) and Mr Francesco Gori are no longer members of the Strategies Committee.
[4] Post conferred by the Shareholders' Meeting held on April 29, 2008, for the nine-year term 2008-2016.
[5] Appointment: Board of Directors meeting held on April 21, 2011. Expiry: together with the current Board of Directors.

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

STRUCTURE OF PIRELLI GROUP AT DECEMBER 31,2012



SHAREHOLDERS STRUCTURE 2012



[1] Share not conferred to the Shareholders Agreement. Camfin totally owns 26.2% of ordinary share capital.

FREE FLOAT	48.60%[2]	SHAREHOLDERS AGREEMENT	45.5%
Institutional Investors	**36.30%**		
UK	8.60%	Camfin S.p.A.	20.32%
Italy	1.70%	Mediobanca S.p.A.	4.61%
Continental Europe	5.20%	Edizione S.r.l.	4.61%
USA	12.50%	Fondiaria SAI S.p.A.	4.42%
Nordics	6.80%	Allianz S.p.A.	4.41%
Rest of the World	1.50%	Assicurazioni Generali S.p.A.	4.41%
		Intesa San Paolo S.p.A.	1.62%
		Sinpar S.p.A.	0.63%
		Massimo Moratti	0.49%
Retail	**12.30%**		

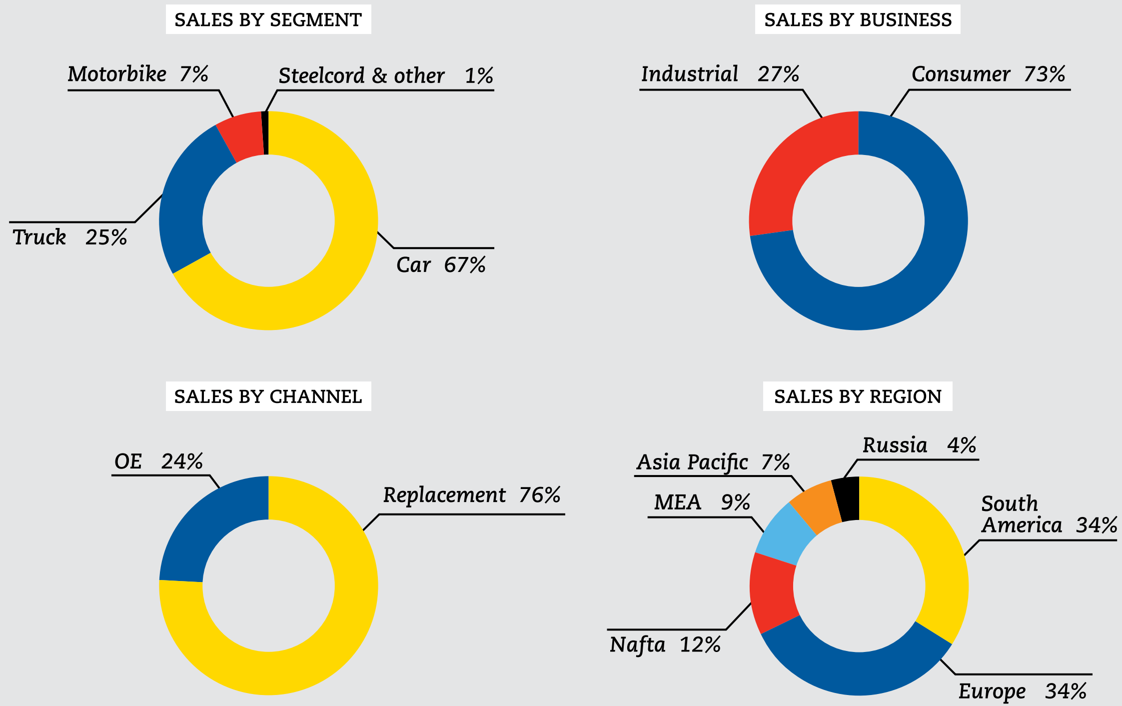
[2] Source: Thomson Reuters December 2012

MARKET CAPITALIZATION[3] (in millions of euro)

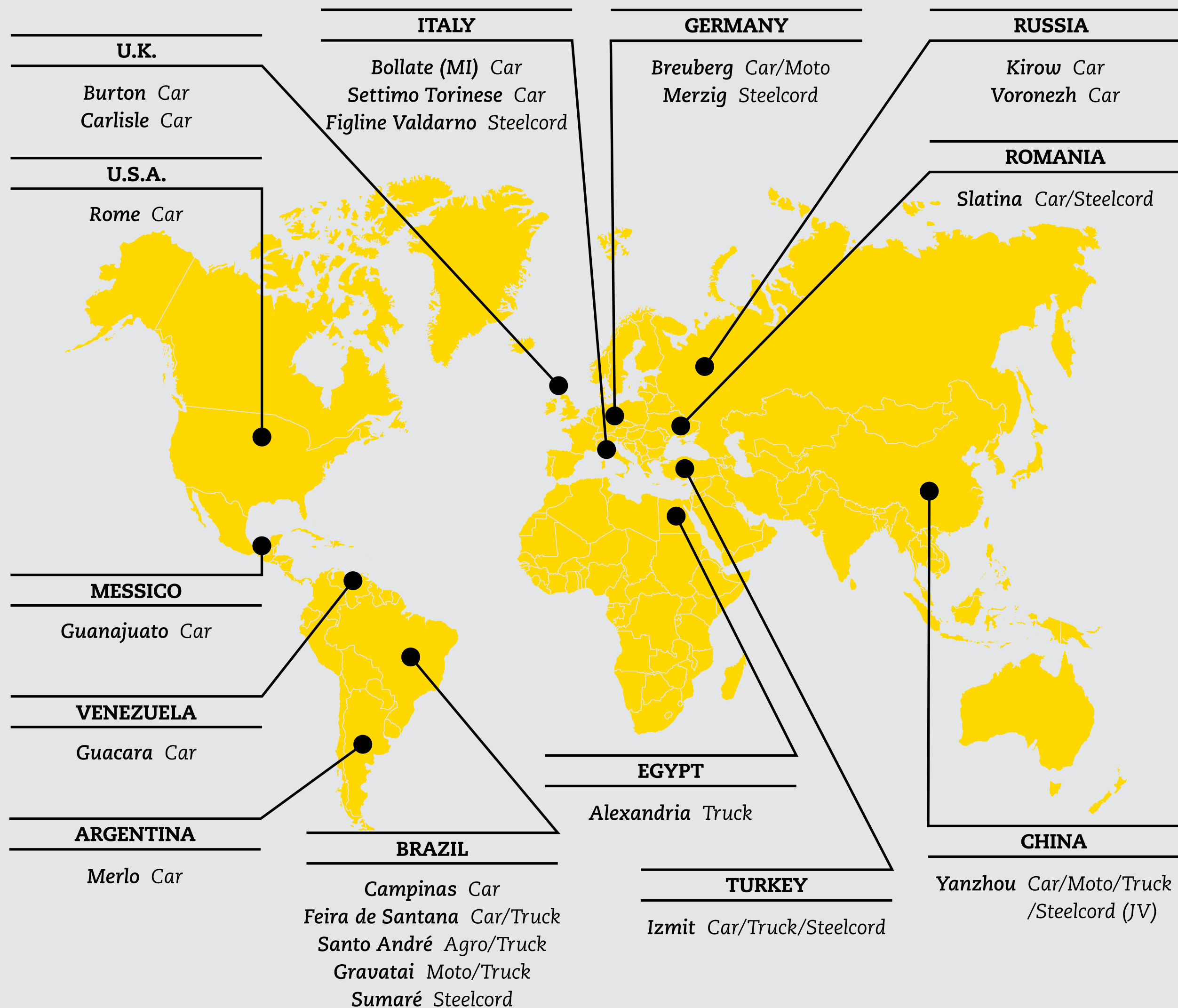
	2012YE	2011YE	2010YE
Pirelli Ordinary (Reuters: PECI.MI,; Bloomberg: PC IM)	**4,190.8**	**3,164.0**	**2,940.6**
Pirelli Saving (Reuters: PECIn.NI,; Bloomberg: PCP IM)	**66.7**	**55.5**	**70.1**
Total	4,257.5	3,219.5	3,010.7

[3] Based on December average price

TOTAL TYRE SALES



TOTAL TYRE PLANTS IN THE WORLD

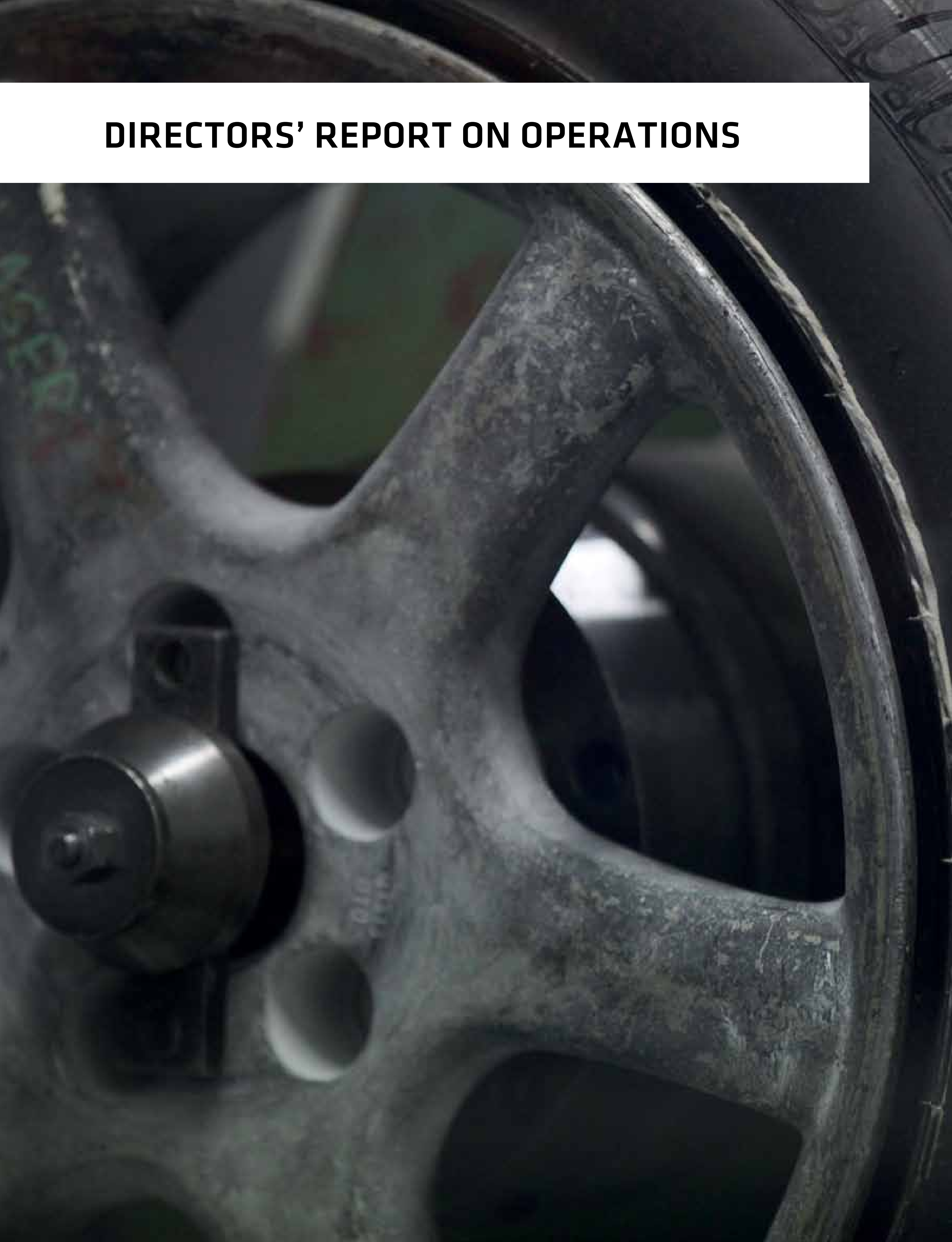


SELECTED ECONOMIC AND FINANCIAL DATA (in millions of euro)

	2012	2011	2010	2009 (:)
GROUP INCOME STATEMENT				
Net sales	**6,072**	**5,655**	**4,848**	**4,067**
Gross operating profit	**1,052**	**807**	**629**	**453**
% of net sales	17.3%	14.3%	13.0%	11.1%
Operating income	**781**	**582**	**408**	**250**
% of net sales -. ROS	12.9%	10.3%	8.4%	6.1%
Net income (loss) from continuing operations	**398**	**313**	**228**	**77**
Net income (loss) from discontinued operations	-	-	(224)	(100)
Prior period deferred tax assets - Italy	-	128	-	-
Net income (loss)	**398**	**441**	**4**	**(23)**
Net income attributable to owners of Pirelli & C. S.p.A.	**394**	**452**	**22**	**23**
Total net earnings per share attributable to owners of Pirelli & C. S.p.A. (in euro)	0.807	0.926	0.044	0.047 (°°)
TOTAL TYRE INCOME STATEMENT				
Net sales	**6,031**	**5,602**	**4,772**	**3,993**
Gross operating profit	**1,076**	**858**	**661**	**501**
% of net sales	17.8%	15.3%	13.9%	12.5%
Operating income	**809**	**644**	**453**	**309**
% of net sales - ROS	13.4%	11.5%	9.5%	7.7%
GROUP BALANCE SHEET				
Non-current assets	3,877	3,576	3,164	3,596
Operating net working capital	539	399	303	427
% of net sales	8.9%	7.1%	6.2%	10.5%
Total net working capital	549	151	117	222
% of net sales	9.1%	2.7%	2.4%	5.5%
Net invested capital	4,427	3,727	3,281	3,818
Equity	2,389	2,192	2,028	2,495
Provisions	832	799	797	795
Net financial (liquidity)/debt position	1,205	737	456	529
Equity attribuitable to the owners of Pirelli & C. S.p.A.	2,337	2,146	1,991	2,175
Equity per share attributable to the owners of Pirelli & C. S.p.A. (in euro)	4.79	4.40	4.08	4.46 (°°)
OTHER GROUP INFORMATION				
Net operating cash flow	263	156	310	496
Depreciation and amortization	260	221	217	198
Capital expenditure - tangible	456	618	433	225
Capital expenditure/depreciation	1.75	2.80	2.00	1.14
Research and development expenses	179	170	150	137
% of net sales	2.9%	3.0%	3.1%	3.4%
Headcount (at 12/31)	37,338	34,259	29,573	29,570
of whom temporary workers	2,714	2,649	2,426	2,245
Sales per employee (in thousands of euro)	167	181	160	138
Operating income/Net invested capital ** - ROI	19.15%	16.61%	11.49%	6.33%
Net income (loss)/Equity ** - ROE	17.39%	20.89%	0.18%	(0.94%)
Net financial position/Equity - Gearing	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 "net icome (loss) from discontinued operations"
(°°) 2009 per share figures have been reclassified on a comparable basis after the reverse stock split pursuant to the Shareholders' Meeting resolution of July 15, 2010
** Average amounts

DIRECTORS' REPORT ON OPERATIONS

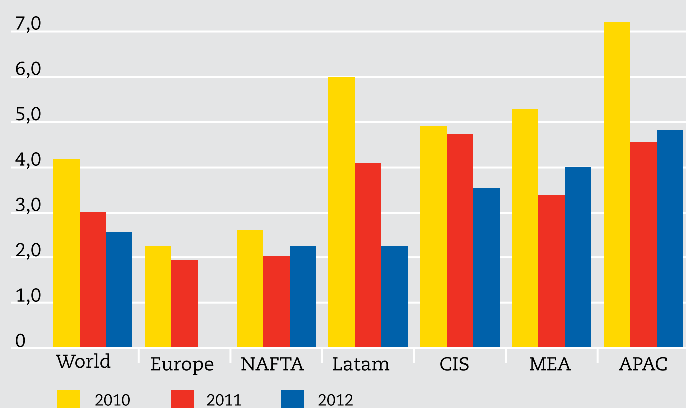


MACROECONOMIC AND MARKET SITUATION

The international economy

International growth slowed yet again in 2012, continuing the downward slide of previous years.
Slow decision-making at the governmental level, especially in the United States and the eurozone, undermined business and consumer confidence, slowing growth in internal demand and consequently shrinking the growth of international trade. Meanwhile, monetary policy remained the key factor of economic performance.
The result was global GDP growth of 2.6%, down from 3.0% in 2011.
Developed country growth flattened out at 1.5% in 2012, being conditioned in particular by the European sovereign debt crisis. This impacted the economic activity in the eurozone, which fell into recession after two years of growth. Pusillanimous policy making by the European Union and its Member States to contain the crisis negatively impacted financial markets and consumer and business confidence. The austerity measures, that have been implemented in individual countries, further curtailed internal demand. In the second half of the year, these risks were attenuated after the European Central Bank governor announced that the ECB would do whatever was necessary to support the euro, followed by the announcement in September that it would buy the sovereign debt of struggling countries. The European level agreement reached in December to establish a single bank regulatory mechanism marked another major step forward in the long march towards cohesion in the European Union.
Bitter political clashes also occurred in the United States, postponing any solution to the "fiscal cliff," i.e. automatic government spending cuts and tax increases that would drive the economy into recession. Republicans and Democrats reached agreement only in the first days of 2013, after a long period of uncertainty that undermined consumer and business confidence. Against this backdrop, the U.S. Federal Reserve Bank continued its measures to support the economy and employment, which enabled the U.S. economy to grow by 2.2% in 2012.
Lower demand in Europe and in the United States impacted the performance of emerging countries in 2012, whose growth rate fell to 5% from 5.7% in 2011.
In Asia, the much feared "hard landing" by the Chinese economy failed to materialise when its real estate bubble did not burst as previously forecast. However, the policies adopted in 2012 slowed down Chinese economic growth. Growth in Japan was also disappointing, to the point that in December, the newly elected Japanese Prime Minister approved a massive public spending plan, forcing the Japanese Central Bank to adopt monetary policies in support of growth.
The economic growth rate in Latin America nearly halved in 2012. In Brazil, GDP grew by only 1% in spite of a reduction in the policy rate and expansionary fiscal policy. The Argentine GDP rose by 1.9%, which also reflects as well a severe slowdown in 2012.
In 2012 exchange rate changes were driven mainly by monetary policies. The average U.S. dollar/euro exchange rate was 1.29, down 7.8% from the average rate of 1.39 the previous year. Fears over the stability of the euro penalised that

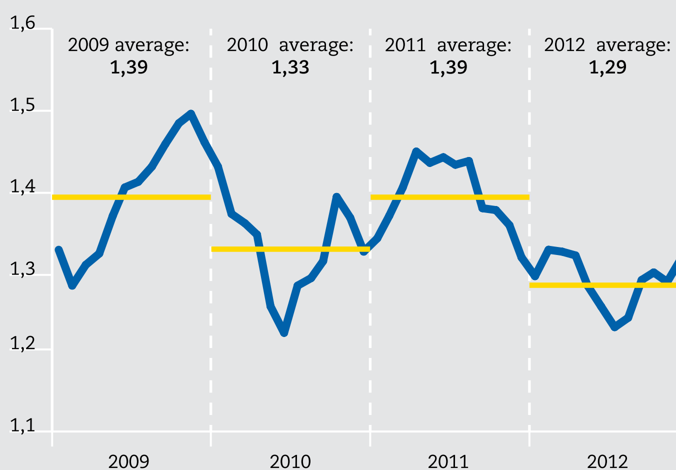
WORLD GDP GROWTH, Annual % Change



Source: IHS Global Insight, January 2013

currency, which fell to a low of USD 1.21 at the end of July, compared with USD 1.30 in January 2012. Subsequent action by the ECB governor and the announcement in September of a sovereign debt purchase program (albeit "conditioned" on an agreed austerity program), named "Outright Monetary Transactions," nudged the euro higher until it reached USD 1.35 at the end of the year.
In Asia, the yen exchange rate was impacted by expected changes in monetary policy during 2012. While its average exchange rate against the U.S. dollar (79.8 yen in 2012) was nearly unchanged from its 2011 rate of 79.7, that apparent stability masked depreciation of about 12% between January 1 and December 31, 2012, when it sank to 86.6 yen to the U.S. dollar.
Revaluation of the Chinese renminbi continued to be guided prudently by Chinese monetary authorities, with it rising an average 2.4% against the U.S. dollar in 2012.
After rising in 2011, the Brazilian real lost ground in the first few months of 2012, before settling at a rate of 2.05 reais to the U.S. dollar from May on. The depreciation of the Brazilian currency was facilitated by Brazilian government and central bank measures aimed at driving down the value of the real in support of national exports. The 2012 average rate of 1.95 reais to the U.S. dollar represents a decrease of 14% from the average of 1.67 reais in 2011. In 2012 the rate of depreciation in the Argentine currency accelerated from its rate during the previous two years. The average rate of 4.55 pesos to the U.S. dollar is 9% lower than its average value in 2011.
In 2012 Venezuela maintained its peg to the U.S. dollar at an exchange rate of 4.20 bolivars. In February 2013 the Venezuelan government announced a change in this rate, raising it to 6.30 bolivars per U.S. dollar.

EUR/USD Exchange Rates



Source: ECB

AUTOMOTIVE MARKET

Car and Light Vehicle

Car and light vehicle registrations rose by 5% worldwide in 2012, up from +4% growth in 2011. This improvement was largely driven by demand in NAFTA countries, Japan and Russia.
Europe was another matter, where the automotive market contracted by 6% in 2012. This decrease was especially pronounced in the countries hardest hit by the debt crisis: primarily Greece, Ireland and Portugal, but also Spain and Italy. The German, Austrian and Finnish markets, which began the year on an upswing, slowed down in the second half to close the whole year with a negative change. The United Kingdom bucked the trend, with its automotive market expanding by 5% in spite of an economic slowdown in the second half of the year. The Russian market leapt forward in 2012, growing by 10%.
The United States recovered in 2012 to the levels achieved before the 2008-2009 financial crisis. Sustained by the economic recovery and low interest rates, which fostered growth in credit, car and light vehicle registrations rose by 13% in 2012 after a similar increase in 2011.
Sales were also buoyant in Asia, which recovered after the sharp drop in 2011 following the earthquake in Japan and flooding in Thailand. Car and light vehicle sales jumped by 27% in Japan during 2012, due in part to government subsi-

dies for the purchase of low environmental impact vehicles. Those subsidies expired in September. The Chinese market expanded by 6% in 2012, as compared with 3% in 2011.
In Latin America the automotive market expanded by 6%, being sustained by demand in Brazil notwithstanding lower than forecast economic growth in that country. Sales were supported by strong employment rates, historically low interest rates and incentives introduced by the government to stimulate vehicle purchases.

Commercial Vehicle

Global demand for commercial vehicles softened in 2012, being directly impacted by the recessionary downturn in international trade. Double-digit growth in NAFTA countries and in Japan was insufficient to offset contracting markets in China, Europe and Latin America.
In Europe (excluding Russia), commercial vehicle sales fell by more than 10% in 2012, being hit by weak industrial output and shrinking capital expenditure, as well as tight credit. In the United States, easier credit terms and improved internal demand pushed up commercial vehicle sales by about 12%, while Mexico and Canada reported even higher growth rates.
In Asia, the effervescent truck market in Japan, which expanded by over 20%, was offset by contraction of the same magnitude in China. Under the impetus of government subsidies, China had driven growth on the Asian commercial vehicle market in 2011, but those incentives expired in 2012 at the same time as a slowdown in economic growth, which impacted the truck segment.
Commercial vehicle sales dipped in Latin America in 2012, largely due to soft demand in Brazil, the region's biggest country, as a consequence of the introduction of emissions regulations that caused many buyers to move up their purchases to 2011. In Argentina as well commercial vehicle production and sales fell in 2012.

TYRE MARKET

Consumer segment

The global market for tyres in the car segment was 1,314 million units in 2012, slightly down (-0.8%) from the previous year, and sharply lower than the +4.4% rate reported in 2011. Growth in the premium segment remained strong, especially outside Europe, while soft consumer demand, especially in southern and central European countries in 4Q 2012, caused the growth of the premium segment to contract in Europe.
In Europe, soft consumer demand weighed on tyre sales, both for original equipment and for replacement equipment, with both segments contracting sharply in 2012 (by -9% and -12%, respectively). After two years of robust growth in NAFTA countries, original equipment sales jumped another 17%, while the replacement market contracted (-5%).
In China, after a slowdown in sales on the original equipment market in 2011, the growth rate rose to 7% in 2012. In Japan, original equipment sales leapt forward, in line with the increase in automotive production, while aggregate sales on the replacement channel fell, in spite of recovery during the final months of the year.
In South America tyre sales in both the original equipment and replacement channels remained stable at their 2011 levels.

Industrial segment

The global radial truck tyre market sold 130 million units in 2012, down by 3.7% from 2011.
In Europe, the contraction in industrial production and tight credit conditions caused a 8% fall in the original equipment sales in 2012 after two years of recovery. The same factors also impacted the replacement channel (-17%).
Original equipment tyre sales in NAFTA countries rose by 5%, while replacement tyre sales fell 11% after two years of growth.
In Asia original equipment tyre sales fell on the Chinese market (-19%), due to the end of incentives that sustained sales in 2009 and 2010. The replacement tyre market contracted slightly. In Japan, original equipment tyre sales in-

creased by 15% in 2012, while replacement tyre sales fell by 4% after two years of growth.
In South America, lower production of commercial vehicles in Brazil and Argentina was reflected in original equipment tyre sales, which decreased by 29% after a 11% growth in the previous year. Replacement tyre sales also dipped slightly in 2012 (-5%).

Tyre sales, Consumer market		2009	2010	2011	2012
Europe*	Original equipment	-19%	13%	3%	-9%
	Replacement	-4%	8%	3%	-12%
NAFTA	Original equipment	-32%	39%	10%	17%
	Replacement	-3%	4%	-1%	-5%
South America**	Original equipment	-1%	13%	2%	0%
	Replacement	7%	11%	7%	1%
China	Original equipment	47%	31%	2%	7%
Japan	Original equipment	-32%	20%	-13%	19%
	Replacement	-8%	9%	8%	-1%

Tyre sales, Industrial market		2009	2010	2011	2012
Europe*	Original equipment	-64%	57%	32%	-8%
	Replacement	-14%	18%	-1%	-17%
NAFTA	Original equipment	-36%	30%	55%	5%
	Replacement	-13%	18%	3%	-11%
South America**	Original equipment	-25%	47%	11%	-29%
	Replacement	-9%	23%	2%	-4%
China	Original equipment	28%	53%	-15%	-19%
	Replacement	16%	10%	1%	-4%
Japan	Original equipment	-49%	37%	-2%	15%
	Replacement	-21%	14%	7%	-4%

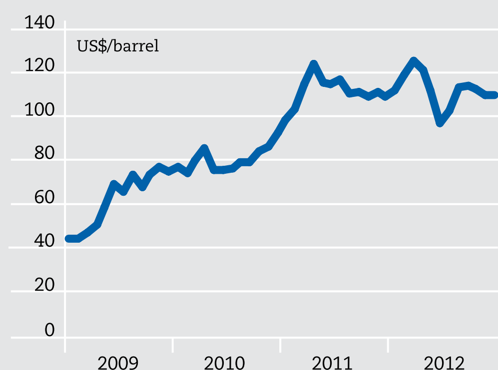
* including Turkey, excluding Russia. ** Argentina, Brazil and Venezuela. Source: Pirelli estimates

Commodities

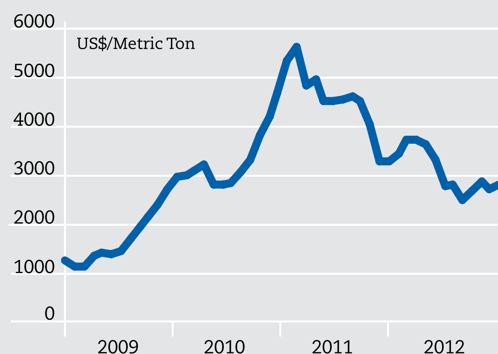
Prices of key commodities rose modestly in 2012. The average USD 112/bbl price for Brent crude oil was virtually unchanged from the average of USD 111/bbl the previous year. However, the price trend over the year was quite volatile, hitting a peak of USD 125/bbl in March due to geopolitical tensions related to the embargo on Iran, before falling back to about USD 110-112/bbl in autumn on rumours that the United States might draw down its oil reserves and the announcement by Saudi Arabia to boost supply to contain the price rises.
Although they began year on an upward tick, natural rubber (TSR20) prices started to backtrack in spring in response to weakning demand in Europe and China. The average price of USD 3,780/ton in March 2012 slipped by 30% before stabilising at about USD 2,800-2,900/ton in the last quarter of 2012.
The uncertainty surrounding on global economic performance also weighed on the price of butadiene (the principal input for synthetic rubber) in 2H 2012. After jumping by 30% between January and April, to reach a peak of euro 2,275/ton, prices fell to an average of euro 1,440/ton in December 2012.

COMMODITY PRICES

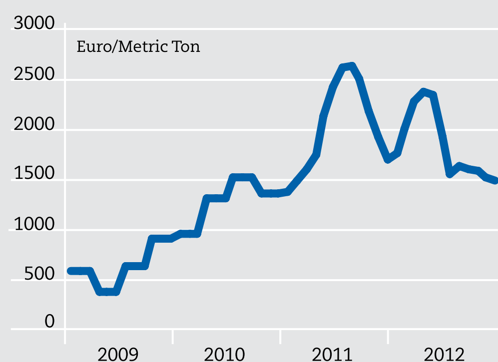
BRENT



NATURAL RUBBER TSR20



BUTADIENE



Source: IHS Global Insight

SIGNIFICANT EVENTS DURING THE YEAR

During "Sustainability Day" on January 23, 2012, Pirelli signed the voluntary agreement with the Ministry of Environment and Protection of Territory and the Sea to reduce the climate impact of activities related to production and use of its tyres. The agreement envisages a commitment to reduce specific emissions of CO_2 by 15% and specific water uptake by over 50% by 2015.
This agreement proves the commitment of Pirelli, which through its own technology, develops production systems and products able to guarantee quality and safety for consumers and reduced environmental impact. These factors enable Pirelli to make constant improvements in its production efficiency with major economic benefits, and to exploit an additional competitive advantage on international markets. In 2011, these actions led the Group to reduce its energy consumption by 6% compared to 2010, accompanied by a 20% reduction in its water uptake. Overall, the measures taken by Pirelli in 2009-2011 period have allowed it to reduce its water consumption by 2 million cubic metres every year, with 5% less CO_2 emissions in 2011 compared to 2009.

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

On February 29, 2012 Pirelli & C. S.p.A. and Russian Technologies finalised the transaction for transferring the Voronezh tyre plant from the Sibur petrochemical group to the joint venture between Pirelli and Russian Technologies. This transaction follows the transfer by Sibur of the Kirov tyre plant occurred in December 2011.

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

On April 16, 2012 Pirelli signed an agreement with the Faria

da Silva family for direct purchase of 60% (with a promise to acquire an additional 20% and a call option on the remaining 20%) of the share capital of Campneus, one of the principal tyre distribution chains in Brazil, for a total impact on the net financial (liquidity)/debt position of euro 35.4 million, excluding the subsequently defined price adjustment (euro 1.6 million).
Consistently with the 2012-2014 Business Plan presented in London in November 2011, Pirelli aims to reinforce its market leadership in Brazil through this transaction, both in the retail and wholesale sectors, by promoting concentration on the higher growth areas of the premium segment and increasing the number of its proprietary sales outlets (Pirelli Pneuac) from the current 48 to 102.
The 54 sales outlets of Campneus that are covered by the agreement are already part of the Pirelli distribution network in Brazil, which has over 600 retail outlets. The Campneus stores, which will continue to use their existing brand name after the acquisition is finalized, are located in the Brazilian states of São Paulo, Minas Gerais, Paraná, Mato Grosso do Sul, Santa Catarina and Rio Grande do Sul and sell the complete range of Pirelli tyres.

On April 24, 2012 Pirelli initialled an agreement with PT

Astra Otoparts, a leading Indonesian firm that produces components for the automotive sector, for the construction of a new factory in Indonesia to produce conventional motorcycle tyres.
The agreement envisages the creation of a joint venture with Pirelli holding a majority stake of 60% of the capital and Astra holding the remaining 40%. The total investment by the joint venture for construction of the new plant will be about USD 120 million between 2012 and 2014.

On May 28, 2012 Giuseppe Vita resigned his seat on the Board of Directors after being appointed as Chairman of the Board of Directors of Unicredit.

On May 31, 2012 Pirelli opened a new factory at Silao, in the State of Guanajuato, Mexico. The new plant, the first opened in Mexico and the twenty-second Pirelli industrial tyre plant in the world, will focus in particular on the Premium segment, producing High Performance and Ultra High-Performance tyres for cars and SUV to be sold on the local market and throughout the NAFTA area. The production plant covers 135 thousand square metres, and its capacity reached about 400 thousand units at the end of 2012. Capacity will be expanded to 3.5 million units in the first phase of the development plan, which will end in 2015. It is forecast that production will reach 5.5 million units once full capacity is achieved in 2017. The investment by Pirelli, which has already been included in the business plan, totals about USD 300 million between 2011 and 2015. Another USD 100 million are expected to be invested by 2017, with the total investment estimated to be about USD 400 million.

On June 13, 2012 Pirelli, in accordance with its strategy to reinforce its position on high-growth markets in the high-end, and thus more profitable segments, acquired 100% of the share capital of Däckia Holding AB, one of the top multibrand tyre distribution chains in Sweden, from the private equity fund Procuritas Capital Investors IV LP and other non-controlling shareholders, for 625 million Swedish crowns, or about euro 70 million. The acquisition of Däckia offers Pirelli a distribution platform allowing it to accelerate its penetration of Nordic countries, which offer a natural market for winter tyres, which contain a large proportion of high performance characteristics.
In line with the strategy outlined in the 2012-2014 business plan presented in London in November 2011, the acquisition of Däckia represents a further step in strengthening of the commercial position of Pirelli on international markets characterised by growing demand in more profitable product segments.

On June 18, 2012 Pirelli presented several projects at the United Nations – RIO+20 International Conference on Sustainable Development. Some of these projects will be carried out in Brazil in collaboration with the Ministry of Environment and Protection of Territory and the Sea and the Brazilian State of São Paulo, to analyse and reduce the impact on the climate caused by tyre production at the Campinas plant. Such projects are part of the commitments made by the Company during the Sustainability Day held at its Milan headquarters on January 23. Consistently with the sustainability targets set out in the Business Plan 2012-2014 presented at London in November 2011, they prove to the Company's commitment to realise a sustainable and efficient growth model.

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

On July 26, 2012 Carlo Salvatori was co-opted on the Board of Directors, filling the seat vacated upon the resignation of Director Giuseppe Vita.

On November 12, 2012 the Board of Directors co-opted Mario Greco in substitution of Giovanni Perissinotto.

On December 20, 2012 Pirelli and Rosneft, one of the biggest oil companies in the world, that operates through a chain of 1,700 service stations in Russia, signed an agreement for the sale of tyres at Rosneft service stations and develop-

ment of joint commercial and marketing plans. The agreement envisages the setting up of a joint working group to identify the most appropriate product mix for the oil company retail network, development of efficient logistic processes, and development of joint sales and promotional campaigns by Pirelli and Rosneft.
The joint commercial activities between Pirelli and Rosneft will be concentrated particularly in the Russian region of Krasnodar, which will host the 2014 Sochi Winter Olympic Games, of which the Russian oil company is a partner.

GROUP PERFORMANCE AND RESULTS IN 2012 AND BUSINESS OUTLOOK 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 based on IFRSs figures. These performance indicators are used to facilitate the understanding of the Group operating performance. These indicators are: Gross Operating Profit, Non-current assets, Provisions, Operating working capital, Net working capital, and Net financial (liquidity)/debt position. Please refer to the section “Alternative performance indicators” for a more analytical description of these indicators.

GROUP PERFORMANCE AND RESULTS IN 2012

The overall slowdown in the global economy dominated 2012, especially in Europe, where the sovereign debt crisis undermined business confidence, depressing demand for goods and services and economic activity in general.
The tyre market as a whole was also impacted by the same dynamics. Net sales fell sharply in Europe, where the replacement channel contracted by 12% in the consumer segment and 17% in the industrial segment, while the original equipment channel contracted by 9% in the consumer segment and 8% in the industrial segment. Premium products also tracked a negative trend in Europe during the second half of the year, although at a slower rate than the market as a whole.
However, in spite of these external trends, Pirelli closed 2012 with improving operating results, attributable to its focus on the premium segment in the consumer business and a regional strategy in the industrial business, with a special focus on emerging markets and continuous efforts to improve its operating efficiency.

Net sales and operating income benefited throughout the year from the contribution made by the mix component, which is tied to the growth of the premium segment outside of Europe, and operating income benefited towards the end of the year from falling commodity prices.
Cash flow was impacted by heavy capital expenditure and financial investments, made both to expand premium product capacity and improve plant quality, and to widen the scope of activity.
The Group's commitment to research and development, key to pursuing growth in value segments, remained at the highest levels of this sector. In 2012 Pirelli invested a total of euro 178.9 million (2.9% of net sales), including euro 142 million for activities related to premium products (6.8% of premium revenue). These investments are aimed at creating products that not only constantly improve performance but also improve safety, to the benefit of persons and the environment.
Pirelli operates a research centre in Italy and eight application centres around the world, staffed by over 1,200 employees, who are flanked by another 1,200 researchers through specific collaboration agreements with universities and other entities. By focusing on technological innovation and its experience with Formula 1 racing, the Group has been able to update its product line constantly and increase the number of patents that it holds, currently over 4,500.
In 2012 consolidated net sales rose by 7.4% to euro 6,071.5 million, of which euro 2,075.4 million related to the premium segment, which grew by 20.9%. Operating income reached euro 780.8 million (+34.2%), and profitability,

IN 2012 CONSOLIDATED NET SALES ROSE BY 7.4% TO EURO 6,071.5 MILLION, OF WHICH EURO 2,075.4 MILLION RELATED TO THE PREMIUM SEGMENT, WHICH GREW BY 20.9%. OPERATING INCOME REACHED EURO 780.8 MILLION (+34.2%), AND PROFITABILITY, MEASURED AS THE RATIO OF OPERATING INCOME TO SALES, ROSE TO A RECORD 12.9% (+2.6 PERCENTAGE POINTS OVER 2011).

measured as the ratio of operating income to sales, rose to a record 12.9% (+2.6 percentage points over 2011). Net income was euro 398.2 million, compared with euro 312.6 million in 2011 (on a like-for-like basis, before non recurring events).
Total net income in 2011 was euro 440.7 million, including the euro 128.1 million contribution made by recognition of prior-period deferred tax assets on tax losses carried forward in Italy.

The net financial (liquidity)/debt position at December 31, 2012 was negative for euro 1,205.2 million, compared with negative euro 737.1 million at December 31, 2011. This change was impacted by total capital expenditure and financial investments of euro 748.0 million, including euro 277.1 million related to expansion of the scope of activity following the acquisition of two factories in Russia and distribution chains in Brazil and Sweden.
The net operating cash flow during the year was positive for euro 262.7 million, up from positive euro 156.4 million in 2011. The fourth quarter, which is seasonally more favourable, generated a positive cash flow of euro 730.8 million, mainly due to the cash flow generated by the management of working capital.

Tax liabilities, net financial expenses and dividends paid, as well as the aforementioned capital expenditure and financial investments made to broaden the scope of activity, resulted in a total net cash flow negative for euro 468.1 million.

The 2012 results of the Tyre Business, which generates 99.3% of net sales, show improvement in its key earnings indicators. Net sales totalled euro 6,031.3 million, with a 7.7% improvement driven by the price/mix component and higher premium volumes, against an overall reduction in volumes. Operating income totalled euro 809.1 million, with EBIT margin of 13.4%, compared with the 2011 figure of euro 643.9 million, reflecting an EBIT margin of 11.5%.
Premium segment revenue totalled euro 2,075.4 million, up 20.9% from 2011.
Compared with an aggregate 5.6% contraction in net sales volumes, net sales in the premium segment rose by 12.6%, mainly due to the growth in regions outside Europe.
In relation to the business segment breakdown, in 2012 the consumer business recognised euro 4,419.8 of revenue, up 12.6% compared to 2011, with operating income up 28.6% to euro 631.0 million (EBIT margin of 14.3%, up 1.8 percentage points). The industrial business, which is more exposed to the business cycle, reported euro 1,611.5 million in net sales, down 3.9% from 2011, although its operating income still improved by 16.2% to euro 178.1 million (EBIT margin of 11.1%, up 2.0 percentage points).

TOTAL CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS OF EURO 748.0 MILLION, INCLUDING EURO 277.1 MILLION RELATED TO EXPANSION OF THE SCOPE OF ACTIVITY FOLLOWING THE ACQUISITION OF TWO FACTORIES IN RUSSIA AND DISTRIBUTION CHAINS IN BRAZIL AND SWEDEN.

PREMIUM SEGMENT REVENUE TOTALLED EURO 2,075.4 MILLION, UP 20.9% FROM 2011. COMPARED WITH AN AGGREGATE 5.6% CONTRACTION IN NET SALES VOLUMES, NET SALES IN THE PREMIUM SEGMENT ROSE BY 12.6%, MAINLY DUE TO THE GROWTH IN REGIONS OUTSIDE EUROPE.

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

(in millions of euro)

	12/31/2012	12/31/2011 (*)
Net sales	**6,071.5**	**5,654.8**
Gross operating profit before restructuring expenses	1,091.2	834.6
% of net sales	18.0%	14.8%
Operating income before restructuring expenses	819.9	609.7
% of net sales	13.5%	10.8%
Restructuring expenses	(39.1)	(27.8)
Operating income	**780.8**	**581.9**
% of net sales	12.9%	10.3%
Net income (loss) from equity investments	(52.2)	(17.3)
Financial income/(expenses)	(129.5)	(89.5)
Pre-tax income (loss)	**599.1**	**475.1**
Income tax	(200.9)	(162.5)
Tax rate %	33.5%	34.2%
Net income (loss) from continuing operations	**398.2**	**312.6**
Prior period deffered tax assets - Italy	-	128.1
Total net income (loss)	**398.2**	**440.7**
Net income attributable to owners of Pirelli & C. S.p.A.	393.8	451.6
Total net earnings per share attributable to owners of Pirelli & C. S.p.A. (in euro)	0.807	0.926
Non-current assets	**3,877.2**	**3,576.4**
Inventories	1,102.6	1,036.7
Trade receivables	704.6	745.2
Trade payables	(1,268.7)	(1,382.8)
Operating Net working capital	**538.5**	**399.1**
% of net sales	8.9%	7.1%
Other receivables/other payables	11.0	(248.3)
Total net working capital	**549.5**	**150.8**
% of net sales	9.1%	2.7%
Net invested capital	**4,426.7**	**3,727.2**
Equity	**2,389.4**	**2,191.6**
Provisions	832.1	798.5
Net financial (liquidity)/debt position	**1,205.2**	**737.1**
Equity attribuitable to the owners of Pirelli & C. S.p.A.	2,337.4	2,146.1
Equity per share attributable to the owners of Pirelli & C. S.p.A. (in euro)	4.790	4.398
Capital expenditure	470.9	626.2
Research and development expenses	178.9	169.7
% of net sales	2.9%	3.0%
Headcount (number at end of period)	37,338.0	34,259.0
Industrial sites (number)	23.0	21.0

(*) The consolidated balance sheet has been restated to include retrospectivly the effects of the final purchase price allocation connected the business combination "acquisition Russia". For more details see Explanatory Notes to annual financial report

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	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011	12/31/2012	12/31/2011
Net sales	**6,031.3**	**5,601.6**	**40.2**	**53.2**	**6,071.5**	**5,654.8**
Gross operating profit before restructuring expenses	1,114.8	875.5	(23.6)	(40.9)	1,091.2	834.6
Operating income before restructuring expenses	848.2	661.7	(28.3)	(52.0)	819.9	609.7
Restructuring expenses	(39.1)	(17.8)	-	(10.0)	(39.1)	(27.8)
Operating income	**809.1**	**643.9**	**(28.3)**	**(62.0)**	**780.8**	**581.9**
% of net sales	*13.4%*	*11.5%*			*12.9%*	*10.3%*
Net income (loss) from equity investments					(52.2)	(17.3)
Financial income/(expenses)					(129.5)	(89.5)
Pre-tax income (loss)					**599.1**	**475.1**
Income tax					(200.9)	(162.5)
Tax rate %					*33.5%*	*34.2%*
Net income (loss) from continuing operations					**398.2**	**312.6**
Prior period deffered tax assets - Italy					-	128.1
Total net income (loss)					**398.2**	**440.7**
Net financial (liquidity)/debt position					**1,205.2**	**737.1**

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

NET SALES

In 2012 net sales rose to euro 6,071.5 million, up 7.4% from the previous year (euro 5,654.8 million), with 99.3% of net sales being generated by the Tyre Business.

OPERATING INCOME

Operating income totalled euro 780.8 million, up 34.2% compared to 2011. As set forth in the table below, all the quarters of the year presented a positive trend as compared with the corresponding period in the previous year.
This result includes restructuring expenses for euro 39.1 million, of which euro 20.9 million recognised in 4Q 2012 mainly related to the write-off of plants upon closure of the truck production in Italy resulting from concentration of activities in the Settimo Torinese technological centre on high-end car production, and the planned termination of steel cord production in Germany.
It also includes, a gain of about euro 19.6 million recognised in 4Q 2012 for the disposal of real estates in Brazil and the cancellation of the earn-out debt included in the agreements for purchase of the plants in Russia (euro 10 million).

(in millions of euro)

	1Q		2Q		3Q		4Q		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Net sales	**1,556.5**	1,400.9	**1,465.3**	1,388.4	**1,552.3**	1,476.5	**1,497.4**	1,389.0	**6,071.5**	5,654.8
yoy	11.1%	23.4%	5.5%	12.5%	5.1%	18.1%	7.8%	13.0%	7.4%	16.6%
Gross operating profit before restructuring expenses	**275.8**	203.4	**269.9**	207.5	**264.2**	220.2	**281.3**	203.5	**1091.2**	834.6
% of net sales	17.7%	14.5%	18.4%	14.9%	17.0%	14.9%	18.8%	14.7%	18.0%	14.8%
Operating income before restructuring expenses	**211.4**	146.5	**203.8**	151.3	**195.8**	163.3	**208.9**	148.6	**819.9**	609.7
% of net sales	13.6%	10.5%	13.9%	10.9%	12.6%	11.1%	13.9%	10.7%	13.5%	10.8%
Operating income	**209.4**	143.3	**191.3**	146.8	**192.1**	161.1	**188.0**	130.7	**780.8**	581.9
% of net sales	13.5%	10.2%	13.1%	10.6%	12.4%	10.9%	12.6%	9.4%	12.9%	10.3%

NET INCOME (LOSS) FROM EQUITY INVESTMENTS

Net income (loss) from equity investments was negative for euro 52.2 million and includes the euro 20.1 million loss of the associate RCS MediaGroup S.p.A. consolidated under the equity method, and the impairment losses on the equity investments in Mediobanca S.p.A for euro 16.8 million, Fin Priv. S.p.A. for euro 4.2 million, Alitalia S.p.A. for euro 4.8 million, and FC Internazionale S.p.A. for euro 6.7 million.
In 2011 the loss from equity investments amounted to euro 17.3 million, and included, inter alia, the impairment losses on the investments in RCS MediaGroup S.p.A. (euro 16.8 million) and Alitalia S.p.A. (euro 10.3 million).

NET INCOME

For the year ended Decembre 31, 2012 net income was euro 398.2 million, up from euro 312.6 million in 2011 (on a like-for-like basis before the non-recurring income resulting from recognition of deferred tax assets in Italy as a consequence of the changes in Italian tax law). In 2011 net income amounted to euro 440.7 million.

Net income was impacted by net tax charges totalling euro 200.9 million, with a tax rate of 33.5%, consistently with 2011 (excluding the non-recurring income from recognition of deferred tax assets in Italy).

Net financial expenses amounted to euro 129.5 million, compared with euro 89.5 million in the previous year. This figure reflects the growth in the average indebtedness and the 5.8% increase in the average cost of gross debt.

The total net income attributable to owners of Pirelli & C. S.p.A. for the year ended December 31, 2012 amounted to euro 393.8 million (euro 0.807 per share), compared with euro 451.6 million for the year ended December 31, 2011 (euro 0.926 per share).

EQUITY

Total equity rose from euro 2,191.6 million at December 31, 2011 to euro 2,389.4 million at December 31, 2012.

Equity attributable to owners of Pirelli & C. S.p.A. at December 31, 2012 totalled euro 2,337.4 million (euro 4.790 per share), compared with euro 2,146.1 million at December 31, 2011 (euro 4.398 per share).

The total change, detailed in the following table, relates mainly to the total net income for the period for euro 398.2 million, the payment of euro 132.4 million in dividends by the parent company, fair value adjustments to financial assets available-for-sale and derivative financial instruments, the combined effect of inflation/devaluation on the interest in the subsidiary in Venezuela, the actuarial losses on employee benefits, and the negative translation effect of foreign subsidiaries financial statements.

(in millions of euro)

	Group	Non-controlling interests	Total
Equity at 12/31/2011	**2,146.1**	**45.5**	**2,191.6**
Translation differences	(66.1)	(0.9)	(67.0)
Net income (loss)	393.8	4.4	398.2
Adjustement to fai value of other financia assets/derivative instruments	35.0	-	35.0
Other changes to items recognised in equity	(1.7)	-	(1.7)
Actuarial gains/(losses) on employee benefits	(55.0)	-	(55.0)
Dividend paid	(132.4)	(3.0)	(135.4)
Venezuela inflation effect	21.2	0.8	22.0
Capital increases	-	5.5	5.5
Other changes	(3.5)	(0.3)	(3.8)
Total changes	**191.3**	**6.5**	**197.8**
Equity at 12/31/2012	**2,337.4**	**52.0**	**2,389.4**

The following table sets forth the reconciliation of equity of the parent Pirelli & C. S.p.A. and the equity attributable to the owners of the parent, pursuant to the Consob Memorandum of July 28, 2006.

(in millions of euro)

	Share Capital	Treasury reserves	Net income	Total
Equity of Pirelli & C. S.p.A. at 12/31/2012	**1,343.3**	**288.5**	**234.4**	**1,866.2**
Net income for the year of consolidated companies (before consolidation adjustments)	-	-	389.6	389.6
Share capital and reserves of consolidated companies (before consolidation adjustments)	-	1,257.6	-	1,257.6
Consolidation adjustments:				
carrying value of equity investments in consolidated companies	-	(1,168.0)	-	(1,168.0)
intercompany dividends	-	314.3	(314.3)	-
others	-	(92.0)	83.9	(8.1)
Consolidated equity of Group at 12/31/2012	**1,343.3**	**600.4**	**393.6**	**2,337.3**

CHANGE IN NET FINANCIAL (LIQUIDITY)/DEBT POSITION

The following table summarises the changes in cash flow during 2012:

(in millions of euro)

	Q1		Q2		Q3		Q4		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Operating income (EBIT) before restructuring expenses	211.4	146.5	203.8	151.3	195.8	163.3	208.9	148.6	819.9	609.7
Amortisation and depreciation	64.4	56.9	66.1	56.2	68.4	56.9	72.4	54.9	271.3	224.9
Capital expenditures of property, plant and equipment and intangible assets	(80.1)	(96.9)	(114.8)	(137.2)	(132.5)	(162.1)	(143.5)	(230.0)	(470.9)	(626.2)
Change in workin capital/other	(512.8)	(313.5)	(238.8)	18.1	(199.0)	(100.6)	593.0	344.0	(357.6)	(52.0)
Operating cash flow	**(317.1)**	**(207.0)**	**(83.7)**	**88.4**	**(67.3)**	**(42.5)**	**730.8**	**317.5**	**262.7**	**156.4**
Ordinary financial income/(expenses)	(18.7)	(14.8)	(30.1)	(29.9)	(39.5)	(19.4)	(41.2)	(25.4)	(129.5)	(89.5)
Ordinary tax charges	(65.9)	(47.9)	(61.6)	(39.6)	(42.3)	(51.3)	(31.1)	(23.7)	(200.9)	(162.5)
Net operating cash flow	**(401.7)**	**(269.7)**	**(175.4)**	**18.9**	**(149.1)**	**(113.2)**	**658.5**	**268.4**	**(67.7)**	**(95.6)**
Financial investments/disinvestments	3.2	24.4	-	-	2.3	(16.4)	-	(7.0)	5.5	1.0
Acquisition of non-controlling interests (China)	-	-	-	-	-	(28.0)	-	-	-	(28.0)
Russia Investment	(154.5)	-	-	-	(16.4)	-	-	(55.0)	(170.9)	(55.0)
Dackia Investment	-	-	(70.8)	-	-	-	-	-	(70.8)	-
Campneus Investment	-	-	(35.4)	-	-	-	-	-	(35.4)	-
Dividend paid by Parent	-	-	(132.3)	(81.1)	-	-	-	-	(132.3)	(81.1)
Other dividends paid	(2.2)	(0.7)	(0.7)	(1.7)	-	-	-	-	(2.9)	(2.4)
Cash Out for restructuring operations	(4.2)	(2.8)	(3.3)	(5.7)	(3.6)	(1.9)	(12.4)	(6.5)	(23.5)	(16.9)
Disposals of tangible assets	-	-	-	-	-	-	20.5	-	20.5	-
Foreign exchange differences/other	(8.5)	(8.4)	20.2	3.5	0.7	0.1	(3.0)	1.3	9.4	(3.5)
Net cash flow	**(567.9)**	**(257.2)**	**(397.7)**	**(66.1)**	**(166.1)**	**(159.4)**	**663.6**	**201.2**	**(468.1)**	**(281.5)**

Operating cash flow was positive for euro 262.7 million, with a significant recovery in the last quarter, which recorded euro 730.8 million inflow due to the contribution of the management of working capital, reflecting positive seasonal trends and a further reduction in inventory from 3Q 2012.
Total capital expenditure on property, plant and equipment and intangible assets amounted to about euro 470.9 million, 1.7 times depreciation and amortisation. Capital expenditure was mainly related on expanding premium product production capacity in Italy, Romania, China, Mexico and Germany, where the production mix was increased. Other capital expenditure was made in Russia, where work proceeds to bring the sites there up to Group process and quality standards. In 2012 the production of car tyres began at the plant in Mexico and of radial motorcycle tyres in China.
About 20% of total capital expenditure was aimed at improving plant quality and workplace environments and safety.

Total net cash flow was negative for euro 468.1 million. Besides operating cash flow, this figure includes investments for euro 277.1 million to broaden the scope of activity, of which euro 170.9 million for the acquisition of two production sites in Russia, and euro 106.2 million for the acquisition of two retail distribution chains in Brazil and Sweden.
The parent company paid out euro 132.3 million in dividends to shareholders.

NET FINANCIAL (LIQUIDITY)/DEBT POSITION

The Group's net borrowings totalled euro 1,205.2 million at December 31, 2012, compared with euro 737.1 million in net borrowings at December 31, 2011.

(in millions of euro)

	12/31/2012	12/31/2011
Current borrowings from banks and other lenders	459.7	369.5
Non-Current borrowings from banks and other lenders	1,995.8	1,408.6
Total gross debt	**2,455.5**	**1,778.1**
Cash and cash equivalents	(679.8)	(557.0)
Securities held for trading	(224.7)	(160.5)
Current financial receivables	(84.4)	(72.8)
Non-current financial receivables	(261.4)	(250.7)
of which Prelios	*(173.5)*	*(160.0)*
Total financial receivables, cash and cash equivalents	**(1,250.3)**	**(1,041.0)**
Net financial (liquidity)/debt position	**1,205.2**	**737.1**

In regard to financial receivables, the valuation of the receivable from Prelios S.p.A. (euro 173.5 million) is based on the underlying assumptions of the extraordinary capital transaction, whose negotiations are now at an advanced stage. This transaction, 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, calls for converting a portion of the financial receivable into Prelios S.p.A. ordinary shares and another portion into equity linked bonds destined for conversion (the *convertendo*), with a cash option for redemption exercisable by Prelios S.p.A.
The valuation performed on the basis of these assumptions, with its principal one being that the transaction will occur, does not indicate the need to impair the receivable at the reporting date.

The structure of gross debt, which totals euro 2,455.5 million and of which about 75% matures beginning in 2015, is summarised as follows:

(in milioni di euro)

	Financial Statements 12/31/2012	Maturity date				
		2013	2014	2015	2016	2017 and beyond
Use of committed credit facilities	575.0	-	-	575.0	-	-
Bond 5,125% - 2011/2016	500.0	-	-	-	500.0	-
EIB loans	275.0	25.0	-	100.0	100.0	50.0
USD private placement	113.7	-	-	-	-	113.7
Schuldschein	155.0	-	-	-	114.0	41.0
Other financing	836.8	434.7	191.3	30.4	25.8	154.6
Total gross debt	**2,455.5**	**459.7**	**191.3**	**705.4**	**739.8**	**359.3**
		18.7%	7.8%	28.7%	30.1%	14.7%

At December 31, 2012 the Group disposed of euro 625 million as the unused portion of the euro 1.2 billion committed credit facility (euro 840 million at December 31, 2011).

EMPLOYEES

Group headcount was 37,338 at December 31, 2012, compared with 34,259 employees at December 31, 2011. The following tables show the breakdown of headcount by geographical area and type:

GEOGRAPHICAL AREA	12/31/2012		12/31/2011	
Europe:				
Italy	3.667	9,8%	3.629	10,6%
Rest of Europe	12.102	32,5%	10.746	31,4%
of which Russia	3758	-	2850	-
Nafta	994	2,7%	490	1,4%
Central and South America	13.860	37,1%	13.202	38,5%
Middle Est/Africa	3.301	8,8%	3.296	9,6%
Asia/Pacific	3.414	9,1%	2.896	8,5%
	37.338	**100,0%**	**34.259**	**100,0%**

TYPE	12/31/2012		12/31/2011	
Executives	354	0,9%	326	1,0%
White collar staff	7.026	18,8%	6.109	17,8%
Blue collar staff	27.244	73,0%	25.175	73,5%
Temps	2.714	7,3%	2.649	7,7%
	37.338	**100,0%**	**34.259**	**100,0%**

For more details, refer to the Social Dimension chapter in the Sustainability Report 2012, which is an integral part of this annual report.

BUSINESS OUTLOOK IN 2013

In a macroeconomic scenario for 2013 that forecasts stagnation in Europe and 2-3% GDP growth in rapidly developing countries (with China achieving +8.2%), the global car tyre market is forecast to grow by 2.5% (about 1.347 million units). Most of this growth will be in the premium segment, which will continue to grow at an annual rate that is at least triple (over +7%) of the non-premium segment rate.

In percentage terms, the global market share of the premium segment will rise to 13.3% in 2013 (12.7% in 2012).
At the geographical level, the dynamics already seen in 2012 will continue expanding:

- mature markets will have limited growth (+1%), largely sustained by +3.8% growth in the premium segment, which should account for 18.2% of the market by the end of 2013 (up from 17.7% in 2012);
- emerging markets should increase by 4%, with growth of about 15% in the premium segment, which will account for 8.5% of the entire market at the end of 2013 (up from 7.7% in 2012).

The radial truck tyre market is forecast to grow by 4.8% (about 136 million units), with a similar trend on mature markets (+5.3% to 37 million units) and emerging markets (+4.6% to 99 million units).

In this scenario Pirelli confirms its strategy of focusing on the premium segment, with the aim of:

- improving its position in the replacement channel on mature markets by taking advantage of its stronger position in the original equipment channel;
- seizing the numerous opportunities for premium segment growth in emerging countries.

In 2013, these objectives will be reflected in:

- total volumes increasing by 3%-4%, with a "high single digit" trend on emerging markets and substantial stability on mature markets as compared with 2012;
- the premium segment will be the driver for growth, with the 2013 growth rate between 13% and 14%;
- the price/mix component is expected to grow by 4%-5%;
- foreign exchange rates are expected to fall by about 4%.

Therefore, total revenue is expected to grow by about 4%-5% to euro 6.3-6.4 billion.
To achieve these objectives in the premium segment in 2013, Pirelli will sustain higher commercial costs for the development of marketing programs and improving customer service, and higher industrial costs for accelerated conversion of capacity to premium products, development of the factories in Russia and Mexico, and start-up of the new motorcycle factory in Indonesia.
The intensive capital expenditure made during the last two years and the recent acquisition of factories in Russia and distribution chains in Brazil and Sweden will cause a significant increase in depreciation and amortisation costs during the year.
These actions, aimed at improving the Group's competitive position, will be financed during the year by steady progress on the efficiency improvement plan, which can be quantified in at least euro 70 million for 2013, and by a more favourable commodity price trend that has been forecast as compared with 2012 (particularly for natural rubber). Restructuring costs are forecast to amount to about euro 30 million. The EBIT target is set in a range between euro 810 million and euro 850 million, and thus with an EBIT margin that is stable or slightly improved compared to 2012.
The consumer and industrial businesses will contribute as follows to reach this profitability target:
Consumer: EBIT margin forecast to be higher than 14% of net sales, which will amount to about euro 4.6 billion, assuming:

- 3%-4% growth in volumes, with the premium segment growing by about 13%-14%;
- price/mix component between +4.5% and 5.5%;
- foreign exchange rates falling by about -3%.

Industrial: EBIT margin of about 12% on net sales of about euro 1.7 billion, stemming from:
- increase in volumes by 3.5%-4.5%;
- price/mix component at +4% / +5%;
- foreign exchange rates falling by about -5%.

Capital expenditure is forecast to total about euro 400 million, of which 35% assigned to the mix component and quality improvement, 29% to the plant maintenance, logistics, safety and environment, 36% to conversion of capacity from standard products to premium products, and new premium segment capacity in emerging economies.
At the end of 2013, total capacity is expected to reach 69 million units in the consumer business, of which 78% in rapidly developing countries. Premium product capacity will reach 33 million units (48% of the total), of which 63% located in rapidly developing countries and 60% at new production plants.
Cash flow before dividends will be positive and above euro 200 million, with a ratio of about 3% to net sales. This target can be attained by improving EBITDA in a range from positive euro 70 million to positive euro 110 million, capital expenditure of about euro 400 million as mentioned above, a ratio between working capital and net sales lower than or equal to 10%, a tax rate of 35% and a cost of debt about 6.3%.
The net financial (liquidity)/debt position at the end of 2013 is forecast to be negative for less than euro 1.2 billion before the impact of Prelios.

OPERATING PERFORMANCE

TOTAL TYRE BUSINESS

The table below sets forth the consolidated results for 2012 as compared with those for 2011:

(in millions of euro)

	12/31/2012	12/31/2011
Net sales	**6,031.3**	**5,601.6**
Gross operating profit before restructuring expenses	1,114.8	875.5
% of net sales	*18.5%*	*15.6%*
Operating income before restructuring expenses	848.2	661.7
% of net sales	*14.1%*	*11.8%*
Restructuring expenses	(39.1)	(17.8)
Operating income	**809.1**	**643.9**
% of net sales	*13.4%*	*11.5%*

The following table sets forth the quarterly breakdown of operating income:

(in millions of euro)

	1Q		2Q		3Q		4Q		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Net sales	**1,542.6**	**1,384.5**	**1,457.7**	**1,376.4**	**1,542.6**	**1,464.8**	**1,488.4**	**1,375.9**	**6,031.3**	**5,601.6**
yoy	*11.4%*	*24.7%*	*5.9%*	*13.3%*	*5.3%*	*18.7%*	*8.2%*	*13.4%*	*7.7%*	*17.4%*
Gross operating profit before restructuring expenses	**280.3**	**209.5**	**275.9**	**218.4**	**269.5**	**228.4**	**289.1**	**219.2**	**1,114.8**	**875.5**
% of net sales	*18.2%*	*15.1%*	*18.9%*	*15.9%*	*17.5%*	*15.6%*	*19.4%*	*15.9%*	*18.5%*	*15.6%*
Operating income before restructuring expenses	**217.2**	**155.6**	**210.9**	**164.6**	**202.4**	**174.1**	**217.7**	**167.4**	**848.2**	**661.7**
% of net sales	*14.1%*	*11.2%*	*14.5%*	*12.0%*	*13.1%*	*11.9%*	*14.6%*	*12.2%*	*14.1%*	*11.8%*
Operating income	**215.2**	**152.4**	**198.4**	**160.1**	**198.7**	**171.9**	**196.8**	**159.5**	**809.1**	**643.9**
% of net sales	*14.0%*	*11.0%*	*13.6%*	*11.6%*	*12.9%*	*11.7%*	*13.2%*	*11.6%*	*13.4%*	*11.5%*

NET SALES

Net sales in 2012 totalled euro 6,031.3 million, up 7.7% from euro 5,601.6 million in the previous year.
In the premium segment, on which the Group growth strategy is focused, net sales totalled euro 2,075.4 million, up 20.9% from 2011. Total net sales volumes in this segment rose by 12.6%, while aggregate net sales volumes fell by 5.6% on a like-for-like basis.
The price/mix component was positive, increasing by 10.2% during the year, while broadening of the scope of activity in connection with the consolidation of the factories in Russia and the distribution chains in Brazil and Sweden boosted net sales by 4.1%.
Translation differences upon consolidation had a negative 1% impact on net sales.
Net sales in the consumer business, where the impact of growth in the premium segment is concentrated, rose by a total of 12.6%, while the industrial business, which is more exposed to macroeconomic changes, contracted by -3.9%, of which -3.6% resulting from the translation effect.
In regard to sales channels, 76% of sales refer to the replacement channel, while original equipment accounts for 24%.

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

	1Q		2Q		3Q		4Q		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Volume (excluding Russia and retail distribution chains)	-7.4%	6.1%	-7.6%	1.2%	-6.2%	2.8%	-1.8%	-3.9%	-5.6%	1.4%
of which Premium volume	*15.8%*	*25.2%*	*12.3%*	*21.7%*	*12.5%*	*17.5%*	*11.1%*	*8.3%*	*12.6%*	*18.2%*
Price/mix	16.5%	15.9%	11.1%	15.8%	8.6%	18.6%	5.4%	19.8%	10.2%	17.6%
Change in scope of Russia and retail distribution chains	2.2%	-	3.5%	-	4.1%	-	6.6%	-	4.1%	-
Change on a like-for-like basis	**11.3%**	**22.0%**	**7.0%**	**17.0%**	**6.5%**	**21.4%**	**10.2%**	**15.9%**	**8.7%**	**19.0%**
Translation effect	0.1%	2.7%	-1.1%	-3.7%	-1.2%	-2.7%	-2.0%	-2.5%	-1.0%	-1.6%
Total change	**11.4%**	**24.7%**	**5.9%**	**13.3%**	**5.3%**	**18.7%**	**8.2%**	**13.4%**	**7.7%**	**17.4%**

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

GEOGRAPHICAL AREA	12/31/2012			12/31/2011
	Euro/mln	*yoy*		
Italy	385.2	-9.7%	6.4%	7.6%
Rest of Europe	1,692.9	-6.1%	28.0%	32.3%
Russia	244.3 *	*n.a.*	4.0%	0.7%
Nafta	692.6	23.4%	11.5%	10.0%
Central and South America	2,067.5	7.9%	34.3%	34.2%
Asia\Pacific	420.5	19.2%	7.0%	6.3%
Middle East\Africa	528.3	5.4%	8.8%	8.9%
Total	**6,031.3**	**7.7%**	**100.0%**	**100.0%**

* of which euro/mln 171.9 from Russia JV

PRODUCT	12/31/2012			12/31/2011
	Euro/mln	*yoy*		
Car tyres	4,023.1	14.5%	66.8%	62.6%
Motorcycle tyres	396.7	-3.8%	6.6%	7.4%
Consumer	**4,419.8**	**12.6%**	**73.4%**	**70.0%**
Industrial vehicle tyres	1,513.9	-2.6%	25.0%	27.8%
Steelcord	97.6	-19.5%	1.6%	2.2%
Industrial	**1,611.5**	**-3.9%**	**26.6%**	**30.0%**

OPERATING INCOME

Operating income for the year ended December 31, 2012 totalled euro 809.1 million, up 25.7% from 2011. The EBIT margin, assumed as the ratio on net sales, also improved, rising to 13.4% from 11.5% for 2011.
A total of euro 39.1 million in restructuring expenses were recognised during the year, related to write-off of the truck production plants in Italy and the planned disposal of the steel cord business in Germany, as well as on-going cost efficiency measures being undertaken at Group sites in Europe.

The factors that positively impacted operating income included the price/mix component, continuous internal efficiency improvement measures and, limited to 4Q 2012, commodity prices. In contrast, the factors that negatively impacted operating income included the rising cost of other factors of production and sales volume trends (on a like-for-like basis). Finally, the other factors impacting operating income include the gain recognised in 4Q 2012 on the disposal of certain real estates in Brazil (about euro 19.6 million) and the cancellation of the earn-out debt included in the purchase agreements of the plants in Russia (euro 10 million).

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

(in millions of euro)

	1Q	2Q	3Q	4Q	Total
2011 Operating income	**152.4**	**160.1**	**171.9**	**159.5**	**643.9**
Foreign exchange effect	(1.3)	(1.7)	(0.3)	(3.3)	(6.6)
Prices/mix	159.2	101.7	82.6	19.6	363.1
Volumes (excluding change in Russia)	(30.2)	(34.7)	(37.7)	(0.6)	(103.2)
Cost of prodution factors (raw materials)	(85.1)	(5.0)	2.4	37.2	(50.5)
Cost of prodution factors (labour/energy/others)	(22.0)	(32.9)	(29.7)	(31.0)	(115.6)
Efficiency	25.5	24.7	33.8	29.5	113.5
Ammortisation, depreciation and other *	15.5	(5.8)	(22.8)	(1.1)	(14.2)
Restructuring expenses	1.2	(8.0)	(1.5)	(13.0)	(21.3)
Change	**62.8**	**38.3**	**26.8**	**37.3**	**165.2**
2012 Operating income	**215.2**	**198.4**	**198.7**	**196.8**	**809.1**

* includes change in Russia

CONSUMER BUSINESS

The following table sets forth the 2012 results as compared with those for the same period in 2011:

(in millions of euro)

	1Q		2Q		3Q		4Q		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Net sales	**1,151.8**	**983.3**	**1,078.3**	**958.9**	**1,116.8**	**1024.3**	**1,072.9**	**959.0**	**4,419.8**	**3,925.5**
yoy	*17.1%*	*25.9%*	*12.5%*	*14.7%*	*9.0%*	*20.9%*	*11.9%*	*14.6%*	*12.6%*	*18.9%*
Gross operating profit before restructuring expenses	**232.1**	**160.6**	**213.4**	**169.7**	**206.7**	**172.2**	**207.1**	**166.9**	**859.3**	**669.4**
% of net sales	*20.2%*	*16.3%*	*19.8%*	*17.7%*	*18.5%*	*16.8%*	*19.3%*	*17.4%*	*19.4%*	*17.1%*
Operating income before restructuring expenses	**184.0**	**119.7**	**163.1**	**128.6**	**154.4**	**131.1**	**151.0**	**127.1**	**652.5**	**506.5**
% of net sales	*16.0%*	*12.2%*	*15.1%*	*13.4%*	*13.8%*	*12.8%*	*14.1%*	*13.3%*	*14.8%*	*12.9%*
Operating income	**182.1**	**116.8**	**153.2**	**124.3**	**151.4**	**129.0**	**144.3**	**120.5**	**631.0**	**490.6**
% of net sales	*15.8%*	*11.9%*	*14.2%*	*13.0%*	*13.6%*	*12.6%*	*13.4%*	*12.6%*	*14.3%*	*12.5%*

The following table sets forth the detailed breakdown of market performance:

	Q1	Q2	1° Half	Q3	at 9/30	4Q	Total
EUROPE (*)							
Original Equipment	-6%	-8%	-7%	-9%	-8%	-11%	-9%
Replacement	-12%	-13%	-13%	-11%	-12%	-13%	-12%
NAFTA							
Original Equipment	+16%	+27%	+22%	+16%	+20%	+10%	+17%
Replacement	-8%	-1%	-4%	-7%	-5%	-3%	-5%
SOUTH AMERICA							
Original Equipment	-7%	-9%	-8%	+3%	-4%	+14%	+0%
Replacement	+4%	+0%	+2%	-2%	+0%	+5%	+1%
CHINA							
Original Equipment	+1%	+15%	+7%	+10%	+8%	+5%	+7%

(*) excluding Russia

Net sales in 2012 totalled euro 4,419.8 million, up 12.6% from 2011. This result was achieved through growth in the price/mix component by 12.0% and the contribution of the enlarged scope of activities (+5.8%), while net sales volumes on a like-for-like basis fell by 5.2%.

	1Q		2Q		3Q		4Q		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Volume (excluding Russia and retail distribution chains)	-5.1%	9.0%	-5.3%	2.6%	-6.1%	4.3%	-4.0%	-3.3%	-5.2%	3.0%
of which Premium volume	*15.8%*	*25.2%*	*12.3%*	*21.7%*	*12.5%*	*17.5%*	*11.1%*	*8.3%*	*12.6%*	*18.2%*
Price/mix	18.8%	14.6%	13.6%	16.2%	9.6%	18.4%	6.4%	19.7%	12.0%	17.3%
Change in scope of Russia and retail distribution chains	2.7%	-	4.4%	-	5.9%	-	9.5%	-	5.8%	-
Change on a like-for-like basis	**16.4%**	**23.6%**	**12.7%**	**18.8%**	**9.4%**	**22.7%**	**11.9%**	**16.4%**	**12.6%**	**20.3%**
Translation effect	0.7%	2.3%	-0.2%	-4.1%	-0.4%	-1.8%	0.0%	-1.8%	0.0%	-1.4%
Total change	**17.1%**	**25.9%**	**12.5%**	**14.7%**	**9.0%**	**20.9%**	**11.9%**	**14.6%**	**12.6%**	**18.9%**

Gross operating profit before restructuring expenses totalled euro 859.3 million, with a margin on net sales of 19.4%, as compared with euro 669.4 million in 2011 (17.1% of net sales).

Operating income before restructuring expenses totalled euro 652.5 million, with a margin on net sales of 14.8%, as compared with the 2011 result of euro 506.5 million, with a margin on net sales of 12.9%.

Operating income totalled euro 631.0 million (14.3% on net sales), up 28.6% from 2011 in absolute value (euro 490.6 million), and up 1.8 percentage points in terms of EBIT margin (12.5% on net sales in 2011).

Growth in the price/mix component resulting from focus on the premium segment (+12.6% growth in volume) and from the impact of price changes that were gradually applied in 2011, combined with constant focus on realising efficiency gains, offset the significant reduction in aggregate net sales volumes (-5.2% from 2011), the generally negative trend of commodity costs (especially in the first half of the year), inflation in unit labour, energy and overhead costs, and the negative impact, especially in the second half of the year, of falling production volumes and the consequently lower use of capacity, especially in Europe.
Regarding sales channels, 73% of sales refer to the replacement channel, while original equipment accounts for 27%.

CAR BUSINESS

The car business accounts for 91% of net sales in the consumer segment, of which 71% generated by the replacement channel and 29% by the original equipment channel in 2012.
In 2012 net sales in the original equipment channel fell sharply in Europe (-9%), held steady at 2011 levels in South America due to the recovery in the second half of 2012, and grew in the NAFTA countries (+17%) and China (+7%).
In the replacement channel, mature markets tracked a steep downward trend (Europe -12%, NAFTA -5%), while emerging markets continued growing, although at rates that were generally lower than in the previous year (South America +1%, with other markets expanding at a faster rate).
Car business results were sustained by the excellent performance of net sales in the premium segment, which rose by 23%, almost doubling in Russia and South America, with growth of over 70% in Apac, nearly 50% in MEA, and about 35% in NAFTA.
By contrast, Europe reported more modest growth (+5%).

This performance was supported by selective consolidation of the market shares of premium segment customers in the original equipment channel in Europe, NAFTA, and Asia-Pacific, the strength of the Company's product line, increasing customer recognition and appreciation for the quality of its products, and targeted communication, while also benefiting from the positive effects of F1 activities.

MOTORCYCLE BUSINESS

In the original equipment channel, the reference markets for the motorcycle business, which accounts for 9% of sales in the consumer segment, contracted sharply in South America and less sharply in Japan, while rising slight in Europe, especially in central Europe.
In the replacement channel, the market contracted by 11% in Europe and 1% in South America, while rising 2% in NAFTA.
Regarding sales channel, in 2012 Pirelli made 71% of its net sales in the replacement channel and 29% in the original equipment channel for the motorcycle business.
In 2012 Pirelli renewed its product line in the sport touring segment with the new Pirelli Angel GT tyre (which debuted in September as original equipment for the new Multistrada Ducati 1200 S Granturismo) and its Metzeler line with the new enduro street Tourance Next tyres, and presented the new KAROO family of tyres for the off-road segment at EICMA, with this new line going on sale in spring 2013.
The Pirelli Diablo Supercorsa SP sports tyres also received a very positive recognition in the Superbike sports application, while also proving to be the absolutely top performing tyre racing tyre for road use.
Pirelli motorcycle tyres achieved important results in sports competition during 2012: many prestigious racing championships chose Pirelli as their sole tyre supplier, including World Superbike (with the technical partnership for exclusive supply of tyres confirmed through the end of the 2015 season), British Superbike (BSB), Canadian Superbike and Brazilian Superbike. The Superbike championships will be run in 2013 with the Diablo Superbike 17 inch tyres (previously made in the 16.5 inch size), keeping step with ever-rising demand for the most sought-after tyres on the market.
Pirelli triumphed in the Superbike class of the Italian speed championship, and with the Pirelli Scorpion MX tyres in the MX1 and MX2 classes of the World Rally Championship.

GEOGRAPHICAL AREAS

Europe

The macroeconomic situation in this area was definitely negative in 2012, with the market contracting both in the replacement channel (-12%) and in the original equipment channel (-9%).
In the replacement channel, even the premium segment shrank by 10% overall, with contraction in demand hitting 20% in southern Europe.
After years of uninterrupted growth, the winter segment shrank by 16% in 2012.
The original equipment channel confirmed the resilience and better market results of premium customers and greater declines in general segments.

Nafta

The replacement tyre channel on the consumer market contracted by 5%, with the premium segment performing better.
Pirelli managed to gain market share by exploiting its intense focus on the premium segment and the positive stimulus made by approvals in the original equipment channel.
The Unites States customs surcharge on imports from China was eliminated beginning in September. On the other hand, the original equipment market leapt upwards by +17%, being driven by net sales to premium segment customers.

South America

The Mercosur, where the market recovered in the original equipment channel during the second half of the year following the introduction of government incentives for vehicle purchases, remained an important area for Pirelli, in terms of both production and sales, with the Group confirming its market lead. In the car business, the improvement in Pirelli's leadership position resulted principally mainly from the substantial growth in net sales and development in the premium segment and maintenance of strategic agreements with local car makers.

In the motorcycle business, the original equipment channel contracted sharply. However, its consolidated historic leadership position and partnership with new motorcycle makers that are beginning to produce locally will allow Pirelli to maintain significant market share.

Apac

The original equipment channel in China grew by 7% overall, with exponential growth in the premium segment, on which Pirelli bases its intensive global collaboration efforts.

The replacement channel also expanded slightly, with sustained growth in the premium segments.

Development of the distribution network continued in support of rising sales in this region, which are driven in part by original equipment sales to premium customers.

Russia

New car registrations rose by 11% in 2012, with foreign brand sales rising 17%. The latter accounted for 76% of total car registrations in 2012, confirming growth as measured by market value.

The replacement channel expanded by 13%, with both the summer and winter tyre segments performing well.

During the year, Pirelli steadily reinforced its distribution network and made major investments in promoting the distribution of its products and name recognition of its brand.

Mea

The reference markets in this region confirmed their previous high growth rates in the premium segments, in which Pirelli sales are concentrated.

INDUSTRIAL BUSINESS

The table below sets forth results for 2012 as compared with those in the same period for 2011:

(in millions of euro)

	1Q		2Q		3Q		4Q		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Net sales	**390.8**	**401.2**	**379.4**	**417.5**	**425.8**	**440.5**	**415.5**	**416.9**	**1,611.5**	**1,676.1**
yoy	*-2.6%*	*21.9%*	*-9.1%*	*10.0%*	*-3.3%*	*13.9%*	*-0.3%*	*10.8%*	*-3.9%*	*13.9%*
Gross operating profit before restructuring expenses	**48.2**	**48.9**	**62.5**	**48.7**	**62.8**	**56.2**	**82.0**	**52.3**	**255.5**	**206.1**
% of net sales	*12.3%*	*12.2%*	*16.5%*	*11.7%*	*14.7%*	*12.8%*	*19.7%*	*12.5%*	*15.9%*	*12.3%*
Operating income before restructuring expenses	**33.2**	**35.9**	**47.8**	**36.0**	**48.0**	**43.0**	**66.7**	**40.3**	**195.7**	**155.2**
% of net sales	*8.5%*	*8.9%*	*12.6%*	*8.6%*	*11.3%*	*9.8%*	*16.1%*	*9.7%*	*12.1%*	*9.3%*
Operating income	**33.1**	**35.6**	**45.2**	**35.8**	**47.3**	**42.9**	**52.5**	**39.0**	**178.1**	**153.3**
% of net sales	*8.5%*	*8.9%*	*11.9%*	*8.6%*	*11.1%*	*9.7%*	*12.6%*	*9.4%*	*11.1%*	*9.1%*

The following table sets forth the detailed breakdown of market performance:

	Q1	Q2	1° Half	Q3	at 9/30	4Q	Total
EUROPE (*)							
Original Equipment	-6%	-7%	-6%	-8%	-7%	-10%	-8%
Replacement	-30%	-26%	-28%	-10%	-22%	-1%	-17%
SOUTH AMERICA							
Original Equipment	-30%	-27%	-29%	-28%	-28%	-31%	-29%
Replacement	-13%	-7%	-10%	+0%	-7%	+3%	-4%
CHINA							
Original Equipment	-24%	-24%	-24%	-19%	-23%	-7%	-19%

(*) excluding Russia

In 2012 net sales totalled euro 1,611.5 million, down 3.9% from 2011, with -3.6 % represented by the translation effect. On a like-for-like basis, the change was thus -0.3%, with the price/mix component up +6.2%, almost fully offsetting the reduction in net sales volumes, -6.5%.

	1Q		2Q		3Q		4Q		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Volume	-12.3%	-0.7%	-11.3%	-1.9%	-6.2%	-0.5%	3.1%	-5.4%	-6.5%	-1.7%
Price/mix	11.2%	19.0%	5.3%	14.9%	6.0%	19.0%	2.9%	20.1%	6.2%	17.8%
Change on a like-for-like basis	**-1.1%**	**18.3%**	**-6.0%**	**13.0%**	**-0.2%**	**18.5%**	**6.0%**	**14.7%**	**-0.3%**	**16.1%**
Translation effect	-1.5%	3.6%	-3.1%	-3.0%	-3.1%	-4.6%	-6.3%	-3.9%	-3.6%	-2.2%
Total change	**-2.6%**	**21.9%**	**-9.1%**	**10.0%**	**-3.3%**	**13.9%**	**-0.3%**	**10.8%**	**-3.9%**	**13.9%**

Operating income before restructuring expenses totalled euro 195.7 million, with ROS of 12.1%, as compared with euro 155.2 million in 2011 (ROS 9.3%). The improvement in profit margin reflected the impact of the price/mix component of net sales and lower commodity costs (especially for natural rubber), notwithstanding the lower net sales volumes.

Operating income was euro 178.1 million (with ROS of 11.1%), up 16.2% from 2011 (euro 153.3 million, with ROS of 9.1%). A total of euro 17.6 million in restructuring expenses were recognised, concentrated in 4Q 2012 and mainly related to the write-off of plants upon closure of the truck production business in Italy, and the planned termination of steel cord production in Germany.

On the reference markets, turnover in the original equipment channel fell sharply throughout 2012 in South America (-29% from the previous year), in China (-19%), and in Europe (-8%).
The NAFTA market bucked this negative trend by expanding +5% during the year. This net improvement stemmed from strong growth in the first half (+20%), and then contraction in the second half, particularly in the fourth quarter (-13%).
Instead, the replacement channel contracted everywhere in 2012: with Europe -17% and NAFTA -11%, while the markets in South America (-4%) and China (-4%) fell somewhat less.
Only in 4Q 2012 did Europe perform almost as well as it did in 2011 (-1%), after contracting by a hefty -28% in 1H 2012. After contracting by -10% in 1H 2012, South America showed signs of recovery in the third quarter, and moved into positive territory in the fourth quarter (+3%).

TRUCK BUSINESS

The truck business, which represents 83% of net sales in the industrial segment, was heavily impacted by market performance, where turnover fell, especially in the original equipment channel: -8% in Europe, -19% in China, and -29% in South America, which was also impacted by the change in regulations affecting the use of vehicles in the Euro 3 through Euro 5 classes since the end of 2011. The NAFTA area bucked this negative trend, being driven by the United States with steady growth of +5% throughout the year.
In the replacement channel, the market contracted virtually everywhere from 2011 levels: with Europe -17%, South America -4%, and NAFTA -11%. The reduction was especially pronounced in 1H 2012, when Europe fell by -26% and, contrary to expectations, remained in negative territory for all of the third quarter (-10%) and most of the fourth quarter (-1%), when the timid signs of recovery in October and November were overshadowed by a sharp relapse in December (-6%). After contracting by -10% in 1H 2012, South America recovered to the levels of a year earlier in 3Q 2012, and ended the year up +3% in 4Q 2012 as compared to 2011.
Due to market performance, total output in 2012 fell by 10% from 2011, with all steel radial tyre production down -11% and conventional tyre production down -18%. The industrial reorganisation plan and a capital expenditure plan were implemented throughout the year to reconfigure the production mix in favour of high-end products, which are destined to account for 50% of net sales in Europe.
Production had to be halted yet again in 4Q 2012 (-3% year-on-year, and -12% in the first nine months of the year), with a slightly greater decline in the all steel radial segment (-8%) and lower decline in the conventional tyre segment (-1%), in order to control inventories. These production cutbacks reduced the negative impact on working capital.
Against the backdrop of a generally negative market scenario, with partial signs of recovery on the replacement channel, but persistently negative performance in the original equipment channel, 4Q 2012 results were consistent with those of 3Q 2012. However, they were still better than a year earlier, both in terms of volumes and profitability, in spite of the growing negative translation effect. This improvement stemmed from the positive contribution of the price/mix component and simultaneous reduction in commodity prices, especially for natural rubber.

The new Series 01 products were gradually introduced on the market during 2012. In particular, these included the launch of the winter product on occasion of Truck Safety Day in January. A series of live tests were held on snow and ice-covered roads to show journalists and customers the performance and safety features of our new products under extreme use conditions, focusing in particular on safety features. The entry into force of new European Union tyre labelling regulations gave the Company another opportunity to demonstrate the high performance standards of its Series 01 products in terms of safety (Pirelli tyres were the best performer as measured by wet grip), eco-compatibility and fuel economy (performing on par with the best in class as measured by energy efficiency).
In addition to the new Series 01 Winter product for Europe, the Regional, On/Off and Semitrailer applications of the Series 01 were introduced in Istanbul for the Africa and Middle East markets, while the new Diamante Nero product was introduced in Egypt, representing the top of the line of Pirelli products offered in that country.
Rounding out the Series 01 line and featuring maximum attention to eco-sustainability and safety, Pirelli has perfected a new, innovative system (Cyber™ Fleet) for monitoring temperature and pressure. Maintaining optimal tyre temperature and pressure are essential to guaranteeing safety and reducing rolling resistance. This solution was subjected to extensive testing in Brazil, Europe and Turkey during 2012, achieving outstanding results and allowed to better define the approach of offering truck fleets two different user modes (static and dynamic).

AGRICULTURAL BUSINESS

The agricultural business, which accounts for 11% of net sales in the industrial segment, remains heavily focused on South America, which generates 86% of total turnover. Net sales in Brazil grew at a brisk rate in the original equipment channel (+11.4%), while remaining stable in the replacement channel.
Agricultural radial tyre product sales soared in South America during 2012, with net sales rising by 80%. This improvement laid the basis for further growth in 2013, with the introduction of 14 new products developed in response to the requests made by the world's leading agricultural equipment makers.
In 2012 aggregate net sales fell by 7.2% compared to the previous year, being impacted by lower volumes (-5%) and the negative translation effect (-4.1%), which were only partially offset by improvement in the price/mix component (+1.9%).

STEEL CORD BUSINESS

The steel cord market, which accounts for 6% of net sales in the industrial segment, contracted sharply from its 2011 levels. This downturn was particularly pronounced in the EMEA markets where Pirelli has a greater presence, with net sales falling by 10%.
However, net sales of hose wire (used to reinforce high pressure pipes, and representing 3% of net sales) rose by 7% from 2011, notwithstanding the severe contraction in the consumer segment (-25%). This result was achieved by exploiting the advantage of offering service from plants located near customer locations.
The lower volumes and sales mix made it necessary to reduce production in order to control inventory levels. The described contraction and consequent cost pressure drove the decision to schedule closure of the German brass product plant in 2013.
On the other hand, important research and development project were carried forward in 2012 to guarantee future competitiveness. The principal R&D activities were focused on developing extremely high resistance products to reduce tyre weight and rolling resistance, increase plunger resistance (ultra-high tensile steel cord) for both cars and trucks, start-up of the new semi-finished product department in Romania equipped with new technology that will

permit automated production of at least 60% of its internal requirements and a significant reduction in production costs, and the development of production processes through extension of the new thermal treatment system (patented by Pirelli) that can reduce production costs by using productive factors more efficiently.

GEOGRAPHICAL AREAS

Europe

In an extremely negative market situation, Pirelli improved its competitive position with effective price management and improved its mix from the previous year. Following introduction of the new Series 01 products in 2011, the truck business currently offers a strongly performing product line that satisfies new European Union eco-sustainability and safety labelling regulations introduced during the year.

South America

Pirelli confirmed its leadership in the original equipment channel by increasing its market share, although the truck business market in Brazil contracted by over 30% from its 2011 levels.
A program to focus on dealers and fleets was launched in the replacement channel, while the Formula brand product supporting Pirelli was introduced on the market. In 2012 Pirelli's overall share of the Brazilian truck market increased from the previous year.
In Brazil, the Pirelli product line is being rounded out with the launch of Cyber™ Fleet in November. This product line was extensively tested on one of the biggest truck fleets in Brazil during July. The product line has been widened by the new Series 01 Regional product.
The project to install all steel capacity in Argentina by 2014 got under way during the year.

Mea

Net sales trends in Turkey roughly tracked those in Europe, albeit with different proportions in the two sales channels: -7% in the replacement channel and -24% in the original equipment channel. However, Pirelli was still able to maintain its market share. Winter tyre regulations came into effect on December 1, 2012, with Pirelli responding with a complete range of products already introduced on the European market.

The Egyptian market remained steady at the same level of the previous year, while the strike at the Pirelli plant in June and July affected overall sales performance. New opportunities to expand the Company customer base (e.g. in the tourist transport segment) were opened up by the new Diamante Nero series product lines.
Refocus on the price/mix component continued and was consolidated on all markets in this region, benefiting from constant demand.

Apac

The Chinese market continued to slow down in 4Q 2012, especially in the original equipment channel. The market ended down in both channels for 2012 as a whole. During the year, Pirelli carried forward an intensive program of refocusing on fleets and the mix offered on the domestic market, as well as increasing sales in other countries of the region (Australia, Far East).

RESEARCH AND DEVELOPMENT ACTIVITY

The core of Pirelli's growth strategy is its consolidated capacity to innovate products and processes and consider new opportunities that might arise from on-going research activities.

Group R&D costs, which are fully expensed in the annual income statement, totalled Euro 178.9 million, with a 2.9% ratio to net sales. Of this amount, euro 142 million refers to activity involving premium products (representing 79% of total R&D costs), and amounted to 6.8% of net sales of premium products.

Pirelli aims to become world leader in the premium segment in 2015, confirming the strategy to focus on that segment as illustrated in the business plan presented in 2010. To do so, it is relying on new investments in technological innovation that will lead to an unprecedented expansion in the product line, capable of satisfying the ever-more sophisticated demands of mature markets like Europe and the arising demand for premium products in rapidly developing countries.

Pirelli now operates one research centre in Italy and eight application centres around the world. Its Research and Development Department has over 1,200 employees, with a large percentage of these from countries other than Italy.

The amount of investments to be made by the Company in Research and Development over the next few years will remain at around 3% of annual sales, which is one of the highest rates in the sector. All of these factors will help increase the number of patents held by the Group (currently over 4,500), guarantee its ability to update its line of premium products approved as original equipment, and fully eliminate highly aromatic oils from its entire product line worldwide by 2013.

GROUP R&D COSTS, WHICH ARE FULLY EXPENSED IN THE ANNUAL INCOME STATEMENT, TOTALLED EURO 178.9 MILLION, WITH A 2.9% RATIO TO NET SALES. OF THIS AMOUNT, EURO 142 MILLION REFERS TO ACTIVITY INVOLVING PREMIUM PRODUCTS (REPRESENTING 79% OF TOTAL R&D COSTS), AND AMOUNTED TO 6.8% OF NET SALES OF PREMIUM PRODUCTS.

The Group can rely on its 40 years of experience in the premium segment, original equipment partnerships with top German premium car makers developed at the Pirelli R&D centre in Germany, an R&D budget that is fully dedicated to this segment, and 1,200 full time researchers around the world, a number that is doubled if the persons participating in open innovation projects with university or car maker research centres are counted. Pirelli is party to agreements with 14 university research centres around the world, numerous joint research projects with outsourcers and university research centres, and over 100 partnerships with premium car makers for original equipment. More than 150 research projects on materials, processes and software are currently under way with these partners.

Formula 1 represents another important source of innovation, driving research on model prototypes, compounds and processes, and contributing experience and know-how that can be transferred to highway models.

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.

The three-year (2011-2014) JOINT LABS agreement continued with the Milan Polytechnic in 2012, concentrated on the following areas of research:

- F1 tyre: using mathematical models that simulate the

grip and wear performance of tyres according to the roughness of road surfaces on various race courses;
- innovative materials: de-vulcanization of end-of-life tyres, nanofillers and biopolymers;
- intelligent tyre (Cyber Tyre): with the development of mathematical models that allow the chip contained in the Cyber Tyre to "interpret" different road surface conditions.

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 and application of nanotechnologies to the development of new generation tyres.
The collaboration between Pirelli and the academic world also involves the University of Milan - Bicocca campus. Once again in 2012, Pirelli offered scholarships to doctoral candidates in the School of Science through Corimav (Consortium for Research on Advanced Materials).
The strength of its human resources and organisation of its own research network, with the participation of regional centres that are fully integrated with the R&D centre in Milan, naturally means that the Company's principal asset is represented by human capital.

Pirelli operates a network of R&D centres in every region of the world, exploiting a solid local link with its customers.
To maximise effectiveness, everything is coordinated and integrated in Milan, the pulsing heart of the organisation, which receives local input and disseminates know-how and best practices to the network of local technological centres.
This know-how, together with the Open Innovation model described above, offers an absolutely original intellectual potential.

Its leadership in innovative materials is pursued through research in the field of polymers, fillers and chemistry.
Compounds are key to tyre performance.
Research on polymers, fillers and chemical additives offers Pirelli new future possibilities to develop ever more stable compounds, ever lighter structures and ever more impermeable liners. Its research activities are broken down as follows:
- joint development agreements for research on new premium segment polymers to improve rolling resistance, winter performance, mileage and grip;
- development of standard materials with Russian outsourcers;
- high-dispersion silica for wet grip, rolling resistance and durability;
- high-performance carbon black for extreme grip under competitive conditions;
- nanofillers for more stable compounds, lighter structures and highly impermeable liners;
- new silanes to guarantee performance stability and processability.

Leadership in green materials is built 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.

On the basis of the Open Innovation model, Pirelli is cooperating with universities to develop natural rubber from sources other than the rubber tree, and is studying a new, selective de-vulcanization process for recycling used tyres. The use of alternative sources will offer Pirelli greater flexibility in dealing with the possible scarcity of raw materials. Successful de-vulcanization would have a major impact not only because it could significantly reduce production costs but also in environmental terms. The development of green performance products is planned in different segments, particularly through reinforcement of its leadership in the premium segment.
In Brazil Pirelli is committed to technologically advanced and eco-compatible activities in this field. There the Group is developing and using a process to extract silica, a key ingredient in tyre production, from rice husks.
This discovery has been reported in one of the world's most prestigious newspapers, The Economist, which dedicated

an article to Pirelli that discusses the environmental benefits resulting from use of a natural substance like rice husks.
Rather than discarding it, the silica is used to reduce tyre rolling resistance and increase vehicle efficiency. Moreover, the rice husks are used in turn to furnish the energy necessary for the extraction process.
Southern Brazil offers the ideal environmental conditions for rice cultivation, but this does not exclude the possibility of exporting this virtuous model of cooperation with local communities to other countries, which has enabled Pirelli to grow in Brazil also in terms of research.
Silica from rice husks is one of the principal biomaterials on which Pirelli has concentrated its research efforts and for which it has already industrialised the process. In fact, this biomaterial is already being produced at the Group's plants in Brazil. Thirty per cent of the silica used by Pirelli in Latin America will be derived from plant sources by 2015.
The production of silica from rice husks by Pirelli stands as a clear example of how innovations in the area of materials can contribute both to the exploitation of by-products that would otherwise be only partially reused, and the eco-sustainability of production processes. All of these benefits are accompanied by economic advantages that can be immediately related to the efficiency of the process.

MODELLING

Avant-garde modelling, realised by the use of simulations, will make it possible to reduce the time to market even further and improve the quality of its designs so that they perform better and satisfy the most exacting demands.
New simulation models (developed in-house, directly capitalising on Formula 1 experience), supported by extremely powerful calculation capacity, will shorten development times, reduce production costs and improve performance.
This approach is broken down as follows:

- 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.

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 sustainable competitive advantage. In engineering, development times and costs have been drastically reduced.

CYBER TYRE

Tyre electronics (like the microchip contained in the Cyber Tyre, which makes it possible to monitor changing road surface conditions by sending the vehicle key information for stability and safe driving), are the "spare tyre" in Pirelli's premium innovation strategy.
CYBER FLEET™, the innovative monitoring system created by Pirelli for truck fleets, was presented in São Paulo, Brazil in November. 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 radio transmitter box and special sensors mounted on the inner surfaces of the tyres, the system transmits the values reporting tyre status to a centralised data processing centre. This data collection and processing system monitors key operating parameters such as pressure and temperature, reporting tyre condition to the fleet operator in real time, while also notifying it of punctures or other hazardous events.
CYBER FLEET™ will soon be available in other South American countries as well.

Pirelli monitors all vehicles equipped with chips, and it provides the fleets with advice on vehicle management.
The sensor is not damaged and the data are not lost even if the tyre is rebuilt.

PRODUCTS

The European Union labelling regulation applicable to replacement tyres came into force on November 1, 2012.
This EU regulation requires that tyre makers apply a label (called the "Eurolabel") to tyres which gives consumers important product information. This label provides key information that can be used to assess the characteristics and quality of a tyre. Ratings of the following characteristics are indicated on the label: rolling resistance (indicator of energy efficiency), wet grip (safety indicator), and external rolling noise (environmental impact indicator). Energy efficiency and safety are ranked by classes that run from "A" to "G", while external noise is measured in decibels and is shown with the sound wave symbol. For the first two performance parameters, the Eurolabel uses a classification system similar to the one that is now used on electric appliances. This consists of bar graphs showing seven different colour-coded levels (ranging from green to red) to give consumers simple, immediate information on the performance of the product that they wish to buy. Since November 1, 2012, the Eurolabel has had to be affixed on all tyres made since July 1, 2012. The Eurolabel is applied to car tyres (C1) and light and heavy commercial vehicle tyres (C2 and C3).
The European Union previously set three targets to be achieved by 2020: a 20% reduction in emissions, 20% in energy savings through improved energy efficiency, and 20% increase in renewable energy. The Eurolabel is one of the tools adopted by the EU to meet these targets. So, its purpose is to improve the safety and environmental efficiency of road transport by promoting safe tyres that enhance consume efficiency with low noise levels.

When a tyre is purchased, the seller is required to issue a copy of the information contained on the label. This information must also be displayed at the sales outlet. These measures ensure that consumers will always have more information about their purchases. The market will also benefit from this requirement, by becoming more competitive and challenging through the direct comparison of products.
Introduction of the Eurolabel, which was developed by the European Commission with the assistance of tyre makers eager to have clear and innovative rules governing safety and environmental performance, has forced industry to make major efforts to comply with this regulation during the design phase.

CAR BUSINESS

Today, product performance requirements are different 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 Russian market.
The Company aims to pass the tests held by specialised magazines and continue receiving original equipment approvals from its top quality car maker partners, such as Bentley, Aston Martin, Porsche and BMW.
Even the top Pirelli tyre line, the PZero, will contribute to further development of its premium product line ranking by top car makers, by using the priceless know-how acquired through development of Formula 1 technology, which will continue to be transferred to its highway products.
The twenty-fifth anniversary of the PZero series was celebrated in 2012. This is the top-performing line of tyres made by Pirelli that has undergone continuous evolution since 1987, tracking the evolution of the cars they equip – supercars and high-powered cars in general.
During the presentation, this continuous evolution was tested with a professional simulator that virtually reproduced the characteristics of cars and tyres in the 1980's

and those made today. The comparison between the technology available 25 years ago and today has made it possible to confirm the functional interaction between car and tyre and the key role played by the choice of the most suitable type of tyre for each individual car model. The simulation also showed the key stages in development of a new Pirelli tyre and the collaboration between its researchers and car maker engineers. The partnership between Pirelli and the world's most prestigious car brands is key to the continuous evolution of its premium tyres.

The PZero line is now represented by the PZero tyre created in 2007, which has continuously evolved to adapt to the car models it equips, and the Corsa tyre, developed to equip super sports cars. The PZero line is the one that features the greatest amount of know-how acquired by Pirelli on the racetrack. In particular, the PZero Giallo model of 1987, which was created to "tame" the power of the Ferrari F40, was the first highway use tyre derived from sports use. Innovations applied to the PZero family have since become standard throughout the tyre industry, such as low and ultra-low side walls.

The key characteristics of Pirelli UHP tyres are their high safety standards, realised through shorter stopping distance under dry and wet conditions, grip on straightaways and curves, handling and comfort.

MOTORSPORT AND THE INTERACTIVE DEVELOPMENT PROCESS

Pirelli researchers apply a working method called the Interactive Development Process. This method is derived from the commitment made by Pirelli to motorsport and is rendered even faster and more efficient by its participation in Formula 1.

The Interactive Development Process, on which the Pirelli partnership with the world's most prestigious car makers is based, aims at constantly improving its products and their segmentation to meet the growing and varied requirements of original equipment specifications and end consumers. In this process, several teams of engineers from different departments such as Material Research, Design, Quality, and Testing, interact with each other to identify the areas for improvement of a tyre by comparing the gathered data and comparing performance differences. This interaction takes place not only in the development phase but also afterwards, when the tyre is sold on the replacement and original equipment markets. The comments and suggestions made by end users are key to this interactive process, being solicited and requested with the most modern digital marketing systems, and comparison with car makers. This is essentially the sort of collaboration that characterises sports competitions, in which Pirelli has participated since 1898. In sports, no technological solution is considered final, instead being subject to improvement, and every race is a development test for the next race.

The Interactive Development Process has been refined over the past few years through the application of virtual modelling, used to develop Formula 1 tyres. This technique uses computers to conduct thousands of tests, comparing different solutions under different use conditions.

Pirelli's commitment to motorsport has not only generated the working method used by researchers and modelling techniques, but also ideas and concrete inspiration for the evolution of individual tyre components, especially compounds and structure. More specifically, highway tyre compounds are the result of sophisticated processes designed at realising the exact composition of materials and perfected for the production of F1 tyres.

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 main 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 in wet conditions, and also run flat and self-sealing technologies.
In 2012 Pirelli car tyre research and development activity created new green products.
Pirelli was the first tyre maker in the world to sell a double "A" rated tyre. The latest creation in the Pirelli Cinturato family, the P7 Blue is the first tyre ever to get the top label rating.
With its shorter stopping distance in wet conditions and lower rolling resistance, and thus lower fuel consumption, the Cinturato P7 Blue guarantees:

- 9% shorter stopping distance in wet conditions as compared with a tyre in the same segment that has a "B" rating according to the European Union labelling system (for wet braking). Moreover, the comparative tests performed by TÜV SÜD show that, at a speed of 80 km/h on a wet road, P7 Blue shortens stopping distance by 2.6 metres compared with a class B tyre;
- 23% less rolling resistance compared with the Pirelli benchmark (class C rolling resistance), and thus lower fuel consumption and noxious emissions. Here is a concrete example: a P7 Blue equipped sedan that is driven 15,000 km a year consumes 5.1% less fuel, equal to -52 litres of fuel, and reduces greenhouse gas emissions by 123.5 kilograms of CO_2.

The Cinturato P7 Blue, the new Cinturato for medium-powered cars, was presented in June, first at the international trade show held in Essen, Germany (a four-day event dedicated entirely to innovations in the tyre industry) and then in Valencia. It was developed for medium-high powered cars as the latest evolution of the Cinturato P7, the first high-performance ecological tyre presented in 2009, of which this version represents an evolution, and is confirmed as an ecological tyre. Its principal characteristics are high mileage, reduced stopping distance and low rolling resistance, while its name recalls the WET compound used in Formula 1, from which its technology is derived. This tyre is a true gem embellishing the Pirelli premium product segment.
Pirelli has now expanded its premium line with the "Blue" tyre, extending its range of specialised tyres developed to satisfy the ever more varied demands of end customers.
The Cinturato line had to evolve to meet growing car owner demands for safety and cost-saving performance. The P7 Blue is sold only on the replacement market, unlike the Cinturato P7, which is sold not only in the replacement channel but especially through the original equipment channel. In this channel, it has become the benchmark tyre for the most prestigious car makers in the sedan, coupé and medium-high powered sedan segments in just a few years.

The new Pirelli Scorpion Winter and Winter Carving Edge winter tyres were presented to the public in March.
The first of these models is the newest member of the Scorpion family, the tyre designed for SUV users with a sporty spirit. The second of these models is the new studded tyre for use under extreme conditions.
Both of them are offered in the premium product lines.
Developed in collaboration with leading car makers, the Scorpion Winter is dedicated to top-performing, late generation SUV and crossover models. This segment will expand continuously over the next few years.
Development of the Scorpion Winter is the fruit of three years of research and 300,000 kilometres of tests between Sweden and Spain, at temperatures ranging from -32°C at Artic Falls to 8°C at Idiada.
The evolution of the Winter Carving Edge was presented as an important addition to the line of winter products, designed in this case for extreme conditions on the basis of experience in Nordic rallies, and mainly targeting countries in northern climes (Canada – Russia). The Carving Edge tyre is a studded tyre designed for safe driving on snow and ice, with even better performance by using more functional studs and new compounds.

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 July, Pirelli won the Porsche Supplier Award 2011 for the great results it achieved as supplier. Pirelli was awarded at Munich in the "Material for Production" category for its commitment and reliability in managing new projects.
The crowning achievement in development of the latest versions of the Porsche Carrera and Boxster, Pirelli was recognised for its extraordinary flexibility in satisfying requests.
Also in July, Pirelli confirmed its partnership with Aston Martin as original equipment supplier for the new AM 310 Vanquish – which combines aerodynamics, power and avant-garde materials – while simultaneously offering high safety standards with shorter stopping distances, grip, easy handling and comfort.
The technological partnership between Pirelli and BMW was also confirmed in 2012. This German car maker chose the PZero in the 21 inchees version to equip its line of top-performing SUV, the X5 and X6 (E70).
This latest fitment complements those previously awarded to Pirelli on other BMW models, such as the Series 1, Series 3, Series 3 GT, Series 5, Series 6 Coupé Gran, Series 7 and previous SUV models (X1, X3).
The run-flat version of the PZero 21 inches was developed to meet the performance demands made by the most modern SUV. With its asymmetric design, this tyre guarantees that the X5 and X6 models have extremely high road hold combined with lower rolling resistance, while simultaneously maintaining high wet grip. Its particular tread design guarantees uniform wear and tear on the tyre, improving the excellent performance features typical of this tyre.
The tyres created as the result of partnership between Pirelli and BMW will be marked with a special star symbol on its side wall. This particular mark indicates that the tyres have been custom developed to satisfy the specific requirements of the car maker.
These marks are also found on winter tyres. With the Sottozero Series II and the Scorpion Ice & Snow, Pirelli supplies more than 30 winter fitments marked by the star.
Pirelli was the sole supplier and technological partner of McLaren in 2012. It developed a dedicated version of the PZero and PZero Corsa for this car maker's MP4-12C, with these models being designed for highway and track use, respectively.
The PZero tyres designed for McLaren are the fruit of cooperation between Pirelli researchers and Woking engineers, aimed at exalting the power of the new model and guaranteeing maximum control of this vehicle. The heart of this project was integration of the tyres with the construction technology and electronics of the MP4-12C, the most advanced available in the car sector, rendering the PZero tyres an unique component of the car.
Exploiting the experience accumulated by Pirelli in Formula 1 competition and the other motorsport activities in which it participates, Pirelli technicians quickly developed dedicated tyres that could best satisfy the three distinctive characteristics of the new MP4-12C:

- high-powered acceleration, generated by the bi-turbo engine, which requires a tyre that can transfer horsepower to the ground in steady acceleration;
- an extreme suspension system specifically designed for that tyre: once again, the experience derived from Formula 1 was fundamental, just as the tyres function as a suspension system in the case of super-fast race cars, the suspension systems of the new McLaren model were calibrated specifically to the characteristics of the PZero and PZero Corsa;
- reduced weight in proportion to vehicle power, which involves sudden, continuous shifting of the aerodynamic load, and demands a tyre that can guarantee maximum grip and traction.

The development work by Pirelli researchers focused both on the structure and compounds used in the tyres. In regard to their structure, the aim was to assure flexibility, grip and the stiffness necessary to sustain high aerodynamic loads.

Work on the tyre structure could not avoid influencing the choice of compounds, which were designed for faster increase in temperature, supporting tyre response to changes in direction and offering high grip. The nanotechnologies used by Pirelli to design these tyres enabled it to develop "intelligent compounds" capable of fast response and swift adaptation to changes in support of the vehicle.
During the production phase, these compounds also rely on the necessary mixing the precision assured by CCM (Continuous Compound Mixing System).
For development of the evolution in the PZero and PZero Corsa, Pirelli technicians also use avant-garde virtual modelling and computer simulations to gather data and assess the various use and stress conditions to which tyres are subjected under different use conditions.
The Pirelli Cinturato P7 tyre is original equipment on the new Golf VII, presented in Paris in October. This joins the long list of product approvals on Volkswagen cars, the fruit of technological partnership between the two firms. In particular, the Pirelli ecological tyre, developed for medium-powered cars, was exclusive designation as original equipment on the Bluemotion version of the new Golf, in the 225/45R17 91W size.
Finally, at the beginning of 2013, the technological partnership between Pirelli and Lamborghini was reinforced with a special version of the PZero™, created specifically to meet the needs of high-performance cars, which equips the new Aventador LP 700-4 Roadster.
In January, Pirelli was the only tyre maker invited to the Brussels Motorshow, in the "Dream Car" section: Porsche, Ferrari, Aston Martin, McLaren, Bentley, Lamborghini, Lotus and other luxury car brands are associated with the Pirelli brand.
In March Pirelli took its premium technology to the Geneva Car Show, which is used to equip the most highly anticipated and admired cars: the most powerful Ferrari ever, the new Berlinetta F12, the Aston Martin Zagato and the Bentley Continental GT V8.
In October Pirelli participated at the Paris Car Show with an innovative product: for original equipment on prestige cars, it focuses on tyres with a "dedication," i.e. tyres bearing a special mark on the side wall that indicates these tyres were developed in collaboration with that car maker.
These tyres are approved by the same car maker because they are adapted to each specific model, so that they become the benchmark for that car, including replacement equipment. This strategy is supported by car makers that are increasingly interested in exclusive and technologically advanced tyres to be developed in synergy with Pirelli technicians. Pirelli designed and marked tyres are preferred equipment on the most prestigious models of Porsche, Aston Martin, Bentley, Lamborghini, Ferrari, Audi, Mercedes and BMW and, in particular, the most recent and eagerly anticipated models on display at the Paris Car Show, such as the P1 prototype made by McLaren.
The specialised press accorded Pirelli numerous forms of recognition in 2012.
In the United States, two of our products were mentioned by the authoritative American magazine Consumers Digest as Best Buys in Tires, in the categories Performance Car Tires and Performance SUV/Truck Tires: Pirelli PZero Nero All Season and Pirelli Scorpion Verde All Season. The first tyre is considered the best in terms of driving comfort and low noise, as well as guaranteeing excellent performance under wet, dry, hot and cold conditions. The Pirelli Scorpion Verde All Season also received rave reviews, for its excellent grip and more silent driving performance than competing tyres.

In March, ADAC, the most prestigious automobile club in Germany and Europe, tested 37 summer tyres on the basis of different parameters. The Cinturato P1 impressed experts for its balance and outstanding performance on dry and wet roads. This tyre is also in the high quality category because of its environmental friendliness, low noise and low fuel consumption. The Cinturato P1 is highly recommended by ADAC. The Pirelli Scorpion Verde has been described as a safe tyre, offering outstanding performance on any type of terrain and, above all, eco-compatibility. ADAC has also strongly recommended the Scorpion Verde.
Finally, the Cinturato P7 got top rankings in terms of low

tyre wear and tear and the guarantees offered for fuel consumption and low noise. ADAC recommends the Cinturato P7.
In August, the magazine Motor Trend recognised the Cinturato P1 as the "Environmentally Friendly Tyre of China 2012", lauding its unique efficiency and sustainability features.
In October, the independent certifying authority TÜV SÜD tested the characteristics of the new Pirelli winter tyre in a comparative test (with four competitors). The Scorpion Winter scored best in class in performance on snow: braking, traction and handling. The Scorpion Winter got top votes in these tests. In particular, it came first in the handling and braking on snow tests, by slowing from 50 to 10 km/h in 25.5 meters. In the traction test on compact snow, the new winter tyre is capable of accelerating from 10 to 40 km/h in 2.32 seconds.
Pirelli research and development efforts earned it major recognition in competition in 2012: these are testing grounds for new technological solutions under limited vehicle use conditions.

Formula 1

Pirelli's second season as supplier of tyres to Formula 1 ended as summarised by the following numbers:

- total number of race tyres supplied during the season: 31,800, including 22,500 dry weather tyres and 9,300 wet weather tyres, plus 6,600 tyres for tests (this figure does not include the tyres used for development tests);
- race tyres: 6% supersoft; 25% soft; 21% medium: 21% ; 17% hard; 18% intermediate; 11% wet; 2% tyres for development tests;
- total number of tyres used: 21,400 dry weather tyres; 2,100 wet weather tyres;
- number of tyres recycled in 2012: all tyres used, i.e. 31,800 race tyres plus 6,600 test tyres;
- average duration of a dry compound this season: 180 km;
- average duration of a wet compound this season: 140 km;
- longest race during the year: Malaysia, 2 hours 44 minutes 51.812 seconds;
- shortest race during the year: Great Britain, 1 hour 25 minutes 11.288 seconds;
- the longest run on Pirelli tyres: Hard – Kobayashi (798), Medium – Senna (869), Soft – Ricciardo (1,012); Supersoft – Raikkonen (237), Intermediate – Alonso (145), Wet – Kobayashi (104);
- maximum speed reached by a PZero F1 tyre: 248.241 km/h (Hamilton / Italian Grand Prix Qualifying Trials);
- total number of pit stops: 957 (of which 14 drive-throughs and two stop and go penalties);
- highest number of pit-stops in a race: 76 (Malaysia);
- lowest number of pit stops in a race: 24 (United States);
- the fastest pit stop: 2.31s (McLaren - Jenson Button in the German Grand Prix);
- number of overtakes in 2012: 994 (excluding the Brazil Grand Prix);
- greatest number of race overtakes without rain: 90 during the 2012 Chinese Grand Prix;
- greatest number of race overtakes in the rain: 76 in the 2012 Malaysia Grand Prix;
- lowest number of race overtakes without rain: 12 at the Monaco Grand Prix;
- total number of kilometres run by all PZero compounds in 2012 (both in races and in tests): Hard – 101,692; Medium – 121,840; Soft – 123,270; Supersoft – 21,993; Intermediate – 13,770; Wet – 7,930;
- lowest temperature of asphalt on which Pirelli PZero tyres were run: United States Grand Prix, at 11° Centigrade (November 17, 2012); winter tests at Jerez at 0° Centigrade (February 10, 2012);
- track with the highest temperatures on which Pirelli PZero tyres were run: Brazil Grand Prix, at 55° Centigrade (November 23, 2012).

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. It was in this series that Elfyn Evans was the second winner ever of the rally trophy.

MOTORCYCLE BUSINESS

Pirelli and Metzeler tyres are also offering continuously evolving performance and safety standards have transformed Pirelli into the in the motorcycle business, concentrating on the competitive advantages that have made Pirelli the world's best maker of motorcycle tyres, using technology derived from Superbike manufacturing experience for 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.
Feelgreen is the new scooter tyre made by Metzeler and already chosen as original equipment by BMW for its C evolution electric scooter, which was presented to the international press and lent to several journalists so that they could move around the London Olympic Games site. Metzeler engineers have reduced the tyre weight by 17% and its rolling resistance by over 25% as compared with the Metzeler Feelfree.

The driving performance of the Feelgreen maintains the characteristic elements that have made Metzeler products famous: fast warm-up and handling essential to city driving. Feelgreen was designed with the support of F.E.A. (Finite Elements Analysis), and features a high silica content compound, new tread design and new profile that were specifically designed to reduce rolling resistance.
The new Metzeler Feelgreen will be sold beginning in 2014 as original equipment on the BMW C Evolution scooter, as well as replacement equipment.
The new Pirelli Angel GT motorcycle will be the original equipment on the new Ducati Multistrada 1200 S Granturismo, reconfirming a long-standing partnership. The design of the Angel GT tyre tread is an evolution of the Angel ST tread design, and was created specifically to offer regular wear and optimal draining of water. Use of the latest compounds and absolutely new and original profiles have been redesigned to work in synergy with the tyre structure and its materials make it a sport touring tyre that preserves the sport character of Pirelli motorcycle tyres.
Metzeler gave a preview of the new Tourance™ Next enduro street tyres together with the BMW R 1200 GS at the Intermot trade fair held in Cologne during October. The new Tourance™ Next is the third generation of the Tourance™ line designed for the latest generation of enduro street adventure touring motorcycle tyres.
Finally, at the 70th International Motorcycle Exposition (EICMA) held in November, Metzeler presented KAROO™3, the new waffle-tread tyre conceived for motorcyclists who love adventure and long off-road trips.
The new Ducati 1199 Panigale 195 CV was launched in February. It is equipped with the brand new Pirelli Diablo Supercorsa SP tyre, used since 2012 in the SC - Special Compound - version exclusively by Superstock 1000 FIM Cup race drivers.
The new Triumph Speed Triple R, presented to the international press at EICMA, decided to use the Pirelli Diablo Supercorsa SP tyres derived directly from the SC (Special Compound) version with the same tread used in the Superstock1000 FIM Cup.
The Pirelli Diablo Supercorsa SP has many virtues, including high stability and speed on curves, greater feedback to the motorcycle driver, who enjoys a greater sense of safety both on the road and on the race track, and incredible traction that allows him to go full throttle earlier than usual.

The brand new BMW HP4 will be sold with the new Diablo Supercorsa SP™ as original equipment tyres.

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.
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 new MV Agusta F3 instead uses the supersporty Pirelli Diablo Rosso Corsa tyres as original equipment, with the stated objective of becoming a benchmark in the 600 category.
Pirelli has accumulated an impressive series of motorcycle race wins.
Originally started in the United States as a championship dedicated to standard production bikes, the roots of the Superbike (SBK) are linked with historic names in motorcycle competition, from Fred Merkel and Carl Fogarty to Troy Bayliss and Max Biaggi. The SBK World Championship features extremely interesting technical aspects while also engaging the public and spectators with different forms of entertainment at races and ever more compelling competitions.
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 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.
Pirelli has renewed its collaboration as the official supplier of tyres for the Superbike FIM World Championship, signing the contract with Infront Motor Sports.
Its technical partnership has been confirmed for the four competition classes of the World Championship until the end of the 2015 season.
In July all drivers and teams in the Superbike World Championship were able to try out the new 17 inch Diablo Superbike tyres for the first time. Currently made in the 16.5” size, the newly sized version will be used for the Superbike World Championship beginning in 2013.
The radical decision to switch to 17 inch tyres was strongly recommended by Pirelli and immediately accepted with enthusiasm both by Infront and the International Motorcycle Federation.

Different national championships now use 17 inch tyres as a cost-saving measure, mainly because they use standard production rims. Pirelli believes that this is the right time to introduce this size in the Superbike Championship because motorcycle makers and the market are ready for change, certain supersport motorcycles on the market already use large tyres, and the market is ready to use high-performance 17 inch tyres.
The Superbike World Championship offer a precious training experience and testing ground that will allow Pirelli to study and develop improvements to the 17 inch tyres that are more and more sought after on the market, while staying true to its own motto “We sell what we race, we race what we sell” and continuing to offer motorcyclists quality products that have been developed and perfected with support from big Superbike champions.
Pirelli triumphed in the Superbike class of the Italian speed championship for the seventh year in a row.
Antonio Cairoli and Jeffrey Herlings won the MX1 and MX2 Championships, respectively, with Pirelli Scorpion MX tyres, which thus won their 58th world title. They dominated all types of track and road surface again this season, from mud to sand to hard-packed earth, winning 27 of the 30 matches run in the MX1 series and all 30 of the MX2 series.
Once again, Metzeler won the World Champion title in the Enduro 1 and Enduro 3 classes of the Enduro World Championship with Antoine Meo and Christophe Nambotin.

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 guarantee top winter performance.
Many innovations were rolled out in 2012. Pirelli launched the new ST:01 Neverending Energy truck tyre line on the European market.
Developed specifically for tractors and semi-tractor trailers, the ST:01 Neverending Energy was the first Pirelli tyre line to receive the Eurolabel double "A" rating for rolling resistance and wet grip.
New technologies applied to the development of innovative tread designs, raw materials and eco-friendly processes are studied in Pirelli laboratories to guarantee improved driving safety. These efforts translate into shorter stopping distance under wet conditions even for heavy vehicles. But that is not all. Like all new families of Pirelli products, the ST:01 Neverending Energy aims at realising maximum efficiency in fuel consumption.
These advantages offer major advantages for fleets, since the tyres mounted on the semi-tractor trailer of a vehicle composed of a tractor and semi-tractor trailer account for 50% of the rolling resistance generated by the tyres.
The ST:01 Neverending Energy line combines the safety, energy savings (by generating lower emissions), and high performance as measured by the typical mileage and durability of a truck tyre.

The advantages of the ST:01 Neverending Energy line are made possible by:

- an innovative tread design (whose patent application has been filed);
- a tread compound using dual layer technology with a high content of silica (whose patent application has been filed) that reduces heat generation and, therefore, rolling resistance, as well as guaranteeing better resistance to tears and improved mileage;
- a new profile, sidewall and heel geometry (for example, the latter has been reinforced with a metal sheath).

The first size of the new ST:01 Neverending Energy line was introduced on the European market in 2012.
Pirelli emphasises that the Eurolabel tyre classifications and the consequent performance advantages refer to properly maintained tyres, especially in regard to proper tyre pressure.
The commitment of Pirelli researchers is not limited to the development of innovative tyres that perform better, but also extends to offering systems that support fleets by maximise their advantages, like the Cyber™ Fleet system, which monitors the operating pressure of tyres in real time. This is a major accomplishment, consistent with the strategy of Pirelli of constantly improving driving safety together with high quality and innovation.
Compared with the previous line, the new ST:01™ Neverending™ Energy™ feature 20% less rolling resistance. The outstanding performance of ST:01™ tyres has been maintained in wet braking, while mileage has been increased by 10%.
The new ST:01™ Neverending™ Energy™ are characterised by their structural innovations: the new geometry of the heel assures greater flexibility, and thus lower generation of heat and rolling resistance. The tread design is absolutely new, being characterised by a central groove geometry that reduces friction, just like the two straight side grooves. Five robust circumferential ribs guarantee tear resistance.

HIGHLIGHTS OF OTHER ACTIVITIES

The other businesses account for less than 1% of total net sales, and are comprised by Pirelli & C. Eco Technology S.p.A., Pirelli & C. Ambiente S.p.A., PZero S.r.l., while in 2011 they also included the Group holding and service companies, as well as the parent, Pirelli & C. S.p.A., which are now consolidated in the Tyre Business.

(in millions of euro)

	Pirelli Eco Technology		Pirelli Ambiente		PZero		Others		Total others business	
	12/31/12	12/31/11	12/31/12	12/31/11	12/31/12	12/31/11	12/31/12	12/31/11	12/31/12	12/31/11
Net sales	**26.7**	**43.3**	**2.5**	**1.6**	**11**	**9.7**	**-**	**(1.4)**	**40.2**	**53.2**
Gross operating profit before restructuring expenses	(6.6)	(8.9)	(0.3)	(8.0)	(16.7)	(11.3)	-	(12.7)	(23.6)	(40.9)
Operating income before restructuring expenses	(9.9)	(12.2)	(0.8)	(8.6)	(17.6)	(11.8)	-	(19.4)	(28.3)	(52.0)
Restructuring expenses	-	(10.0)	-	-	-	-	-	-	-	(10.0)
Operating income (loss)	**(9.9)**	**(22.2)**	**(0.8)**	**(8.6)**	**(17.6)**	**(11.8)**	**-**	**(19.4)**	**(28.3)**	**(62.0)**

Aggregate net sales totalled euro 40.2 million, down 24% compared to 2011, when they totalled euro 53.2 million. This decrease is due to the business of Pirelli Eco Technology, which suffered from the impact of the economic crisis and reduced activity on its reference markets.

The operating loss was euro 28.3 million, compared with an operating loss of euro 62.0 million in 2011 (which included restructuring expenses of euro 10 million for the anti-particulate filter business).
The improvement is due to savings resulting from compaction in 2012 of the financial and service activities, including the parent company, in the Tyre Business for euro 19.4 million and mainly to the consolidation of efficiency gains in the business organisations related to environmental products for the remaining part. In contrast, the PZero business is suffering from the current macroeconomic situation, which has restrained the growth expectations prevailing during the start-up phase of the company.

PARENT HIGHLIGHTS

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

(in millions of euro)

	12/31/2012	12/31/2011
Operating income	17.5	(23.8)
Net financial income and net income from equity investments	211.2	150.8
Net income (loss) from continuing operations	234.4	144.4
Prior period deffered tax assets - Italy	-	128.1
Net income (loss)	**234.4**	**272.5**
Non current-financial assets	1,363.7	1,367.4
Equity	**1,866.2**	**1,740.6**
Net financial (liquidity)/debt position	(288.6)	(200.7)

Compared with 2011, its operating income benefits from, inter alia, higher royalties for the brand received from Pirelli Tyre as a result of higher net sales, adjustment of the remuneration paid to the Chairman and Chief Executive Office by Pirelli Tyre (as illustrated in more detail in the Remuneration Report), and the lower accruals made for the variable annual and long-term incentives offered to managers.

Net financial income and income from equity investments, totalling euro 211.2 million, include mainly include euro 310.0 million received from the subsidiary Pirelli Tyre S.p.A. and euro 9.7 million received from other companies in the form of dividend income, and impairment losses on the investments in its subsidiary Pirelli UK Ltd for euro 14.2 million, its subsidiary Pirelli Eco Technology S.p.A. for euro 34.3 million, its subsidiary PZero S.r.l. for euro 18.2 million, its subsidiary Pirelli Ambiente S.p.A. for euro 16.1 million, in Alitalia S.p.A for euro 4.8 million, in Mediobanca S.p.A. for euro 16.8 million, in F.C. Internazionale Milano for euro 6.7 million and in Fin.Priv. S.r.l. for euro 4.2 million.

Net income was euro 234.4 million, compared with euro 272.5 million in 2011, which included the recognition of deferred tax assets on tax losses carried forward, with a non-recurring benefit of euro 128.1 million.

The following table summarises the carrying values of the principal non-current financial assets at December 31, 2012:

(in millions of euro)

Equity investments in subsidiaries	12/31/2012
Pirelli Tyre S.p.A.	1,085.9
Pirelli & C. Eco Technology S.p.A.	7.4
Pirelli Finance (Luxembourg) S.A. - Lussemburgo	11.3
Pirelli Ltda - Brasile	9.7
Pirelli & C. Ambiente S.p.A.	6.2
Pirelli Labs S.p.A.	4.1
Pirelli UK Ltd	21.9
Pirelli Group Reinsurance Company S.A.	6.3
PZero Srl	2.3
Pirelli Servizi Amministrazione e Tesoreria S.p.a.	3.2
Other	2.6
Total equity investments in subsidiaries	**1,160.9**
Equity investments in associates and other financial assets	**12/31/2012**
Mediobanca S.p.A.	73.4
RCS Mediagroup S.p.A.	39.9
Eurostazioni S.p.A.	52.9
Fin. Priv. S.r.l.	10.2
Fondo Comune di Investimento Immobiliare - Anastasia	12.3
Alitalia S.p.A.	4.9
Istituto Europeo di Oncologia S.r.l.	5.5
FC Internazionale Milano S.p.A.	-
Other	3.7
Total equity investments in associates and other financial assets	**202.8**
Total non-current financial assets	**1,363.7**

Equity rose from euro 1,740.6 million at December 31, 2011 to euro 1,866.2 million at December 31, 2012. The change is illustrated in the following table:

(in millions of euro)

Equity at 12/31/2011	1,740.6
Net income	234.4
Dividends paid	(132.4)
Gains/(losses) recognised directly in Equity	23.6
Equity at 12/31/2012	**1,866.2**

The following table illustrates the breakdown of equity at December 31, 2012 and comparative figures at December 31, 2011:

(in millions of euro)

	12/31/2012	12/31/2011
Share capital	1,343.3	1,343.3
Legal reserve	117.9	104.3
Business combination reserve	12.5	12.5
IAS operating reserve	3.9	(19.7)
Retained earnings	154.2	27.7
Net income	234.4	272.5
	1,866.2	**1,740.6**

The net financial (liquidity)/debt position, which was positive for euro 288.6 million at December 31, 2012 as compared with euro 200.7 million at December 31, 2011, was mainly impacted by the receipt of dividends from the subsidiaries and other associates totalling euro 319.7 million (including euro 310.0 million from Pirelli Tyre S.p.A.), offset by the payment of dividends of euro 132.3 million and capital increases carried out at Pirelli EcoTechnology S.p.A., Pirelli & C. Ambiente S.p.A., PZero S.r.l e Pirelli UK Ltd for an aggregate total of euro 109.3 million.

In regard to financial receivables, the valuation of the receivable from Prelios S.p.A. (euro 173.5 million) is based on the underlying assumptions of the extraordinary capital transaction, whose negotiations are now at an advanced stage. This transaction, 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, calls for converting a portion of the financial receivable into Prelios S.p.A. ordinary shares and another portion into equity linked bonds destined for conversion (the *convertendo*), with a cash option for redemption exercisable by Prelios S.p.A.
The valuation performed on the basis of these assumptions, with its principal one being that the transaction will occur, does not indicate the need to impair the receivable at the reporting date.

RISKS AND UNCERTAINTIES

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

The Pirelli Risk Model systematically assesses 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 and process innovation risks, human resources risk, raw material price risk, production process risk, financial risk, sustainability risk, and M&A risk.

3. OPERATING RISKS

These are risks generated by the organisational structure, processes and systems 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

GENERAL ECONOMIC RISKS

The overall slowdown in the global economy dominated 2012, especially in Europe, where the sovereign debt crisis undermined business confidence, depressing demand for goods and services and economic activity in general. As forecast by leading analysts, Pirelli expects that the macroeconomic scenario in 2013 will remain highly uncertain, mainly due to the evolving debt crisis in the eurozone and in the United States of America.

In particular:

- EUROPE: RECOVERY EXPECTED IN 2014
  Although the firm policy adopted by the ECB restored calm to financial markets in the Old Continent, the recessionary tendencies that characterised the eurozone in 2012 will persist, especially in the Mediterranean area. Restrictive tax policies, a deteriorating labour market and unfavourable credit conditions will weigh down on consumer confidence. This element, combined with uncertainty surrounding the global economy, might delay economic recovery until 2014.

- UNITED STATES: THE DEBT CRISIS IS IMPERILLING RECOVERY PROSPECTS
  As already been seen in late 2012, evolution of the debt crisis will play a key role in defining the prospects for economic recovery in the United States. Although its economic fundamentals have recently improved, inefficient management of the debt ceiling and possible public spending cuts might undermine growth prospects in 2013.

- CHINA: HARD LANDING LESS LIKELY
  The latest business cycle data show that the Chinese is recovering while the risk of a hard landing is fading, due partly to the recent change in government leadership. In spite of these unequivocally positive developments, it is unlikely that China will return to its pre-2012 growth rates in the short term. With a persistently soft real estate market and tepid outlook for foreign demand and non-governmental investment, the economy should grow by about 8% in 2013.

- SOUTH AMERICA: GROWTH FORECAST
  This region is forecast to grow, being driven mainly by the Brazilian economy, with the added stimulus of capital spending in preparation for the World Cup soccer championship. However, the regional tendency of massive state interference on the currency market and in foreign trade, combined with the recently disappointing performance of the Brazilian economy, leave room for uncertainty.

- RUSSIA: SUBSTANTIAL CONTINUATION OF THE 2012 MACROECONOMIC SITUATION
  In 2013 the economy of the Russian Federation should substantially confirm its performance in 2H 2012: a slowdown in exports (reflecting cautious forecasts of global growth) combined with a slowdown in consumer spending, which should still be confirmed as one of the principal drivers of economic growth. A return to pre-crisis growth rates is not forecast until 2014.

In 2010 and 2011 the tyre sector enjoyed growth rates that allowed it to make up the ground lost between 2008 and 2009, in consequence of the global economic crisis. The tyre market contracted slightly in 2012 from its 2011 level, with a severe decline in Europe that was offset by robust growth in the Asia Pacific region and positive growth rates in Russia, North America and South America.
However, the premium segment continued growing in 2012, with sustained rates in the Asia Pacific region, South America and Russia.
So, even in the face of economic crisis, market performance confirms the wisdom of the choice made by Pirelli to focus on the premium segment and expand its presence on emerging markets.
Being driven by rapidly developing countries, the global car fleet is growing continuously, and the demand for high segment vehicles, equipped with premium tyres (a segment in which Pirelli enjoys a leading position), is growing at even higher rates.
Even in the replacement channel, premium tyres are increasingly perceived as products associated with sustainability and safety, areas dominated by Pirelli with its know-how and avant-garde technology.
Finally, the major presence of Pirelli – as measured by net sales – in rapidly developing economies, particularly South America and, since 2012, Russia, reduces the potential impact of any slowdown in European countries.

COUNTRY RISK

Pirelli implements a “local for local” strategy by setting up production sites in rapidly developing countries to serve local demand at competitive industrial and logistic costs. In the context of an economic slowdown, this strategy improves Group competitiveness in the face of resurgent trading blocs and growing protectionist measures (customs barriers or other measures such as technical prerequisites, product certification, and administrative costs connected with import procedures, etc.). The Pirelli Group adopts this strategy for its operations in countries such as Argentina, Brazil, Mexico, Russia, China, Egypt, Turkey, Venezuela and, in the near future, Indonesia, where the general political and economic context and tax systems might prove unstable in future.
The political or economic instability of these countries might have a negative impact on the Group’s earnings and/or financial position. In particular, the geopolitical crisis that has flared up in Egypt interrupted production for about one month in both 2011 and 2012.
The situation steadily returned to normal with full resumption of operations at the Alexandria plant and exports, which was made possible by the implementation of a crisis management procedure designed to protect personal safety and corporate assets.

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 from other Group plants.

COMPETITIVE RISKS ASSOCIATED WITH THE MARKETS WHERE THE GROUP OPERATES

Over the last several years, competition has increased on the markets where the Group operates, especially in Latin America, due to the entry of low-cost products from Asian countries in the lowest market segment. This phenomenon has been driven by the appreciation of local currencies.
Pirelli generates about one third of its net sales in Central and South America. In line with its strategy, it aims to seize the opportunities to create value resulting from the growth rates expected in the premium segment of the automotive market. Pirelli's strengths are represented by its leadership on both the replacement and original equipment channel, the broad and consolidated network of single-brand retail outlets, both in Brazil and Argentina, and its established brand, which is supported in part through its association with Formula 1.

2. STRATEGIC RISKS

RISKS ASSOCIATED WITH PRICE TRENDS AND AVAILABILITY OF RAW MATERIALS

In 2013 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 38% of cost of sales).
The slowdown in developed countries during 2012 had a substantially depressing effect on principal commodities, with the exception of oil prices, which were influenced by geopolitical factors.
Pirelli expects that commodity prices in 2013 will remain substantially steady at their 2012 levels. Uncertainty will clearly remain, largely in connection with a severe slowdown on the Chinese economy 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 meet their obligations to the Group, and the price of financial assets held as investments. Financial risk management is an integral part of Group business management and is handled directly by headquarters in accordance with guidelines issued by the Finance Department on the basis of general risk management strategies defined by the Managerial Risk Committee.

Exchange rate risk

The varied geographical distribution of Pirelli production and commercial activities entails exposure to transaction and translation exchange rate risk.
Transaction exchange rate risk is generated by the commercial and financial transactions executed in currencies other than the functional currency due to exchange rate fluctuations between the time when the commercial or financial relationship is established and when the transaction is completed (collection or payment).
The Group aims to minimise the impact of transaction exchange rate risk on the income statement. To do so, Group procedures make the operating units responsible for collecting complete information about the assets and liabilities that are subject to transaction exchange rate risk. This risk is hedged with forward contracts made with the Group Treasury, where possible.
The items subject to exchange rate risk are mainly rep-

resented by receivables and payables denominated in foreign currency.
The Group Treasury is responsible for hedging the net position for each currency. In accordance with established guidelines and restrictions, it closes all risk positions by trading derivative hedging contracts on the market, which typically take the form of forward contracts.
Furthermore, as part of the annual and three-year planning process, the Group makes exchange rate forecasts by using the best information available on the market. The fluctuation in exchange rates between the time when the forecast is made and the time when the commercial or financial transaction is established represents the transaction exchange rate risk on future transactions with respect to the targets announced to the market. Group central management periodically monitors the opportunity to enter into and authorise hedges on future transactions. 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.

Liquidity risk

The principal instruments used by the Group to manage the risk of having insufficient resources to meet its financial and commercial obligations according to agreed terms and due dates are comprised by its annual and three-year financial and cash-pooling plans. These allow complete and fair detection and measurement of incoming and outgoing cash flows. The differences between plans and actual data are constantly analysed.
The Group has implemented a centralised cash pooling system for the management of collection and payment flows in compliance with various local currency and tax laws. Banking relationships are negotiated and managed centrally, in order to ensure coverage of short and medium-term financial needs at the lowest possible cost. The procurement of medium and long-term resources on the capital market is also streamlined through centralised management.
Prudent management of the risk described above requires maintaining an adequate level of cash equivalents and/or highly liquid short-term financial instruments, and the availability of funds through an adequate amount of committed credit facilities and/or recourse to the capital market.
In addition to the available portion of the euro 1.2 billion revolving credit facility due on November 30, 2015, of which euro 575 million were used at December 31, 2012, 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.
Moreover, the Board of Directors has approved setting up a paper platform for the issuance of bonds on the Euromarket, with its maximum amount being set at euro 2 billion. The maximum amount of bonds that may be issued under this program in 2013 is euro 1 billion. 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 exclusively with qualified investors.

Interest rate risk

Fluctuations in interest rates impact the market value of Group financial assets and liabilities and net financial expenses.
Group policy is to attempt to maintain the following ratio between fixed rate and variable rate exposures: 70% fixed and 30% variable.
The Group makes derivative contracts, typically interest rate swaps, in order to maintain this target ratio.

Price risk associated with financial assets

Group exposure to price risk is limited to the volatility of financial assets, such as listed and unlisted equity and debt instruments, which represent 4.5% of total Group assets. Derivatives contracts that would limit the volatility of these assets are not normally subscribed.

Credit risk

Credit risk represents Group exposure to contingent losses resulting from default by commercial and financial counterparties.
To limit commercial counterparty default risk, the Group has implemented procedures to evaluate its customers' potential and financial solidity, monitor expected incoming cash flows and take credit recovery action if necessary. The aim of these procedures is to define customer credit limits. Further sales are suspended when those limits are exceeded. In certain cases customers are asked to provide guarantees. These mainly consist of standby letters of credit issued by parties with excellent credit or personal standing.
Less frequently, mortgage guarantees may be requested. Another tool used to manage commercial credit risk is represented by insurance policies. Beginning in January 2012, a master agreement was made with a major insurance company for worldwide coverage (excluding Egypt, Venezuela and China) against credit risks, mainly related to sales made in the car business replacement channel (with an acceptance rate of about 73% in December 2012).
In 2012 the general situation of trade receivables was substantially the same as at December 31, 2011. The receivables originating in areas suffering from greater economic tension, particularly Europe and Russia, will be monitored continuously in 2013.
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 sovereign 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.
In regard to financial receivables, the valuation of the receivable from Prelios S.p.A. (euro 173.5 million) is based on the underlying assumptions of the extraordinary capital transaction, whose negotiations are now at an advanced stage. This transaction, 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, calls for converting a portion of the financial receivable into Prelios S.p.A. ordinary shares and another portion into equity linked bonds destined for conversion (the *convertendo*), with a cash option for redemption exercisable by Prelios S.p.A.
The valuation performed on the basis of these assumptions, with its principal one being that the transaction will occur, does not indicate the need to impair the receivable at the reporting date.

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. In any case, these laws share a common tendency to become increasingly restrictive over time, partly in response to the growing commitment by the international community to environmental sustainability. Pirelli expects that stricter laws will be gradually introduced, regulating the various types of environmental impact

that businesses might have (air pollution, waste output, soil contamination, water use, etc.). Consequently, the Pirelli Group expects that it will have to continue to invest and/or incur costs for what might become significant amounts. Reference is made to the Sustainability Report chapter "Environmental Dimension" for details on the process of managing and controlling environmental risks described above.

EMPLOYEE HEALTH AND SAFETY RISKS

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

PRODUCT DEFECT RISK

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

LITIGATION RISKS

In the course of operating its business, Pirelli might be involved in legal actions, tax litigation, commercial lawsuits or labour lawsuits. The Group takes all measures necessary to prevent and attenuate any penalties that might result from these proceedings, including the accrual of provisions for liabilities detailed in the Explanatory Notes to the Consolidated Financial Statements (note 21).

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 volumes or specific (high-end) products. In 2010, business interruption scenarios were assessed and measured (in terms of their impact, likelihood of occurrence and existing risk management system) for five production sites of material interest to Group strategies. In 2011 this analysis continued at another seven production

sites. These analyses confirmed that adequate protections against business interruption risk have been implemented, with a detailed series of safety measures and prevention systems.
However, specific business continuity plans are being analysed, prepared and adopted for all factories and will also be extended to the supply chain.
In 2012 the scope of analysis of business interruption risks was extended to the Pirelli supply chain, particularly in regard to Tier-1 suppliers. About 70% (in terms of spending) of the raw materials used in Group production processes and their criticality were assessed in terms of the substitutability of the supplier / material itself and the strategic nature of the related finished product (premium production / original equipment customers / motorsport activities). Each raw material was also analysed according to the risk related to their suppliers (in terms of market risk, force majeure, reputation risk, quality risks and production capacity risks).
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.
During 2013, this analysis will be extended to all raw materials used, and then also to machinery and industrial services.

RISKS ASSOCIATED WITH INFORMATION SYSTEMS AND NETWORK INFRASTRUCTURE

Group operating activities rely increasingly on the proper, uninterrupted functioning of information systems and network infrastructure in support of business processes. Human error, access by unauthorised persons, vulnerable security systems, and/or system and network infrastructure breakdowns or malfunctions might negatively impact the performance of operating activities, cause the disclosure of critical, confidential corporate information, with consequent repercussions on the Group's corporate image and/or the risk of statutory and regulatory violations.
In 2010 the Group finished mapping the principal risks connected with the 10 most important information systems supporting core processes (production, purchasing, sales, and logistics). The risk was analysed on the basis of its impact on the Group if confidentiality were breached and according to the likelihood that the event occur in connection with the vulnerabilities existing in the system. Specific measures for further upgrades to physical, logical and infrastructure safety measures were implemented for the principal "vulnerabilities." Their implementation was constantly monitored in 2012 by the Managerial Risk Committee.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

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

On January 15, 2013 Pirelli and the Ministry of Environment signed a new agreement to reduce the climate impact of activities related to tyre manufacturing and use. The agreement, signed by Minister Corrado Clini and Pirelli Chairman and CEO Marco Tronchetti Provera, defines the second phase of the agreement previously signed by the company with the Ministry in January 2012, as part of the international conference "Driving Sustainability: a Safe Road to the Future". In this second phase, Pirelli and the Ministry of Environment will undertake technological experiments aimed 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 23, 2013 Pirelli initiated the Motorsport 2013 season by presenting the new versions of its Formula 1 tyres, the third such evolution in three years, and the original 17 inch tyre for Superbike championship competition, which marks a turning point in the most important motorcycle championship involving street model derivatives. Pirelli will participate in about 250 competitions, of which less than half as the sole tyre brand supplier, supplying tyres to more than 40 countries around the world, from the Americas to the Far East.

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

On February 20, 2013 Pirelli & C. Ambiente S.p.A. and Clean Diesel Technologies Inc. (NASDAQ: CDTI) signed an agreement to establish a joint venture for the marketing and sale of emissions control devices in Europe and CSI countries. The new company, named Eco Emission Enterprise S.r.l., will be based in Milan and should become operational in March.
Through this joint venture the two companies aim to consolidate their leadership in technologies used to limit the pollution emissions of diesel or gasoline powered light or heavy vehicles in on and off-road applications in the original equipment and after market channels. Moreover, the two companies plan to pursue joint initiatives rendered possible by the synergies resulting from the agreement. The agreement calls for providing the joint venture with silicon carbide substrates by Pirelli & C. Eco Technology RO S.r.l. (Romania) and solutions for emissions controls by CDTI. Eco Emission Enterprise S.r.l., which will have an international management, will become the commercial unit for both partners on the European market.

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

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

- the contribution of "new" funds for a total maximum value of euro 25.3 million, of which:
    - approximately euro 23 million to subscribe to the capital increase of the newly constituted company vehicle ("NewCo"), in which Intesa Sanpaolo S.p.A., Unicredit S.p.A. and Feidos 11 S.p.A. (a company controlled by Feidos S.p.A.) also have stakes. The new funds will be used by Newco to subscribe to new Prelios shares which are without voting rights, not traded and convertible into ordinary shares when certain events come to pass ("category B shares");
    - approximately euro 2.3 million to subscribe to a portion of any part of the Prelios S.p.A. capital increase offered as an option to its shareholders that is eventually not taken up by the market;
- the reconfiguration of the entire euro 173.5 million of credit towards Prelios S.p.A. on December 31, 2012, which is variable as a function of the degree to which the market subscribes to the capital increase. In the event of maximum non-subscription, the reconfiguration will take place as follows:
    - approximately euro 26.3 million in ordinary Prelios S.p.A. shares not bound by a lock-up;
    - approximately euro 147.2 million in equity linked bonds destined for conversion, with a cash option for Prelios S.p.A. (of 7 years' duration) and with possible early conversion if certain events come to pass, of which about euro 65 million confer the

right of conversion into Category B shares and around euro 81.8 million which confer conversion rights into ordinary Prelios S.p.A. shares.

At the conclusion of the first phase of the operation it is foreseen that Pirelli will have a maximum direct stake of 17% in the voting capital of Prelios S.p.A. and approximately 33% of NewCo and a share of equity linked bonds destined for conversion which could vary in value between a minimum of euro 147.2 million and a maximum of euro 173.5 million depending on the degree to which the market subscribes to the capital increase offered by Prelios S.p.A. to its shareholders.
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's equity and finances with the aim of maximizing the value of the credit Pirelli has with Prelios S.p.A..
Pirelli, Intesa Sanpaolo, Unicredit and Feidos 11 also defined the term sheet that establishes the terms and conditions essential for the constitution of NewCo, as well as its governance, for the transferability of the stakes held in it and the relative divestment, including mechanisms in specific cases of early exit for Feidos 11 and of acquisition for the other members of NewCo.
It is expected that the parties will finalize the definitive agreements by the time of the Prelios shareholders' meeting called to decide on the operation.

The finalization and execution of the operation are subject to the conditions communicated by Prelios. These include: subscription to the definitive agreements of reconfiguration of the debt between Prelios and its creditors; the compliance of the Prelios plan in accordance with article 67, paragraph 3, letter d), bankruptcy law; the concession by Consob of an exemption from the obligation of promoting full tender offer for Prelios shares held by all the parties involved and approval by Prelios's shareholders of the capital increase and the new Prelios bylaws and the release of all further authorizations or necessary all-clears for the operation's execution.

ALTERNATIVE PERFORMANCE INDICATORS

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

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

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 Volume O of 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, 2012 (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 2012, for the purpose of effectively monitoring the 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 Art. 36 of Consob Regulation 16191/2007 on market regulation ("Market Regulation").
At December 31, 2012, the Non-EU Companies that were directly or indirectly controlled by Pirelli & C. S.p.A. and of material interest pursuant to Article 36 of the Market Regulation were: Pirelli Pneus Ltda (Brazil); Pirelli Tire LLC (USA); Pirelli Tyre Co. Ltd (China); Turk Pirelli Lastikleri A.S. (Turkey); Pirelli de Venezuela C.A. (Venezuela); Pirelli Neumaticos S.A.I.C. (Argentina); Pirelli Neumaticos S.A. de C.V. (Mexico).
Also under the terms of the same regulations, the Company has in place specific and appropriate "Group Operating Rules" which ensure immediate, constant and full compliance with the provisions contained in the said Consob Regulations. Under the terms of the said Operating Rules, the delegated corporate functions of the parent precisely and periodically identify and disclose all Non-EU Companies of material interest under the Market Regulations, and – with the necessary and timely collaboration of the companies involved – guarantee collection of the data and information and verification of the circumstances as required by Article 36 of the Market Regulations, ensuring that the information and figures provided by the subsidiaries are available in the event of a request by Consob. Furthermore, a regular flow of information is provided in order to ensure that the Board of Statutory Auditors of the Company can carry out the required and appropriate audits. Finally, in keeping with the regulatory provisions, the above "Operating Rules" prescribe how the financial statements (the balance sheet and income statement) of material Non-EU Companies prepared for the purpose of the preparation of the consolidated financial statements should be made available to the public.
Therefore, it is certified that the Company has fully complied with the provisions of Article 36 of Consob Regulation 16191/2007 and that its conditions have been satisfied.

RELATED PARTY TRANSACTIONS

Pursuant to Article 5(8) of Consob Regulation no. 17221 of March 12, 2010, concerning related party transactions, and the subsequent Consob Resolution no. 17389 of June 23, 2010, no most significant transactions were executed between January 1, 2012 and December 31, 2012, as defined in Article 3(1) (a) of that regulation.
For the purpose of providing full disclosure: it should be noted that on the date of this Report negotiations are at an advanced stage with regard to transaction to strenghten the balance sheet and financial position of Prelios S.p.A. and relaunch its business prospects. The deal under negotiation – which envisages, inter alia, the entry of a new business partner – will be realised through recapitalisation and the restructuring of its financial debt. In particular, as part of

this deal, Pirelli will have to restructure its entire financial receivable towards Prelios S.p.A. as at December 31, 2012, amounting to euro 173.5 million, and guarantee the contribution of "new" financial resources for a maximum total of euro 25 million.

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

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, 2012.

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

WAIVER TO PUBLISH DISCLOSURE DOCUMENTS

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

FOR A PHOTOGRAPHER, CURIOSITY ISN'T A LUXURY; IT IS A NECESSITY. IT WAS CURIOSITY THAT PIQUED MY INTEREST IN THE PROJECT, "IMAGINING THE FUTURE". SOCIETY CHANGES IN SURPRISING AND UNPREDICTABLE WAYS, AND LOOKING AT ART CREATED BY STUDENTS CAN REVEAL THOSE CHANGES BEFORE MANY EVEN REALIZE THAT CHANGE HAS TAKEN PLACE. IMAGES SPREAD RAPIDLY THROUGH SOCIAL NETWORKS AND HAVE IMMEDIATE IMPACT, WHICH PINPOINT CHANGES IN VALUES THAT CAN BE SURPRISING AND REVELATORY. **STEVE MCCURRY**

REMUNERATION REPORT

INTRODUCTION

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

- Section I: Remuneration Policy for the 2013 financial year **("2013 Policy")** and
- Section II: Remuneration Statement for 2012 financial year **("2012 Statement")**.

The Report has been prepared pursuant to Article 123-*ter* of the Consolidated Finance Law and Article 84-*quater* of the Consob Issuers Regulation (as amended by Consob Resolution no. 18049 of December 23, 2011). It was drafted in light of the recommendations issued by the European Commission on April 30, 2009 in regard to the remuneration of directors at listed companies (2009/385/EC) and Article 6 of the Corporate Governance Code of Borsa Italiana S.p.A., as amended in December 2011, which has been adopted by Pirelli.
The Report has also been adopted pursuant to Article 14 of the Procedure for Related Party Transactions approved by the Company Board of Directors on November 3, 2010.

The 2013 Policy sets out the principles and guidelines followed by Pirelli to (i) determine and (ii) monitor the application of pay practices, as illustrated below, in regard to:

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

The 2012 Statement, a disclosure submitted to the Shareholders' Meeting, provides a comprehensive account of remuneration in 2012 financial year that illustrates its consistency with the Remuneration Policy approved by the Company the previous year.
To facilitate comprehension and reading the Report, a glossary of certain frequently used terms is provided as follows:
Directors holding special offices: the Directors of Pirelli & C. that hold the position of Chairman and Chief Executive Officer and Deputy Chairman of Pirelli & C.; these directors may also be delegated specific duties. The Directors holding special offices at other Pirelli companies who are also Group executives (unless otherwise resolved by the Board of Directors of Pirelli & C. qualifying them as "Managers with strategic responsibilities") are Executives or Senior Managers for the purposes of this Policy and according to the position held.
Directors not holding special offices: these are all Directors of Pirelli & C. other than the Directors holding special offices. The Directors at other Pirelli companies who are also Group executives (unless otherwise resolved by the Board of Directors of Pirelli & C. qualifying them as "Managers with strategic responsibilities") are Executives or Senior Managers for the purposes of this Policy and according to the position held.
Target-based Annual Total Direct Compensation: the sum of the following components, regardless of whether they are paid by Pirelli & C. or by other Group companies: (i) the gross annual fixed component of remuneration; (ii) the annual variable component that the beneficiary would receive if he or she achieves the targets; (iii) annualisation of the variable medium-long term component (the so-called LTI) that the beneficiary would receive on achievement of the annual and medium-long term targets.
Remuneration Committee: the Remuneration Committee of Pirelli & C.
Board of Directors: the Board of Directors of Pirelli & C.
General Managers: the persons appointed by the Board of Directors of Pirelli & C. and having broad authority for management of business units. The General Managers at other Pirelli companies (unless otherwise resolved by the Board of Directors of Pirelli & C. qualifying them as "Managers with strategic responsibilities") are Executives or Senior Managers for the purposes of this Policy and according to the position held.
Managers with Strategic Responsibilities: the managers identified by the Board of Directors of Pirelli & C. who have the authority or responsibility to plan and control the Company's activities or to take decisions which may affect the development or future prospects of the Company and, more in general, of Pirelli.

Executives: executives of the Pirelli companies in Italy or employees at the foreign companies of the Group having a position or role equivalent to that of an Italian executive.
Pirelli Group or Pirelli: all the companies included in the scope of consolidation of Pirelli & C. S.p.A.
Management: all the Directors holding special offices, the General Managers, the Managers with Strategic Responsibilities, the Senior managers and the Executives.
MBO: the annual variable component of remuneration that is based on the achievement of pre-set business objectives, as illustrated below in section 5.
LTI Plan: the Long Term Incentive Cash Plan illustrated below in section 5.
GAS: the gross annual fixed component of remuneration of the employees of any Pirelli Group company.
Senior Managers: the managers to whom report (i) the Directors holding special offices and who are assigned specific functions and (ii) the General Managers whose activities have a significant impact on business results.
Company: Pirelli & C. S.p.A.

REMUNERATION POLICY FOR 2013

1. PRINCIPLES AND EXAMINATION OF RISKS

The 2013 Policy has been prepared on the basis of last year's Policy and reflects the regulatory provisions adopted by Consob in Resolution no. 18049 of November 23, 2011 and the adoption of the 2012-2014 Long Term Cash Incentive Plan "launched" last year by Pirelli and approved by the Shareholders' Meeting held on May 10, 2012. This Plan envisages, inter alia, that part of the incentive is determined on the basis of a Total Shareholder Return target calculated as Pirelli's performance compared to the FTSE/MIB Index Total Return - calculated periodically by FTSE and available in the database of Borsa Italiana - as well as in relation to an index composed of selected peers of the Tyre sector.
Approval of the 2012/2014 LTI Plan was accompanied by adjustment of the compensation paid to Directors holding special offices, and particularly the Chairman and Chief Executive Office in the terms that will be illustrated below. Furthermore, the new Long Term Cash Incentive Plan now also includes non-financial objectives, in accordance with the Recommendations of the European Commission.

The Company defines and applies a Remuneration Policy targeting particularly attractive top management and Senior Managers, aiming at the top 25% of the employment market (as measured by the commonly used benchmark), and in line with market practise for the Executives, so as to attract, motivate and retain the resources having the professional skills necessary for successful pursuit of Pirelli Group objectives.
The Policy is defined in such a way as to align Management interests with those of Shareholders, pursuing the primary objective of creating sustainable value in the medium-long term through the creation of an effective and verifiable link between compensation, on the one hand, and individual and Group performance on the other.
The structure of Management remuneration, defined with the assistance of firms specialising in executive compensation and on the basis of international benchmarks, is composed of three principal elements:

- fixed component: for Directors holding special offices, the fixed component is set by the Board of Directors when they are appointed and for their entire term, in an aggregate annual amount, and thus including any fixed components for other positions that they hold at the Pirelli Group.
  For the rest of Management, the fixed component is set when they are hired and may be periodically revised to take account of the performance, assumption of new responsibilities, and market salary trends for the type of position held by the individual;
- an annual variable component (MBO): this is a predetermined percentage of the fixed component, with percentages that rise according to the position held and considering the benchmarks for each figure. If the

targets are achieved 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 beneficiary, it is designed to reward the annual performance of the Group, the company and/or the business unit to which he or she belongs. Moreover, a limit has been set for the maximum MBO that can be realised, which (i) for the Executives and Senior Managers is equal to double the attainable target bonus, (ii) for the Managers with strategic responsibilities, it is 150% of the GAS, (iii) for the General Managers it is 200% of the GAS, and (iv) for the Directors holding special offices and assigned specific functions, it is 250% of the fixed component for the principal officer (in the case of Mr Tronchetti Provera, his position held at Pirelli Tyre).

Please refer to section 5, "MBO and LTI Plan" for a more detailed description of the function of the annual variable component.

- the medium-long term variable component (LTI Plan): this too is set as a percentage of the fixed component and is aimed at rewarding Group performance during the three-year period 2012-2014. Just like the MBO bonus, a limit is imposed on the maximum realisable amount for the LTI.

  The current LTI plan is based on two components: the "pure" LTI Bonus and the co-investment LTI Bonus (for a description of the function of the variable medium-long term component, please see section 5).

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

A meeting of the Committee for Internal Control, Risks and Corporate Governance was held in the framework of the process to determine the annual objectives for the company and for the group referred to 2013 which are quantified in the budget, the Chairman of the Remuneration Committee was invited to attend the foregoing meeting in order to adopt the MBO objectives for 2013 referred to the Chairman and Chief Executive Officer and the Managers with Strategic Responsibilities.

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

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

- no less than 50% of the Target-based Annual Total Direct Compensation for the Chairman and Chief Executive Officer, the General Managers and the Managers with strategic responsibilities;
- no less than 40% for Senior Managers, and lastly,
- no less than 30% of that parameter for Executives.

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

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

For the other components of remuneration (retirement bonuses-TFM, not-to-compete clauses, non-monetary ben-

efits) granted to the various members of Management, please see the sections that describe the remuneration structure for each category.

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

Definition of the Policy is the result of a clear and transparent process in which the Remuneration Committee and the Board of Directors play a key role.
On motion by the Remuneration Committee, the Board of Directors adopts:

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

The Policy is submitted by the Remunerations Committee to the Board of Directors for approval every year.
After reviewing and approving the Policy, the Board of Directors submits it to the advisory vote of the Shareholders' Meeting.
The Board of Statutory Auditors gives its own opinion on the Policy, particularly in the part concerning Directors holding special offices.
The Remuneration Committee, the Board of Statutory Auditors and the Board of Directors supervise its application. For this reason, the Senior Advisor for Human Resources and/or the Human Resources and Organisation Manager report(s) on compliance with the Policy and its Application Criteria to the Remuneration Committee at least once annually, upon presentation of the Remuneration Statement.
The 2013 Policy – which has been approved by the Remuneration Committee, and then approved by the Board of Directors, after obtaining the favourable opinion of the Board of Directors at its meeting on March 11, 2013 – is submitted for examination and advisory vote by the Shareholders' Meeting.
For the sake of thoroughness, note that pursuant to applicable laws, the Board of Directors has the prerogative of adopting (or if envisaged by law, propose to the Shareholders' Meeting) incentive mechanisms involving the grant of financial instruments or stock options, which if approved are published at the latest in the annual Remuneration Statement (without prejudice to any other disclosure obligations imposed by applicable laws and regulations). At the date of this Report, the Company does not have any stock option plans in place.

3. REMUNERATION COMMITTEE

Composition

The Corporate Governance system adopted by Pirelli & C. since 2000 envisages the establishment of a Remuneration Committee.
The Committee has four members, all of whom are independent, on the basis of the most rigorous approach recommended by the Corporate Governance Code issued by Borsa Italiana in December 2011. The 2006 version of the Corporate Governance Code (that was applicable on the date the Committee in office was set up) recommended that the Remuneration Committee be composed only of directors without executive authority, and of whom "only" the majority were to be independent.
The Remuneration Committee is appointed by the Board of Directors (which also appoints its Chairman), and its term lasts as long as the term of the Board of Directors.
The Remuneration Committee, all of whose members were appointed after appointment of the new Board of Directors on April 21, 2011, is composed of the following individuals:

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

Three members of the Committee (Carlo Acutis, Anna Maria Artoni and Pietro Guindani) have adequate experience in financial and remuneration matters, as determined by the Board of Directors when they were appointed.
The entire Board of Statutory Auditors may participate in the activities of the Remuneration Committee.
The Secretary of the Board of Directors acts as Secretary of the Remuneration Committee.

Duties of the Remuneration Committee

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

- assists the Board of Directors in defining the General Remuneration Policy of the Group and its Application Criteria;
- periodically assesses the adequacy, overall consistency and concrete application of the General Remuneration Policy and Application Criteria;
- makes proposals to the Board of Directors in regard to Directors holding special offices, the General Managers and the Managers with strategic responsibilities and concerning:
    - their remuneration, consistently with the General Remuneration Policy and Application Criteria;
    - establishment of performance targets related to the variable component of their remuneration;
    - the definition of any not-to-compete clauses;
    - definition of any agreements for termination of the relationship, including on the basis of the principles set out in the General Remuneration Policy and the Application Criteria;
- assists the Board of Directors in examining proposals by the Shareholders' Meeting on adoption of share-based compensation plans;
- monitors application of the decisions taken by the Board of Directors, verifying in particular the effective achievement of established performance targets;
- examines and submits the Annual Remuneration Report to the Board of Directors; referring to the individual members of the Board of Directors, the Board of Statutory Auditors, the General Managers and the Managers with Strategic Responsibilities, this Report:
    - adequately presents each item that composes remuneration;
    - analytically illustrates the compensation paid during the reference year for any reason and in any form by the Company and by its subsidiaries.

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

Functioning

The Remuneration Committee meets whenever its Chairman deems appropriate, or on request by at least one of its members, the Chairman of the Board of Directors or, if designated, by the Chief Executive Officer and, in any event, as frequently as necessary for properly performing its duties.
The Remuneration Committee meetings are attended by the entire Board of Statutory Auditors[1] and – if deemed appropriate and on invitation by the Remuneration Committee – other representatives of the Company and/or the Group as well as the Independent Auditor. The Group General Counsel and Senior Advisor for Human Resources also attend all meetings.
In accordance with the recommendations of the Corporate Governance Code and best practices, the Directors holding special offices do not attend Remuneration Committee meetings.
The Remuneration Committee meetings are called with notices sent by, inter alia, the Secretary, as delegated by the Chairman of the Remuneration Committee.
The available documentation and information (or, at any rate, those that are necessary) are sent to all members of

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

the Remuneration Committee sufficiently in advance of the meeting for them to express their opinions.

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

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

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

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

4. CONTENTS OF THE 2013 POLICY

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

- the Board of Directors refers to for defining the remuneration:
  - of Directors of Pirelli & C. and, in particular, the Directors holding special offices;
  - of the General Managers;
  - of the Managers with Strategic Responsibilities;
- Pirelli refers to for defining the remuneration of Senior Managers and Group Executives in general.

5. MBO AND LTI PLAN

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

The annual variable component is based on the achievement of a financial condition of access (the so-called "on/off condition"), which in 2013 (as in the past) is also linked to the net financial (liquidity)/debt position reported at the end of the financial year.

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

The MBO targets for Directors holding special offices and who are assigned specific functions, for the General Managers and for Managers with Strategic Responsibilities, are set by the Board of Directors on proposal by the Remuneration Committee, and are linked to the annual performance of the Group. In 2013, as in the previous year, the target for these figures is based on the quantitative benchmark of annual profitability (Group PBIT).

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

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

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

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

In particular, in the case of MBOs granted to Directors holding special offices and who are assigned specific functions, the maximum bonus cannot be more than 2.5 times the gross annual fixed component for the principal execu-

tive position (in the case of Mr Tronchetti Provera, his position held at Pirelli Tyre), while for the General Managers it cannot be more than 2 times greater than GAS. In the case of Managers with Strategic Responsibilities, the maximum bonus cannot be more than 1.5 times greater than their GAS. Finally, the maximum bonus for Senior Managers and Executives cannot be more than 2 times greater than the target-based bonus.

Payment of 50% of the MBO that might be accrued in 2012 and 2013 is deferred, and part of it (50%) is conditioned on attainment of the targets set in the LTI Plan. Partly in view of furthering the attainment of medium-long term interests, since 2009 the Group has adopted a medium-long term incentive system based on achieve of the objectives set out in the three-year plan.

In March 2012, considering the launch of a "new" three-year Business Plan for 2012-2014 with significantly more challenging targets than the challenging ones already set in the 2011-2013 Business Plan, it was decided to terminate the 2011-2013 LTI Plan prematurely by proposing the simultaneous launch of a "new" LTI Plan linked to the objectives of the "new" Business Plan.

The 2012-2014 LTI Plan 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 three-year period and/or assume the position of Executive for internal career growth. In this case, participation is conditioned on enrolment in the Plan for at least one whole financial year, and the bonus percentages are pro-rated according to the number of months of participation in the Plan.

The 2012-2014 LTI Plan is broken down into 2 components:

- the **"pure LTI Bonus"**: conditioned on fulfilment of the three-year targets and determined as a percentage of the gross annual fixed component/GAS received by the beneficiary at the established Plan vesting date. This bonus percentage rises according to the position held and considering the benchmarks applicable to each individual.
  The maximum pure LTI Bonus cannot be more than 1.5 times the bonus that may be received if the targets are met. If the targets are missed, the beneficiary is not vested, not even on a pro-rated basis, for distribution of the pure LTI Bonus;
- the **"co-investment LTI Bonus"**: similarly to past Plans, this includes a mechanism for "co-investment" of a portion of the MBO. The participant in the LTI Plan "co-invests" 50% of his 2012 and 2013 MBO (hereinafter, the **"co-invested MBO"**).
  Given the operating rules of the LTI Plan, half of the "co-invested MBO" is not subject to additional performance targets, and may thus be qualified as **"deferred MBO."** Payment of the other half is conditioned instead on fulfilment of the three-year targets and is thus a variable medium-long term component. If the targets are met, in addition to returning the co-invested MBO in full, the Plan participant is entitled to it being increased by between 50% and 125%. This supplement that (together with 50% of the co-invested MBO payment of which is subordinated to fulfilment of the three-year targets) represents the **"LTI coinvestment bonus"** and is applicable for 50% of the co-invested MBO on achieving the three-year targets; the variation in the supplement (up to 125% of the co-invested MBO) is based instead on additional medium-long term targets.

Like the previous Plans, the 2012-2014 LTI Plan includes a financial access condition comprised by the net cash flow of the Group accumulated over the three-year period. Another condition for access to the pure LTI Bonus consists of attainment of the value creation target, which also determines access to the target-based LTI coinvestment Bonus.

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

In particular:

- The following two types of targets and related weights are established for the **pure LTI Bonus**:
  - **"Target-based value creation objective"** that measures the capacity of the company to create value over the medium-long term considering the profitability of ordinary operations compared with the amount of invested capital and its cost. In particular, this target is equal to the difference between NOPAT (Net Operating Profit After Tax) and the weighted average cost of capital plus working capital.

    Fulfilment of the Target-based Value Creation Objective (determined by considering a cumulated EBIT for the three-year period corresponding to the amount set in the Three-year Business Plan) qualifies the beneficiary to receive 100% of the pure LTI bonus.

    Two thirds of the difference between the target-based pure LTI bonus and the maximum pure LTI bonus will be determined by the improvement in the value creation result.

    The remaining one third of the difference between the pure LTI bonus and the maximum LTI bonus is determined on the basis of a Total Shareholder Return target calculated as performance of the Pirelli stock compared with (i) the FTSE/MIB Index Total Return, periodically calculated by FTSE and present on the database of Borsa Italiana and (ii) the index composed of selected peers in the tyre sector. The prospectus provided for the Shareholders' Meeting held on 10th May 2012 and currently available on the Company website contains more detailed information on application of the Total Shareholder Return target.

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

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

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

The portion of co-invested MBO not subject to performance

conditions (i.e. deferred MBO) will be returned only if the Manager's employment relationship is terminated for no fault of his own (and thus including natural events and demerger of the Manager's company from the Group).
For the Directors holding special offices and assigned specific functions (which is the case of the Chairman and Chief Executive Officer, Mr Tronchetti Provera) who leave office upon expiry of their term or for no fault of their own (and thus including natural events), the co-invested MBO shall be returned in full and its 150% supplement while, as previously mentioned, the pure LTI bonus will not be paid, not even on a pro-rated basis.

6. REMUNERATION OF DIRECTORS OF PIRELLI & C.

The Board of Directors is composed of:

- 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.

At December 31, 2012:

- the Directors holding special offices were the Chairman of the Board of Directors and Chief Executive Officer Marco Tronchetti Provera and the Deputy Chairmen Vittorio Malacalza and Alberto Pirelli; the Chairman was also assigned specific functions (for more details, please refer to the Report on Corporate Governance and the Structure of Share Owners);
- the Directors not holding special offices were: Carlo Acutis; Anna Maria Artoni; Gilberto Benetton; Alberto Bombassei; Franco Bruni; Luigi Campiglio; Pietro Guindani; Mario Greco; Giulia Maria Ligresti; Elisabetta Magistretti; Massimo Moratti; Renato Pagliaro; Luigi Roth; Carlo Salvatori; Carlo Secchi.

In 2012 the following Directors left office: (i) on May 25, 2012: Mr. Giuseppe Vita (appointed to substitute Mr. Enrico Tommaso Cucchiani on the Board of Directors on March 1, 2012 and confirmed by the Shareholders' Meeting held on May 10, 2012; (ii) on July 23, 2012 Mr. Giovanni Perissinotto, (iii) lastly, Prof. Paolo Ferro-Luzzi died on November 11, 2012.
On April 21, 2011 Pirelli Shareholders' Meeting that appointed the Board of Directors also approved compensation pursuant to Article 2389(1) Italian Civil Code in an aggregate amount for remuneration of the Directors, while delegating the Board of Directors the task of allocating it.
In particular, the Shareholders' Meeting approved aggregate gross annual compensation of euro 1.7 million, which was subsequently allocated by the Board of Directors as follows:

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

Annual gross compensation of euro 25 thousand was then allocated to the Director belonging to the Compliance Programme Supervisory Body.
In accordance with best practices, no variable compensation was granted to Directors not holding special offices (as defined hereinabove).
Please refer to the 2011 Report for the aggregate compensation granted by the Shareholders' Meeting and its allocation

during the previous term (and applied until April 21, 2011).

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

Also in accordance with best practices, the Company implements an insurance policy called D&O (Directors & Officers) Liability covering the third party liability of corporate bodies, General Managers, Managers with strategic responsibilities, 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 and **who have been assigned specific functions** consists of the following elements:

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

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

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

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

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

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

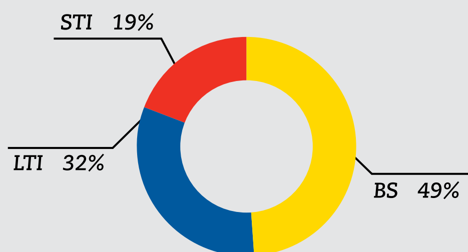
- for the position held at Pirelli & C., a fixed gross salary of euro 900 thousand was set, in addition to his compensation as member of the Board of Directors (euro 50 thousand gross);
- for the position held at Pirelli Tyre S.p.A., he was granted a fixed gross salary of euro 2 million and variable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

In regard to the impact of the various components of the compensation package, if the annual targets envisaged by the MBO 2012[2], 2013 and 2014 and the targets set by the 2012-2014 LTI Plan were fulfilled, the structure of the target-based annual total direct compensation of the Chairman and Chief Executive Officer during the three-year period would be as follows:

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

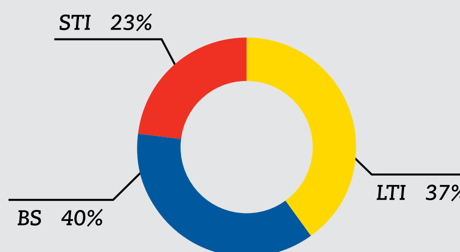
The following graphic shows the comparison between the breakdown of the target-based annual total direct compensation over the three-year period before and after modification of the remuneration package described above.

ANNUAL TOTAL DIRECT COMPENSATION TARGET 2011-2013



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

ANNUAL TOTAL DIRECT COMPENSATION TARGET 2012-2014



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

If both the annual[3] and three-year maximum targets are achieved the structure of the annual total direct compensation during the three-year period would be as follows:

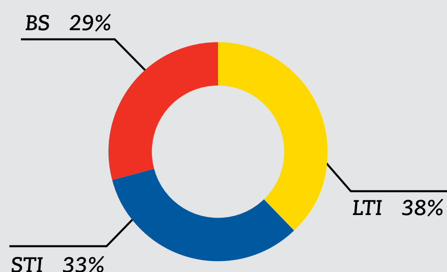
- fixed component: 23%;
- total variable component: 77% of which:
  - variable component based on annual results (MBO) equal to 32% of the annual total direct compensation (equal to about 41% of the total variable component);
  - variable long-term component (co-investment LTI Bonus and pure LTI Bonus)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

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

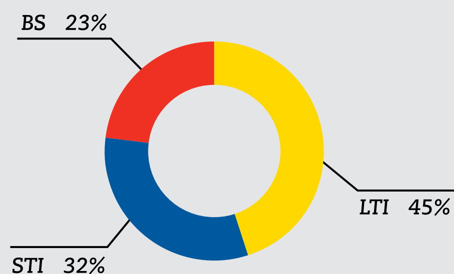
[2] It is important to note that - despite the fact that the consolidated operating earnings after deducting restructuring charges, exceeding euro 780 million (compared to the target indicated last November of "approximately euro 800 million") increased by more than 34% compared to euro 581.9 million at the end of 2011 with a profitability in terms of revenues that increased by more than two percentage points to the record annual level of 12.9 % from 10.3 % referred to the same period in 2011 - the failure to achieve the access condition established for the MBO 2012 targets envisaged for the Executive Directors, for General Managers and for Managers with Strategic Responsibilities, no MBO was paid to the persons holding these positions in relation to the 2012 financial year. In any event, the attainment of the target-based and maximum objectives is considered however (in a figurative form) for the purposes of representing the theoretical compensation mix and for reasons of comparison with the market.

[3] Refer to previous note

ANNUAL TOTAL DIRECT COMPENSATION MASSIMO 2011-2013



ANNUAL TOTAL DIRECT COMPENSATION MASSIMO 2012-2014



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

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

For the Directors holding special offices and assigned specific functions (at December 31, 2012, the Chairman and Chief Executive Officer, Mr Marco Tronchetti Provera), if they are not bound by managerial employment relationships, the Board of Directors has envisaged, analogously to what is guaranteed by law and/or the National Collective Bargaining Agreement in favour of the Group's Italian managers:

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

If the Director holds special offices but has not been assigned specific functions (at December 31, 2012, this was the case of the Deputy Chairmen Vittorio Malacalza and Mr Alberto Pirelli), their remuneration as Directors consists solely of the annual fixed gross component. If the 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 other than mandatory coverage is envisaged for Directors holding special offices who have not been assigned specific functions.
According to Group policy, discretionary bonuses are not paid to Directors holding special offices. On proposal by the Remuneration Committee, the Board of Directors may grant bonuses to these individuals in relation to specific transactions that are deemed exceptional in terms of their strategic importance and impact on the results of the Company and/or the Group. The Directors holding special offices have not been granted bonuses of this type during the past three years.

The Remuneration Committee and the Board of Directors analyse the position, composition and competitiveness of the remuneration paid to Directors holding special offices. They perform these analyses with the assistance of independent firms specialising in executive compensa-

tion. Within the typical limits of benchmark analyses, these firms use methods designed for thorough assessment of the complexity of roles in organisational terms, the specific functions assigned to them, and the impact of individuals on final business results.
In particular, different parameters (sector, geography, etc.) are used to define the annually updated panel of benchmark companies.
The benchmark sampling of companies used to analyse competitivity and to revise the remuneration of the Chairman and Chief Executive Officer of Pirelli & C. in 2013 was comprised of eight companies in the Car and Tyre segment, on the one hand, and by 27 European “Large Cap” companies, on the other hand.

8. THE BOARD OF STATUTORY AUDITORS

The Shareholders’ Meeting sets a fixed annual amount for remuneration of the Board of Statutory Auditors. In particular, at the date the Board of Auditors was renewed in the 2012 financial year the fixed annual gross amount payable to the Chairman was set at euro 75 thousand and the amount payable to the members of the Board of Auditors was set at euro 50 thousand. In the previous term (that ended with the Shareholders' Meeting held on April 21, 2011) the Chairman of the Board of Auditors was paid a fixed annual gross amount equal to euro 62 thousand and each member of the Board of Auditors was paid euro 42.5 thousand.
After appointing the current Statutory Auditor assigned to the Compliance Programme Supervisory Body, the Board of Directors set his gross annual compensation in the amount of euro 25 thousand.
The Statutory Auditors are also entitled to reimbursement of the expenses they incur on official business.
In accordance with best practices, the Company implements an insurance policy called D&O (Directors & Officers) Liability covering the third party liability of corporate bodies, General Managers, Managers with Strategic Responsibilities, Senior Managers and Executives in the performance of their functions. The purpose of this policy is to indemnify Pirelli for the cost of any compensatory damages deriving from the relevant provisions of the applicable national collective bargaining agreement and the laws and regulations governing appointed positions, with exclusion of wilful misconduct and gross negligence.

9. GENERAL MANAGERS AND MANAGERS WITH STRATEGIC RESPONSIBILITIES

At December 31, 2012, Pirelli & C. had three Managers with Strategic Responsibilities (Mr Francesco Chiappetta; Mr Francesco Tanzi; Mr Maurizio Sala), as, on May 10, 2012 Mr. Francesco Gori[4] resigned as General Manager of Pirelli & C. and General Manager and Chief Executive Officer of Pirelli Tyre S.p.A.

The remuneration of the General Managers and Managers with strategic responsibilities is composed of the following elements:

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

Furthermore, the following is envisaged for the General Managers and Managers with Strategic Responsibilities (analogously to what is provided for Senior Managers and Executives with an employment contract in accordance with Italian law):

- supplemental retirement plans that obligate the employer company to pay an amount equal to 4% of the gross an-

[4] The 2012 Policy is available on the Pirelli Internet website and details the structure of the remuneration attributed to Mr. Gori, the remuneration structure details are omitted in this document, since the principles and guidelines to determine the remuneration of General Managers are reported.

nual remuneration received to a pension fund, up to a maximum gross amount of euro 150 thousand;
- supplemental health and life insurance in addition to what is prescribed by the National Collective Bargaining Agreement for Companies that Produce Goods and Services.

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

When determining the remuneration of its individual members, the Board of Directors considers the following criteria:
- the fixed component represents no more than 50% of the target-based annual total direct compensation;
- the annual MBO incentive for General Managers is a pre-set, weighted, target-based percentage of the GAS in an amount of no less than 90% of that compensation and, for Managers with Strategic Responsibilities, no less than 40% of their gross annual remuneration. A cap is set on the annual MBO that can be received, and once again is a pre-set percentage of GAS. This is 200% in the case of the General Manager and 150% in the case of Managers with Strategic Responsibilities;
- the annualised, target-based variable medium-long term component (LTI) accounts for no less than 50% of the aggregate variable component (target-based MBO and target-based LTI). The "pure LTI Bonus" is also subject to a cap, in the amount of 1.5 times the target-based bonus.

Managers with Strategic Responsibilities:
- For Mr Francesco Chiappetta: the fixed component is currently set in the aggregate gross amount of euro 800 thousand.

  In regard to the impact of the various components of his compensation package, if the annual targets envisaged by the MBO 2012[5], 2013 and 2014 and the targets set by the 2012-2014 LTI Plan were fulfilled, the structure of the target-based annual total direct compensation during the three-year period would be as follows:
  - fixed component: 40%;
  - total variable component: 60% of which:
    - annual (MBO) 14% of the annual total direct compensation (equal to about 23% of the total variable component);
    - medium-long term (co-investment LTI Bonus and pure LTI Bonus) 46% of the annual total direct compensation (equal to about 77% of the total variable component).

  If both the annual[6] and three-year maximum targets are achieved, the structure of the annual total direct compensation during the three-year period would be as follows:
  - fixed component: 22%;
  - total variable component: 78% of which:
    - variable component based on annual results (MBO) equal to 27% of the annual total direct compensation (equal to about 34% of the total variable component);
    - variable long-term component (co-investment LTI Bonus and pure LTI Bonus) equal to 51% of the annual total direct compensation (equal to about 66% of the total variable component).

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

  In regard to the impact of the various components of his compensation package, if the annual targets envisaged by the MBO 2012[7], 2013 and 2014 and the targets set by the 2012-2014 LTI Plan were fulfilled, the structure of the target-based annual total direct compensation during the three-year period would be as follows:
  - fixed component: 47%;
  - total variable component: 53% of which:
    - annual (MBO) 16% of the annual total direct compensation (equal to about 29% of the total

[5] Refer to note 2
[6] Refer to note 2
[7] Refer to note 2

      - variable component);
      - medium-long term (co-investment LTI Bonus and pure LTI Bonus) 37% of the annual total direct compensation (equal to about 71% of the total variable component).

If both the annual[8] and three-year maximum targets are achieved, the structure of the annual total direct compensation during the three-year period would be as follows:

- fixed component: 24%;
- total variable component: 76% of which:
  - variable component based on annual results (MBO) equal to 30% of the annual total direct compensation (equal to about 40% of the total variable component);
  - variable long-term component (co-investment LTI Bonus and pure LTI Bonus) equal to 46% of the annual total direct compensation (equal to about 60% of the total variable component).

- For Mr Maurizio Sala: the fixed component is currently set in the aggregate gross amount of euro 450 thousand.
  In regard to the impact of the various components of his compensation package, if the annual targets envisaged by the MBO 2012[9], 2013 and 2014 and the targets set by the 2012-2014 LTI Plan were fulfilled, the structure of the target-based annual total direct compensation during the three-year period would be as follows:
  - fixed component: 47%;
  - total variable component: 53% of which:
    - annual (MBO) 16% of the annual total direct compensation (equal to about 29% of the total variable component);
    - medium-long term (co-investment LTI Bonus and pure LTI Bonus) 37% of the annual total direct compensation (equal to about 71% of the total variable component).

If both the annual[10] and three-year maximum targets are achieved, the structure of the annual total direct compensation during the three-year period would be as follows:

- fixed component: 24%;
- total variable component: 76% of which:
  - variable component based on annual results (MBO) equal to 30% of the annual total direct compensation (equal to about 40% of the total variable component);
  - variable long-term component (co-investment LTI Bonus and pure LTI Bonus) equal to 46% of the annual total direct compensation (equal to about 60% of the total variable component).

Group policy does not allow awarding discretionary bonuses to the General Managers and Managers with Strategic Responsibilities. On proposal by the Remuneration Committee, the Board of Directors may grant bonuses to these individuals in relation to specific transactions that are exceptional in terms of their strategic importance and impact on the results of the Company and/or the Group. The General Managers and Managers with Strategic Responsibilities have not been granted bonuses of this type during the past three years.
The process for definition of the remuneration of General Managers is analogous to that illustrated for the Directors holding special offices.
In regard to the Managers with Strategic Responsibilities, the Remuneration Committee assesses the consistency of their remuneration with the Policy.
The remuneration of General Managers and Managers with strategic responsibilities is also analysed with the assistance of independent firms specialising in executive compensation. Definition of this remuneration is revised annually and published on occasion of the annual Remuneration Statement.
In particular, different parameters (sector, geography, etc.) are used to define the annually updated panel of benchmark companies.

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[8] Refer to note 2
[9] Refer to note 2
[10] Refer to note 2

In regard to Managers with Strategic Responsibilities the benchmark market used in 2013 to verify the competitiveness of the respective remunerations includes 210 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 that is based on the achievement of pre-set business objectives (i.e. MBO), part of which (50%) is deferred; of this part, half is not subject to fulfilment of the LTI Plan targets (deferred MBO), the other part is instead subject to them (co-investment LTI);
- a variable medium-long term component (i.e. LTI).
- benefits recognised by business practice (e.g. company car and, in the case of foreign assignments, contribution to housing costs and contribution to children's school expenses).

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

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

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

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

In regard to all Senior Managers, the impact of the various components of their compensation packages during the three-year period would be as follows if the annual targets envisaged by the MBO 2012[11], 2013 and 2014 and the targets set by the 2012-2014 LTI Plan were fulfilled:

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

If both the annual[12] and three-year maximum targets are achieved, the structure of the annual total direct compensation during the three-year period would be as follows:

- fixed component: 32%;
- total variable component: 68% of which:
  - variable component based on annual results (MBO) equal to 21% of the annual total direct compensation (equal to about 31% of the total variable component);
  - variable long-term component (co-investment LTI Bonus and pure LTI Bonus) equal to 47% of the annual total direct compensation (equal to about 69% of the total variable component).

[11] Refer to note 2
[12] Refer to note 2

In regard to all Executives, the impact of the various components of their compensation packages during the three-year period would be as follows if the annual targets envisaged by the MBO 2012[13], 2013 and 2014 and the targets set by the 2012-2014 LTI Plan were fulfilled:

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

If both the annual[14] and three-year maximum targets are achieved, the structure of the annual total direct compensation during the three-year period would be as follows:

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

The Group may grant one-off bonuses and/or envisage exceptions to the Policy according to operating requirements or the achievement of specific, extraordinary targets. It may also offer them share-based incentives or stock options in schemes that might be adopted by the Group. In regard to this last-mentioned possibility, the Company does not have any share-based incentive programmes in place at the date of this Report.
The remuneration of Executives and Senior Managers is also analysed with the assistance of independent firms specialising in executive compensation. Inter alia, this analysis considers the position held by the individual manager and the country where he or she is assigned.

N.B.: In accordance with best practices and as proposed by the Internal Control, Risks and Corporate Governance Committee, the Board of Directors envisages that the fixed component have a greater weight than the variable component for the Internal Audit Manager. 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 to largely to qualitative objectives subject to review by the Internal Control, Risks and Corporate Governance Committee and the Board of Directors, on proposal by the Director assigned to supervise the internal control system.

[13] Refer to note 2
[14] Refer to note 2

11. ALLOWANCES IN THE EVENT OF RESIGNATION, DISMISSAL OR TERMINATION

Pirelli Group policy prohibits making agreements with Directors, General Managers, Managers with strategic responsibilities, Senior Managers and Executives that regulate ex ante the economic issues arising in the case of early termination of their relationship by the Company or the individual employee (i.e. "golden parachutes").
Agreements made when an existing relationship with the Group is terminated without cause are not considered golden parachutes. In these cases, Pirelli prefers to seek agreements for consensual termination of the relationship. Without prejudice to statutory and/or contractual obligations, agreements made for termination of an employment relationship with the Group are based on applicable benchmarks and within the limits defined by case law and custom in the country where the agreement is made.
The Company defines internally the criteria which the other companies of the Group must also follow for management of the agreements on the early termination of relationships with managers and/or Directors holding special offices.
Pirelli does not envisage the payment of allowances or extraordinary compensation for termination of Directors holding special offices, who are assigned specific functions, and who do not have a managerial work relationship with the Group. Payment of a specific allowance may be granted, subject to prior review by the delegated corporate bodies, in the following cases:

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

In these cases, the allowance amounts to 2 times the employee's gross annual compensation, with this meaning the sum of the gross annual fixed salaries for the offices held in the Group, the average of the annual variable remuneration (MBO) accrued during the previous three-year period and the employee severance indemnity (TFM) on the foregoing amounts.

12. NOT-TO-COMPETE CLAUSES

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

CURIOSITY

SPECIAL TALENT. I AM ONLY PASSIONA
CELEBRATED PHYSICIST ALBERT EINSTEIN, CAPTURES THE V
IS THE MOST IMPORTANT
BECAUSE EVERY DISCOVERY AND PROBLEM-SOLVING, BIG OR SMALL, P
OF MANKIND, CURIOSITY HAS BEEN THE DI
SUCH AS ELECTRICITY. ON A PERSONAL LEVEL,
DISCOVERY OF A NEW HOBI
AND A BETTER AND/OR SIMPLER WAY OF DOING THINGS. CURIOSITY ALLOWS US TO EXPL
TOMORROW, WE SHOULD BE WILLING TO LEAVE BEHIND THE WARMTH A
UNFAMILIAR PATHS

MIGNOTE SOLOMON HAILE *ETHIOPIAN* ***– MOUNT HOLYOKE COLLEGE (US)***

"I HAVE NO

ATELY CURIOUS". THIS QUOTE, BY THE

VAST POWER OF CURIOSITY. THIS POTENTIAL-LADEN VALUE

VALUE FOR TOMORROW

PERSONAL OR GLOBAL, STARTS WITH BEING CURIOUS. IN THE HISTORY

RIVING FORCE BEHIND MAJOR DISCOVERIES

CURIOSITY IS WHAT USUALLY LEADS US TO A

BY, AN UNKNOWN TALENT,

ORE BOUNDARIES AND EXPAND OUR HORIZONS. THUS, AS WE START LOOKING TOWARDS

ND COMFORT OF THE FAMILIAR AND THE STATUS QUO AND GO DOWN THE

S OF OUR CURIOSITY.

“I’m tired of this shape.
what it would be like

I am curious
round."

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

Compared to the 2012 Policy the indemnity was reviewed in the event of resignation or termination of the employment relationship in the case of Directors holding special offices, who are conferred with specific powers and are not bound by management employment relationships, in line with best practices and also adopting the requests of a number of long investors and proxy advisors.
In particular, the Remuneration Policy referred to the 2012 financial year established (paragraph 11) that for the foregoing persons, Pirelli did not envisage the payment of special indemnities or fees in kind associated with the end of their term in office.
Payment of a specific indemnity could be made in the following cases, always subject to assessment by the competent corporate bodies: (i) termination by the Company not supported by just cause; (ii) termination by the Director with cause: for example, in the case of substantial changes in his role or assigned duties, and/or in the event of a hostile tender offer.
In these cases the Remuneration Policy referred to the 2012 financial year established that the indemnity was equal to 3 times the gross annual compensation, meaning the sum of all the annual gross fixed compensation for the positions held, the average MBO received during the term in office and the employee severance indemnity (TFM) on the foregoing amounts.
The Board of Directors has redefined at two annuities the possible specific indemnity paid in the foregoing cases based on the proposal by the Remuneration Committee. In particular, it was established that in the cases envisaged by the Policy (termination by the Company not supported by just cause; termination by the Director with cause, meaning, by way of example, the substantial change in his role or assigned duties and/or in cases of so-called hostile tender offer) the Director holding special offices who has been delegated specific responsibilities and is not bound by management employment relations is to be paid an indemnity equal to 2 times the annual gross compensation, meaning the sum of the fixed annual gross compensation for the positions held in the Group, the average of the annual variable remuneration (MBO) accrued during the previous three-year period and the employee severance indemnity (TFM) on the foregoing amounts.
In addition, the 2013 Policy no longer includes the analytical representation of the structure of the remuneration attributed to Mr. Gori, since on May 10, 2012 Mr. Gori resigned as General Manager of Pirelli & C. and Chief Executive Officer and General Manager of Pirelli Tyre.
The 2013 Policy continues to include the principles and guidelines to determine the remuneration of the General Managers.
A number of textual refinements were made to the 2013 Policy compared to the 2012 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 2013 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 2013 Policy. The criteria used to select the benchmarks are indicated in regard to the structure of remuneration for each person.

Model Format no. 7-*bis* adopted with Consob Resolution no. 18049 of December 23, 2011 envisages that the section of the Remuneration Report envisaged in Article 123-*ter* referring to the members of the Boards of Directors, the General Managers and the other Managers with strategic responsibilities, at least contain the information envisaged in the previous mentioned model format.

The following table indicates the required information and the part of the Report where they are found:

Information required under Model Format 7-bis	Sections that specifically contain the required information
a) bodies or persons involved in the preparation and approval of the remuneration policy, specifying their roles, and the bodies or persons responsible for proper implementation of this policy.	**2.** Process for definition and implementation of the Policy and parties involved **3.** Remuneration Committee
b) any action by a remuneration committee or another committee with delegated authority in this regard, describing its composition (distinguishing between non-executive directors and independent directors), responsibilities and operating procedures;	**2.** Process for definition and implementation of the Policy and parties involved **3.** Remuneration Committee
c) the name of any independent experts who might have participated in preparation of the remuneration policy;	**14.** Other information
d) the aims pursued by the remuneration policy, its fundamental principles, and any changes in the remuneration policy from the previous financial year;	**1.** Principles and examination of risks **13.** Changes to the Remuneration Policy compared to the previous financial year
e) description of the policies governing fixed and variable components of remuneration, particularly in regard to indication of their weight in relation to aggregate remuneration and distinguishing between short and long-term variable components;	The structure of remuneration for different individuals is described in the sections indicating the different fixed/variable and short-term variable/medium-long term variable weights. **6.** Remuneration of Directors of Pirelli & C. **7.** Remuneration of Directors holding special offices **8.** The Board of Statutory Auditors **9.** General Managers and Managers with Strategic Responsibilities **10.** Senior Managers and Executives The following section illustrates how the variable components of remuneration work: **5.** MBO and LTI Plan
f) the policy applied to non-monetary benefits;	Sections for the individual positions **6.** Remuneration of Directors of Pirelli & C. **7.** Remuneration of Directors holding special offices **9.** General Managers and Managers with strategic responsibilities **10.** Senior Managers and Executives
g) in reference to the variable components, a description of the performance targets according to which they are assigned, distinguishing between short-term and medium-long term variable components, and information about the link between the change in results and the change in remuneration;	**5.** MBO and LTI Plan
h) the criteria used for assessing performance targets according to the grant of shares, options, other financial instruments or other variable components of remuneration;	**5.** MBO and LTI Plan
i) information intended to illustrate the consistency of the remuneration policy with pursuit of the company's long-term interests and the risk management policy, if such exists;	**1.** Principles and examination of risks **5.** MBO and LTI Plan And for the individual positions **6.** Remuneration of Directors of Pirelli & C. **7.** Remuneration of Directors holding special offices **8.** The Board of Statutory Auditors **9.** General Managers and Managers with Strategic Responsibilities **10.** Senior Managers and Executives
j) the vesting period, any deferred payment systems, with indication of the deferral periods and criteria used to determine these periods and, if envisaged, the mechanisms for ex post correction;	Pirelli does not have any stock option plans in place. In regard to the mechanisms for deferral of variable monetary components, see Section: **5.** MBO and LTI Plan

k) information on any clauses governing the retention of financial instruments after purchase, with indication of the retention period and criteria used to determine these periods;	Pirelli does not have any stock option plans in place.
l) the policy governing treatment upon expiry of term in office or termination of the employment relationship, specifying what circumstances establish the right and any link between this treatment and company performance;	**11.** Allowances in the event of resignation, dismissal or termination **12.** Not-to-compete clauses
m) information about any insurance, social security or pension coverage other than mandatory plans;	Sections for the individual positions **6.** Remuneration of Directors of Pirelli & C. **7.** Remuneration of Directors holding special offices **8.** The Board of Statutory Auditors **9.** General Managers and Managers with Strategic Responsibilities **10.** Senior Managers and Executives
n) the remuneration policy that might be applied in reference to: (i) independent directors, (ii) participation on committees and (iii) holding special offices (chairman, deputy chairman, etc.);	**6.** Remuneration of Directors of Pirelli & C.
o) whether the remuneration policy was defined by using the remuneration policies of other benchmark companies, and if so, the criteria used to choose these companies	**14.** Other information

REMUNERATION STATEMENT FOR 2012

1. PRINCIPLES

The Remuneration statement for 2012 illustrates the remuneration Policy applied by the Pirelli Group in 2012 and presents a final accounting of remuneration as broken down by the different types of beneficiaries, without prejudice to the disclosure obligations imposed by other applicable provisions of law or regulation, 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 RESPONSIBILITIES.

The tables below indicate the names and the remuneration paid to the Directors, to the Auditors and to the General Manager (remembering in this regard that on May 10, 2012 Mr. Francesco Gori resigned as the General Manager of Pirelli & C. and the Chief Executive Officer and General Manager of Pirelli Tyre) and paid to the other Directors with strategic responsibilities in an aggregate form (however, the tables included in the final part of this Statement indicate the names and the remuneration paid to the Managers with Strategic Responsibilities, even though there is no requirement to provide this information).
The compensation is indicated in accordance with a competence criterion and the notes to the tables clarify the office held for which the compensation is received (for example, when a Director participates on numerous Board Committees) and the subsidiary and/or associate company (except for the compensation waived or deposited with the Company).
The tables include all the persons who held the foregoing positions during the 2012 financial year, even if for a fraction of the financial year.
The non-monetary benefits, when received, are also indicated in accordance with the competence criterion and reported in relation to the “tax liability criterion” referred to the benefit allocated.

In particular, it is important to note that:

- persons who were Directors of the Company during the 2012 financial year have accrued/received compensation (in accordance with the competence criterion) as established in accordance with the criteria set out in paragraph 6 of the 2012 Policy;
- persons who were Directors with special duties during the 2012 financial year (Chairman and Director and Deputy Chairman) accrued/received compensation (in accordance with the competence criterion) as established in accordance with the criteria set out in paragraph 6 and paragraph 7 of the 2012 Policy;
- the General Manager of Pirelli & C. (a figure no longer in office on May 10, 2012) received/accrued compensation for the position held during the 2012 financial year, in accordance with the criteria set out in paragraph 9 and paragraph 12 of the 2012 Policy, it is important to note that Pirelli and Mr. Gori entered into an agreement for the consensual termination of the relationship consistent with the principles established in paragraph 11 of the 2012 Policy and with the application criteria set out by the Company in this regard;
- Managers with Strategic Responsibilities have received/accrued compensation for the position held during the 2012 financial year, in accordance with the criteria set out in paragraph 9 of the 2012 Policy;
- each member of the Supervisory Body received/accrued compensation for the position held during the 2012 financial year equal to euro 25 thousand gross per year in line with the provisions set out in the 2012 Policy;
- each member of the Board of Auditors received/accrued compensation for the position held during 2012 financial year in line with the requirements established by the Shareholders' Meeting at the date of their appointment (in addition to the compensation of euro 25 thousand gross per year paid to the Statutory Auditor called upon to be a member of the Supervisory Body).
- the Senior Managers and Executives have received/accrued compensation for the position held during the 2012 financial year, in accordance with the criteria set out in paragraph 10 of the 2012 Policy. Limited exceptions occurred at the time of operational requirements or at the time of achieving specific extraordinary targets, the Senior Advisor Human Resources has reported these exceptions to the Remuneration Committee.

Name and Surname	Office	Period during which office was held	Expiry of term of office	Fixed compensation	Compensation for participation on committees
Marco Tronchetti Provera	Chairman and CEO	01/01/2012-12/31/2012	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	3,077,553.78 (1)	-
Vittorio Malacalza	Deputy Chairman	01/01/2012-12/31/2012	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	368,767.00 (2)	45,000.00 (3)
Alberto Pirelli	Deputy Chairman	01/01/2012-12/31/2012	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	950,509.94 (4)	-
Carlo Acutis	Director	01/01/2012-12/31/2012	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000.00 (6)	25,000.00 (7)
Anna Maria Artoni	Director	01/01/2012-12/31/2012	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000.00 (6)	20,000.00 (8)
Gilberto Benetton	Director	01/01/2012-12/31/2012	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000.00 (6)	-
Alberto Bombassei	Director	01/01/2012-12/31/2012	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000.00 (6)	10,860.00 (9)
Franco Bruni	Director	01/01/2012-12/31/2012	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000.00 (6)	55,000.00 (10)
Luigi Campiglio	Director	01/01/2012-12/31/2012	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000.00 (6)	20,000.00 (11)
Paolo Ferro Luzzi	Director	01/01/2012-11/11/2012	11/11/2012 (12)	43,170.00 (6)	25,900.00 (13)
Mario Greco	Director	11/12/2012-12/31/2012	03/04/2013 (14)	6,830.00	-
Pietro Guindani	Director	01/01/2012-12/31/2012	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000.00 (6)	20,000.00 (8)
Giulia Maria Ligresti	Director	01/01/2012-12/31/2012	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000.00 (6)	-
Elisabetta Magistretti	Director	01/01/2012-12/31/2012	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000.00 (6)	30,000.00 (9)
Massimo Moratti	Director	01/01/2012-12/31/2012	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000.00 (6)	-
Renato Pagliaro	Director	01/01/2012-12/31/2012	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000.00 (6) (15)	25,000.00 (15) (16)
Giovanni Perissinotto	Director	01/01/2012	07/23/2012 (17)	27,595.00 (6) (15)	-
Luigi Roth	Director	01/01/2012-12/31/2012	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000.00 (6)	70,000.00 (18)
Carlo Salvatori	Director	07/26/2012	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2012 (19)	21,721.00 (6)	-
Carlo Secchi	Director	01/01/2012-12/31/2012	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000.00 (6)	90,000.00 (20)
Manuela Soffientini	Director	03/01/2012	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013 (21)	41,804.00 (6)	10,860.00 (9)
Giuseppe Vita	Director	03/01/2012	05/25/2012 (22)	11,748.00 (6)	-
Francesco Gori	General Manager	01/01/2012	05/10/2012	882,519.46 (23)	
3 Managers with strategic responsibilities				1,753,903.96 (26)	-
Francesco Fallacara	Chairman of the Board of Auditors	05/10/2012	Shareholders' Meeting held to approve the Annual Financial Report at 31/12/2014 (28)	48,360.00	-
Enrico Laghi	Statutory Auditor	05/10/2012	Shareholders' Meeting held to approve the Annual Financial Report at 31/12/2014 (29)	54,262.00 (30)	-
Antonella Carù	Statutory Auditor	05/10/2012	Shareholders' Meeting held to approve the Annual Financial Report at 31/12/2014 (28)	32,240.00	16,120.00 (30)
Paolo Gualtieri	Statutory Auditor	01/01/2012	05/10/2012 (31)	14,740.00	-
Paolo Domenico Sfameni	Statutory Auditor	01/01/2012	05/10/2012 (31)	14,740.00	8,880.00 (30)
(I) Compensation in company that prepares the Annual Financial Report				**4,236,998.60**	**472,620.00**
(II) Compensation from subsidiaries and associates				**3,763,465.54**	**-**
(III) Total				**8,000,464.14**	**472,620.00**

Variable non-equity compensation		Non-monetary benefits	Other compensation	Total	Fair value of equity compensation	Retirement or employment termination indemnity
Bonus and other incentives	Profit-sharing					
-	-	5,995.92	-	3,083,549.70	-	-
-	-	-	-	413,767.00	-	-
-	-	1,781.88 [5]	-	952,291.82	-	-
-	-	-	-	75,000.00	-	-
-	-	-	-	70,000.00	-	-
-	-	-	-	50,000.00	-	-
-	-	-	-	60,860.00	-	-
-	-	-	-	105,000.00	-	-
-	-	-	-	70,000.00	-	-
-	-	-	-	69,070.00	-	-
-	-	-	-	6,830.00	-	-
-	-	-	-	70,000.00	-	-
-	-	-	-	50,000.00	-	-
-	-	-	-	80,000.00	-	-
-	-	-	-	50,000.00	-	-
-	-	-	-	75,000.00	-	-
-	-	-	-	27,595.00	-	-
-	-	-	-	120,000.00	-	-
-	-	-	-	21,721.00	-	-
-	-	-	-	140,000.00	-	-
-	-	-	-	52,664.00	-	-
-	-	-	-	11,748.00	-	-
	-	2,260.51 [24]	278,750.00 [32]	1,163,529.97	-	5,900,000.00 [25]
-	-	10,177.92 [27]	-	1,764,081.88	-	-
-	-	-	-	48,360.00	-	-
-	-	-	-	54,262.00	-	-
-	-	-	-	48,360.00	-	-
-	-	-	-	14,740.00	-	-
-	-	-	-	23,620.00	-	-
-	**-**	**13,127.88**	**-**	**4,722,746.48**	**-**	**300,000.00**
-	**-**	**7,088.35**	**278,750.00**	**4,049,303.89**	**-**	**5,600,000.00**
	-	**20,216.23**	**278,750.00**	**8,772,050.37**	**-**	**5,900,000.00**

(1) Of which: euro 50 thousand as Director of Pirelli & C. S.p.A.; euro 1,209,072.58 as Chairman and Chief Executive Officer of Pirelli & C. S.p.A.; euro 1,818,481.20 as Chairman of Pirelli Tyre S.p.A.;
(2) Of which: euro 50 thousand as Director of Pirelli & C. S.p.A.; euro 300 thousand as Deputy Chairman of Pirelli & C.; euro 8,767 for payments referable to the 2011 financial year. A member of the Board of Directors of RCS Mediagroup S.p.A. up to May 2, 2012 (for which an annual gross compensation of euro 15 thousand was foreseen) and a member of the Executive Committee of RCS Mediagroup S.p.A. (for which an annual gross compensation of euro 15 thousand was foreseen), the data will be updated with the data confirmed by RCS and calculated currently at euro 10 thousand.
(3) Of which: euro 25 thousand as member of the Strategies Committee; euro 20 thousand as member of the Nominations and Successions Committee;
(4) Of which: euro 50 thousand as Director of Pirelli & C. S.p.A.; euro 300 thousand as Deputy Chairman of Pirelli & C. S.p.A.; euro 150 thousand as Deputy Chairman of Pirelli Tyre S.p.A.; euro 450,509.94 as Senior Manager of Pirelli Tyre S.p.A.
(5) As Senior Manager of Pirelli Tyre S.p.A.
(6) As Director of Pirelli & C.;
(7) As Chairman of the Remuneration Committee;
(8) As Member of the Remuneration Committee;
(9) As Member of the Strategies Committee. The Director Alberto Bombassei and the Director Manuela Soffientini were appointed as members of this Committee on July 26, 2012 (the annual fixed gross compensation for this office is equal to euro 20 thousand).
(10) Of which euro 30 thousand as Member of the Internal Control, Risks and Corporate Governance Committee and euro 25 thousand as Member of the Strategies Committee;
(11) As member of the Nominations and Successions Committee;
(12) The Director Paolo Ferro-Luzzi died on November 11, 2012.
(13) As Member of the Internal Control, Risks and Corporate Governance Committee (the annual fixed gross compensation for this office is equal to euro 30 thousand).
(14) The Director Mario Greco was co-opted on November 12, 2012, in accordance with Article 2386 of the Italian Civil Code. The Director Greco - due to fall from office at the first Shareholders' Meeting after his appointment, in accordance with Article 2386 of the Italian Civil Code (and therefore, with the Shareholders' Meeting called to approve the Annual Financial Report at December 31, 2012) - resigned on March 5, 2013.
(15) Emoluments charged to the assigned company.
(16) As Member of the Strategies Committee.
(17) The Director Giovanni Perissinotto notified his resignation on July 23, 2012 and the Director Mario Greco was appointed on November 12, 2012 to substitute Giovanni Perissinotto (Mario Greco, in turn, resigned on March 5, 2013)
(18) Of which: euro 30 thousand as Member of the Internal Control, Risks and Corporate Governance Committee; euro 20 thousand as Member of the Remuneration Committee; euro 20 thousand as member of the Nominations and Successions Committee;
(19) The Director Carlo Salvatori was co-opted on July 26, 2012, in accordance with Article 2386 of the Italian Civil Code and due to fall from office at the first Shareholders' Meeting after his appointment, in accordance with Article 2386 of the Italian Civil Code (and therefore, with the Shareholders' Meeting called to approve the Annual Financial Report at December 31, 2012).
(20) Of which: euro 40 thousand as Chairman of the Internal Control, Risks and Corporate Governance Committee; euro 25 thousand as member of the Strategies Committee and euro 25 thousand as member of the Supervisory Board.
(21) The Director Manuela Soffientini was appointed by the Board of Directors on March 1, 2012, to substitute the Director Profumo, and was confirmed in office by the Shareholders' Meeting held on May 10, 2012.
(22) The Director Giuseppe Vita was appointed by the Board of Directors on March 1, 2012 and subsequently confirmed by the Shareholders' Meeting held on May 10, 2012, and resigned on May 25, 2012.
(23) Of which: euro 72,043.03 as Chief Executive Officer of Pirelli Tyre S.p.A. and euro 810,476.43, overall, as General Manager of Pirelli Tyre (up to May 10, 2012) and Manager of Pirelli Tyre (up to termination of the employment relationship on July 31, 2012) .
(24) As General Manager/Manager of Pirelli Tyre up to termination of the employment relationship;
(25) Of which: (i) euro 300 thousand from Pirelli & C. S.p.A. as a settlement (ii) euro 5,600,000.00 from Pirelli Tyre, of which euro 5,300,000 as a voluntary resignation incentive and euro 300 thousand as a settlement.
(26) Of which euro 451,954.94 from Pirelli Tyre.
(27) Of which euro 3,045.96 from Pirelli Tyre;
(28) Francesco Fallacara, Chairman of the Board of Auditors and Antonella Carù, Statutory Auditor Antonella Carù were appointed by the Shareholders' Meeting on May 10, 2012.
(29) The Auditor Enrico Laghi was appointed by the Shareholders' Meeting on May 10, 2012 - prof. Laghi held the office as Chairman of the Board of Auditors up to that date.
(30) As member of the Supervisory Board
(31) Prof. Paolo Gualtieri and Prof. Paolo Domenico Sfameni fell from office due to completion of their term in office with the approval of the Annual Financial Report at December 31, 2011 by the Shareholders' Meeting held on May 10, 2012.
(32) From Pirelli Tyre by way of a consideration for the non-competition undertaking. This undertaking envisages payment of euro 761,250.00, overall. This amount will actually be paid in part during the 2013 financial year and in part during the 2014 financial year.

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

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

In March 2012, it was decided to terminate the 2011/2013 LTI Plan early, considering the launch of a “new” Business Plan for the 2012/2014 three-year period with significantly more challenging objectives compared to the already demanding objectives envisaged in the 2011/2013 Business Plan. The concurrent launch of a “new” LTI Plan (the 2012/2014 LTI Plan) was proposed linked to the objectives of the “new” Business Plan, therefore, reference to the 2011/2013 LTI Plan will be omitted below. The information disclosure document available on the Pirelli Internet website contains more detailed information concerning the application of the Total Shareholder Return objective, whereas the reader is referred to paragraph 5 of the Remuneration Policy for details of the way the 2012/2014 LTI Plan operates.

Name and Surname	Office	Plan	Bonus for current year			Bonus for previous years			Other bonuses
			Payable / Paid	Deferred	Deferral period	No longer payable	Payable / Paid	Still deferred	
Marco Tronchetti Provera	Chairman and Chief Executive Officer	MBO 2012	0.00	0.00	-	-	-	-	0.00
		2012-2014 LTI Plan	0.00	0.00	-	-	-	-	0.00
Alberto Pirelli	Deputy Chairman	MBO 2012	0.00	0.00	-	-	-	-	0.00
		2012-2014 LTI Plan	0.00	0.00	-	-	-	-	0.00
Francesco Gori	General Manager	MBO 2012	0.00	0.00	-	-	-	-	0.00
		2012-2014 LTI Plan	0.00	0.00	-	-	-	-	0.00
Managers with strategic responsibilities		MBO 2012	0.00	0.00	-	-	-	-	0.00
		2012-2014 LTI Plan	0.00	0.00	-	-	-	-	0.00
(I) Compensation in company that prepares the Annual Financial Report		**MBO 2012**	**0.00**	**0.00**	**-**	**-**	**-**	**-**	**0.00**
		2012-2014 LTI Plan	**0.00**	**0.00**	**-**	**-**	**-**	**-**	**0.00**
(II) Compensation from subsidiaries and associates		**MBO 2012**	**0.00**	**0.00**	**-**	**-**	**-**	**-**	**0.00**
		2012-2014 LTI Plan	**0.00**	**0.00**	**-**	**-**	**-**	**-**	**0.00**
(III) Total			**0.00**	**0.00**	**-**	**-**	**-**	**-**	**0.00**

4. THE TABLE PREPARED FOR SELF-REGULATORY DISCLOSURE OF TOP MANAGEMENT COMPENSATION RECEIVED/ACCRUED DURING THE 2012 FINANCIAL YEAR

The following table prepared for self-regulatory disclosure regarding Managers with strategic responsibilities shows the total emoluments accrued/received in the 2012 financial year. The reader is referred to the table shown in paragraph 2 of this Statement for the details of the compensation paid to the Chairman and Chief Executive Officer of Pirelli & C. S.p.A. and to Alberto Pirelli, Deputy Chairman of Pirelli & C. S.p.A.

Name and surname	Fixed compensation	Compensation as member of committees	Variable non equity compensation		Non monetary benefits	Other compensation	Total
			Bonus and other incentives	Profit sharing			
Francesco Chiappetta	800,929.00	0.00	0.00	0.00	5,174.40	0.00	806,103.40
Maurizio Sala	451,954.94	0.00	0.00	0.00	3,045.96	0.00	455,000.90
Francesco Tanzi	501,020.02	0.00	0.00	0.00	1,957.56	0.00	502,977.58

5. TABLE CONTAINING INFORMATION ABOUT THE EQUITY INVESTMENTS OWNED BY MEMBERS OF THE BOARD OF DIRECTORS, THE BOARD OF STATUTORY AUDITORS, THE GENERAL MANAGERS AND THE OTHER MANAGERS WITH STRATEGIC RESPONSIBILITIES

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 fraction of the financial year:
- members of the Board of Directors;
- members of the Board of Auditors;
- General Manager;
- Manager with Strategic Responsibilities.

In particular, the number of shares broken down by class of stock and in reference to each investee company is shown next to the name of the members of the Board of Directors, Board of Statutory Auditors and General Managers, and cumulatively for the other Managers with Strategic Responsibilities:
- owned at the end of the previous financial year;
- acquired during the reference year;
- sold during the reference year;
- owned at the end of the reference year.

The title, terms and conditions of ownership are also specified.
All persons who, during the reference year, were members of the Board of Directors and Board of Statutory Auditors, General Manager or Manager with Strategic Responsibilities for even just a fraction of a year are included.

Name and surname	Office	Investee company	No. Shares owned at 12/31/2011	No. Shares acquired/ subscribed	No. Shares sold	No. Shares owned at 12/31/2012
Marco Tronchetti Provera	Chairman and Chief Executive Officer	Pirelli & C.	1,251	-	-	1,251
		Pirelli & C. (indirect ownership)	124,500,400 [1]	-	27,831,232	96,669,168
		Pirelli & C. (indirect ownership)	-	27,831,232 [2]		27,831,232
		Pirelli & C. (indirect ownership)	110,673 [3]	-	-	110,673
Alberto Pirelli	Deputy Chairman	Pirelli & C.	131,629	-	-	131,629
Massimo Moratti	Director	Pirelli & C. (indirect ownership)	2,343,392 [4]	-	-	2,343,392
Luigi Roth	Director	Pirelli & C.	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 registered as being held beneficially on trust to Cordusio Società fiduciaria per azioni
[5] Shares owned by spouse

RESOLUTIONS

PROPOSAL TO APPROVE THE FINANCIAL STATEMENTS AND ALLOCATION OF THE NET INCOME FOR THE FINANCIAL YEAR

To the Shareholders,

The financial year at December 31, 2012 closed with a net income of euro 234,415,750.

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

- euro 0.32 for each ordinary share;
- euro 0.39 for each savings share.

The above-mentioned proposal is in line with the dividend policy adopted at the presentation of the 2012-2014 Industrial Plan that envisages the distribution of an amount corresponding to approximately 40% of the Group's consolidated cumulative net profit referred to the 2012-2014 three-year period.

If you agree with our proposals we invite you to pass the following

RESOLUTIONS

“The Shareholders' Meeting,

- having examined the Annual Financial Report at December 31, 2012;
- having acknowledged the Board of Auditors' report;
- having acknowledged the Independent Auditors' report;

RESOLVES

a) to approve the Company's financial statements referred to the financial year ended at December 31, 2012, as presented by the Board of Directors, in their entirety and their individual entries, and with the provisions proposed, which show a net income of euro 234,415,750

b) to allocate the net income for the 2012 financial year of euro 234,415,750 as follows:

5% to the legal reserve	11,720,788
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 residual net profit to retained earnings	65,951,855

(*)Before deducting 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 transactions to sell treasury shares are executed prior to paying the dividends specified under point b), above, to draw the amount of the dividend related to those shares from the net income to retained earnings, and to allocate to that item the balance of the rounding off that may

result from the dividend payment.

The dividend for the 2012 financial year will be collectable from May 23, 2013, with the coupon detachment on May 20, 2013. Shareholders owning shares at the end of the May 22, 2013 accounting day (so-called record date) as identified by the Company in accordance with the Borsa Italiana calendar shall be eligible to collect the dividend".

APPOINTMENT OF THREE DIRECTORS AND/OR REDUCTION IN THE NUMBER OF MEMBERS OF THE BOARD OF DIRECTORS

Dear Shareholders,
The Ordinary Shareholders' Meeting held on April 21, 2011 renewed the Company's Board of Directors, setting the number of members at twenty and establishing the duration of their respective term in office at three financial years (therefore, expiring at the Shareholders' Meeting called to approve the Company's financial statements at December 31, 2013).
The so-called minority shareholders were able to appoint four Directors, by adopting the voting list mechanism, pursuant to the Company Bylaws.
Following the last Shareholders' Meeting held on May 10, 2012:

- on May 25, 2012, Mr. Giuseppe Vita resigned - Mr. Vita had been co-opted on March 1, 2012 to substitute Mr. Enrico Tommaso Cucchiani (a non-executive Director drawn from the majority list), and duly confirmed by the Shareholders' Meeting held on May 10, 2012;
- on July 23, 2012, Mr. Giovanni Perissinotto (a non-executive Director drawn from the majority list) resigned;
- on July 26, 2012, the Board of Directors appointed Mr. Carlo Salvatori as a Director, pursuant to Article 10 of the Company Bylaws and Article 2386, paragraph 1 of the Italian Civil Code, with a resolution duly approved by the Board of Statutory Auditors; Mr. Salvatori was appointed to substitute Mr. Giuseppe Vita. At the time the appointment was made, the Board of Directors had ascertained that the new Director satisfied the requirements envisaged by the applicable regulations in order to assume the office.
  In accordance with Article 2386, paragraph 1 of the Italian Civil Code, the Director Mr. Carlo Salvatori falls from office with today's Shareholders' Meeting, that is therefore, called to resolve accordingly;
- on November 11, 2012 prof. Paolo Ferro-Luzzi (an Independent Director drawn from the list presented by the majority) died;
- on March 4, 2013, Mr. Mario Greco resigned, Mr. Greco had been co-opted on November 12, 2012 to substitute Mr. Giovanni Perissinotto.

The Board of Directors wished to remind the Meeting of the rare skills and expertise on legal matters, the great wisdom and irony possessed by prof. Paolo Ferro-Luzzi.

Furthermore, the Board of Directors has deemed it appropriate not to substitute prof. Paolo Ferro-Luzzi and Mr. Mario Greco, in view of the imminence of the Shareholders' Meeting, and to defer every decision in this regard to today's Shareholders' Meeting.

You are hereby informed that the voting based on slates does not apply for the purposes of adopting the prescribed Shareholders' Meeting resolutions, since a full renewal of the Board of Directors is not involved. Accordingly, the Shareholders' Meeting resolves based on the majorities required by law, in order to appoint Directors who have not been appointed, for any reason, pursuant to the voting procedure based on slates, as envisaged under Article 10 of the Company Bylaws.
The Directors thus appointed will fall from office together with the Directors currently in office[1], and therefore, at the date of the Shareholders' Meeting called to approve

[1] It is important to note that the Board of Directors of Pirelli & C. S.p.A. is comprised of eighteen Directors at the date of this report, of which ten Directors satisfy the independence requirements, in accordance with Legislative Decree No. 58/1998 and in accordance with the Self-Regulatory Code applicable to listed companies.

the financial statements closed at December 31, 2013.
Lastly, it is important to remember that each member of the Board of Directors is eligible to receive a gross annual fee for the office held equal to euro 50 thousand, in addition to any further fees established by the Board of Directors in the case of their participation in Board Committees.

PROPOSAL BY THE BOARD OF DIRECTORS

On the basis of the foregoing, the Board of Directors proposes that you confirm Mr. Carlo Salvatori as a Company Director and invites you to appoint two Directors to substitute prof. Paolo Ferro-Luzzi and Mr. Mario Greco, or to reduce the number of members of the Board of Directors from twenty to eighteen.

The curriculum vitae of the Director Mr. Carlo Salvatori is available on the Company's website at the following address: www.pirelli.com.

* * *

The Shareholders may also submit any additional proposals as candidates to the Board of Directors during the Shareholders' Meeting; in this case, in addition to the provisions of law and the statutory provisions, they are also invited to take into account the recommendations set out in the Self-Regulatory Code of Borsa Italiana, which the Company has adopted.

REMUNERATION POLICY: CONSULTATION

Dear Shareholders,
Pursuant to the combined provisions of Article 123-*ter*, subsections 6 and 3 of the Consolidated Finance Law (“TUF”), we have called you to submit the first section of the Remuneration Report for advisory vote by you. This Report illustrates the Pirelli policy governing remuneration of the members of the Board of Directors, the General Managers, Managers with strategic responsibilities, Senior Managers and Executives of Pirelli.
The Policy that is being submitted for your vote this year has been prepared on the basis of last year's Policy and the related application experience and also reflects the regulatory provisions adopted by Consob in Resolution no. 18049 of December 23, 2011 and the adoption of the Long Term Cash Incentive Plan for the three-year period 2012-2014 duly approved by the Shareholders' Meeting last year, since it envisages, inter alia, that part of the incentive shall be determined on the basis of a Total Shareholder Return target calculated as Pirelli's performance compared to the FTSE/MIB Index Total Return - calculated periodically by FTSE and available on the database of Borsa Italiana - as well as in relation to an index composed of selected peers of the Tyre sector.
Compared to last year we confirm that the indemnity has been reviewed in the event of resignation or termination of the employment relationship in the case of Directors holding special offices, who are conferred with specific powers and are not bound by management employment relationships, in line with best practices and also adopting the requests made by a number of long investors and proxy Advisors. In particular, the Remuneration Policy referred to the 2012 financial year established (paragraph 11) that for the foregoing persons, Pirelli does not envisage the payment of special indemnities or fees in kind associated with the end of term in office. The payment of a specific indemnity - equal to three annuities - could have been made in the following cases, always subject to assessment by the competent corporate bodies: (i) termination by the Company not supported by just cause; (ii) termination by the Director with cause: for example, in the case of substantial changes in his role or assigned duties, and/or in the event of a hostile tender offer.
The Board of Directors has redefined to two annuities the

possible specific indemnity paid in the above mentioned cases, based on the proposal by the Remuneration Committee.

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

- the first section illustrates:
  - the Pirelli Remuneration Policy for Directors, General Managers and Managers with Strategic Responsibilities and, more generally, the Pirelli Remuneration Policy for all of Management;
  - the procedures used for adoption and implementation of this Policy;
- the second section, regarding specific members of the Board of Directors and Board of Statutory Auditors, the General Managers and, as a corporate governance disclosure since the conditions imposed by the Consob Regulation do not apply, for Managers with Strategic Responsibility:
  - provides an adequate representation of each item that composes remuneration, including the treatment envisaged in the event of expiration of the position or termination of the employment relationship, highlighting its consistency with the Policy approved during the previous year;
  - accounts for the compensation paid in 2012 financial year for any reason and in any form by the Company and by its subsidiaries or associates, highlighting any components of that compensation related to activities performed in years prior to the reference year, while also highlighting the compensation to be paid in one or more subsequent years in exchange for the activity performed during the reference year, possibly by indicating an estimate of the components that cannot be objectively quantified in the reference year.

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

PURCHASE AND DISPOSAL OF TREASURY SHARES. RESOLUTIONS PERTAINING THERETO AND RESULTING THEREFROM

Dear Shareholders,
We submit to your approval the request for authorisation to purchase and dispose of treasury shares - in accordance with Article 2357 and Article 2357-*ter* of the Italian Civil Code, Article 132 of Legislative Decree 58 of February 24, 1998 and Article 144-*bis* of the Issuers' Regulations adopted by Consob with resolution No. 11971 dated May 14, 1999, as subsequently amended (hereafter, the **"Issuers Regulations"**) - in view of the motivations, in accordance with the procedures and the terms illustrated below.

1. MOTIVATIONS FOR WHICH AUTHORISATION IS REQUESTED

The assumptions underlying the request and the principal objectives which the Board of Directors of Pirelli & C. S.p.A. (hereafter, referred to as **"Pirelli"** or the **"Company"**) intends to pursue with the transactions for which the authorisation is to be granted are as follows:

- to purchase treasury shares as a medium and long-term investment ;
- to intervene directly or through intermediaries, in compliance with the applicable provisions, in order to limit anomalous movements in the listings and to regulate the trend of negotiations and prices, in relation to transitory distortions associated with excess volatility or insufficient liquidity of exchanges;
- to provide a treasury shares portfolio available in the context of possible 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 tool to monetise their investment.

You are hereby informed that with particular reference to the request for authorisation to purchase treasury shares,

this request is not currently directed at transactions to reduce the share capital by cancelling the treasury shares 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 ordinary shares and savings shares (entirely unrestricted), in one or more sessions, in a quantity to be freely established by the Board of Directors up to maximum number of shares (treasury shares) that does not exceed 10% of the share capital, also considering the treasury shares owned both directly and the shares which may be owned by its subsidiaries.

In any event, the purchases will be made - in compliance with the provisions set out under Article 2357, paragraph 1 of the Italian Civil Code - subject to the limits of the distributable net income and the available reserves disclosed in the Company's last regularly approved financial statements.

You are hereby informed that the Company will make the appropriate accounting entries at the time the transactions to purchase, dispose of, exchange and confer treasury shares are executed, in compliance with the legal provisions and the applicable accounting standards. In the event of disposal, exchange, conferral or impairment, further purchase transactions may be executed up to the expiry of the deadline set out in the shareholders' meeting authorisation, without prejudice to the quantity limits established by law, also in relation to the number of treasury shares which, from time to time, can be held by the Company or by its subsidiaries, as well as the terms and conditions established by the Shareholders' Meeting.

3. USEFUL INFORMATION FOR THE PURPOSES OF ASSESSING COMPLIANCE WITH ARTICLE 2357, PARAGRAPH 3 OF THE ITALIAN CIVIL CODE

The Company’s subscribed and paid-in 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 euro 1,345,380,534.66.

Today, the Company owns directly 351,590 ordinary treasury shares, corresponding to 0.07% of the category as well as of the entire share capital and 408,342 savings treasury shares, corresponding to 3.3% of the class capital and corresponding to 0.084% of the entire share capital, whereas no Pirelli & C. shares are held by its subsidiaries.

It is important to note that the following unrestricted and freely distributable reserves:

- Net income reserve carried forward euro 154 million;
- Reserve for concentrations euro 12 million

are entered in the Company's draft financial statements referred to the financial year closed as at December 31, 2012 - duly approved by the Board of Directors in the Meeting held on March 11, 2013 and submitted to the approval of today's Shareholders' Meeting, also called to resolve this proposal for authorisation to purchase and to dispose of treasury shares.

For the sake of completeness it is confirmed that the Legal Reserve amounting to euro 118 million and the IAS Reserve management have been entered.

4. DURATION OF AUTHORISATION

The Board of Directors proposes that the authorisation to purchase treasury shares is granted for a period of 18 months from the date the Shareholders' Meeting will adopt the corresponding resolution. The Board may proceed with the authorised transactions in one or more sessions and at any time.

The foregoing time limit of 18 months does not apply to possible transactions to dispose of treasury shares which may be purchased by virtue of the Shareholders' Meeting authorisation.

5. MINIMUM AND MAXIMUM AMOUNT PAYABLE

The share purchase price will be identified from time to time, having regard to the procedure selected to execute the transaction and in compliance with possible regulatory provisions or permitted market practice, but, in any event, shall not be less than or greater than 15% compared to the weighted average of the official Stock Exchange prices for shares registered by Borsa Italiana S.p.A. in the three sessions prior to each individual transaction.
With regard to the disposal of treasury shares, this transaction may be executed at the price or however, in accordance with the criteria and the conditions determined by the Board of Directors, having regard to the execution procedures adopted, the trend of share prices in the period prior to the transaction and the Company's best interests.

6. PROCEDURES TO EXECUTE THE TRANSACTIONS

In consideration of the different purposes which may be pursued when executing transactions involving treasury shares, the Board of Directors proposes that the authorisation is granted to execute purchases of treasury shares in accordance with any of the procedures permitted by current legislation, to be identified, from time to time, at the discretion of the Board concerned, and therefore, currently:

- by means of a public offer of purchase or exchange;
- with purchases executed on regulated markets, in compliance with the operating procedures established by Borsa Italiana S.p.A. and having the characteristics set out under Article 144-*bis* of the Issuers Regulations;
- by purchasing and selling derivative instruments negotiated on regulated markets which envisage the physical delivery of the underlying shares and at the terms and conditions established by Borsa Italiana S.p.A.;
- by the proportional allocation of sale options to shareholders to be exercised within the duration deadline of the authorisation set out in paragraph 4, above.

As regards the disposal transactions, the Board of Directors proposes that the authorisation permits the adoption of any procedure found to be appropriate to achieve the purposes pursued – including the use of treasury shares to service share incentive plans – to be executed both directly and through intermediaries, in compliance with the applicable national and European Union legislative and regulatory provisions which govern the subject.
The transactions to purchase and dispose of treasury shares for which the authorisation is requested will be executed in compliance with the applicable legislation and, in particular, in compliance with the national and European Union legislative and regulatory provisions, also with reference to market abuse.
Adequate information will be provided concerning the purchase and disposal of treasury shares, in compliance with the applicable information obligations.

7. POSSIBLE CANCELLATION OF TREASURY SHARES PURCHASED

As stated previously, the purchase of treasury shares is not directed at transactions to reduce the share capital by cancelling the treasury shares purchased.

* * *

Accordingly, in consideration of the foregoing, we deem it useful to propose to proceed to issue an authorisation in this regard.

Therefore, we invite you to approve the following

RESOLUTION

"The Ordinary Shareholders' Meeting:

- having acknowledged the Directors' proposal;
- 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 dated February

24,1998 and Article 144-*bis* of the Issuers Regulations adopted by Consob with resolution No. 11971 dated May 14, 1999, as subsequently amended;
- having acknowledged that, today, the Company owns directly 351,590 ordinary treasury shares, corresponding to 0.07% of the category as well as of the entire share capital and 408,342 savings treasury shares, corresponding to 3.3% of the class share capital and corresponding to 0.084% of the entire share capital, while no Pirelli & C. shares are held by its subsidiaries;
- having regard to the financial statements closed as at December 31, 2012;
- having ascertained the opportunity of granting the authorisation to execute transactions to purchase and dispose of treasury shares for the purposes and based on the procedures illustrated above.

RESOLVES

a) to authorise the Board of Directors to purchase both ordinary and savings treasury shares at any rate within the maximum limit envisaged under Article 2357, paragraph 3 of the Italian Civil Code, and more precisely, up to a maximum number of shares that do not exceed 10% of Pirelli's pro-tempore share capital, taking into account the treasury shares already held by the Company and the treasury shares which may be held by its subsidiaries, establishing that:
- the purchase may be made, in one or more sessions, within 18 months from the date of this resolution, using any of the procedures envisaged in the joint provision set out under Article 132 of Legislative Decree No. 58 of February 24, 1998 and Article 144-*bis* of the Issuers Regulations adopted by Consob with resolution No. 11971 dated May 14, 1999, as subsequently amended, taking into account the specific exemption envisaged under Article 132, paragraph 3 of Legislative Decree No. 58 dated February 24, 1998, and however, using any other procedure permitted by the applicable national and European Union legislative and regulatory provisions which govern the subject and in accordance with every other applicable law and regulation, including the national and European Union legislative and regulatory provisions, also with reference to market abuse;
- adequate information shall be provided concerning the transactions to purchase treasury shares, in compliance with the applicable information obligations;
- the purchase price of each share shall not be less than or greater than 15% compared to the weighted average of the official stock exchange prices of shares registered by Borsa Italiana S.p.A. in the three sessions prior to each individual transaction;
- the purchases of treasury shares shall be executed by using the distributable net income and unrestricted reserves disclosed in the last regularly approved financial statements at the date the transaction is executed, by establishing a treasury shares reserve, and however, proceeding to perform the required accounting entries in accordance with the methods and limits prescribed by law.

In any event, the foregoing shall be in accordance with and shall comply with any other applicable provisions of law and the pro-tempore regulatory provisions which govern the subject;

b) to authorise, in full or in part, without time limits, the disposal of the treasury 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 treasury 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 treasury shares to service share incentive plans, and in accordance with every other applicable law and regulation, including national and European Union legislative

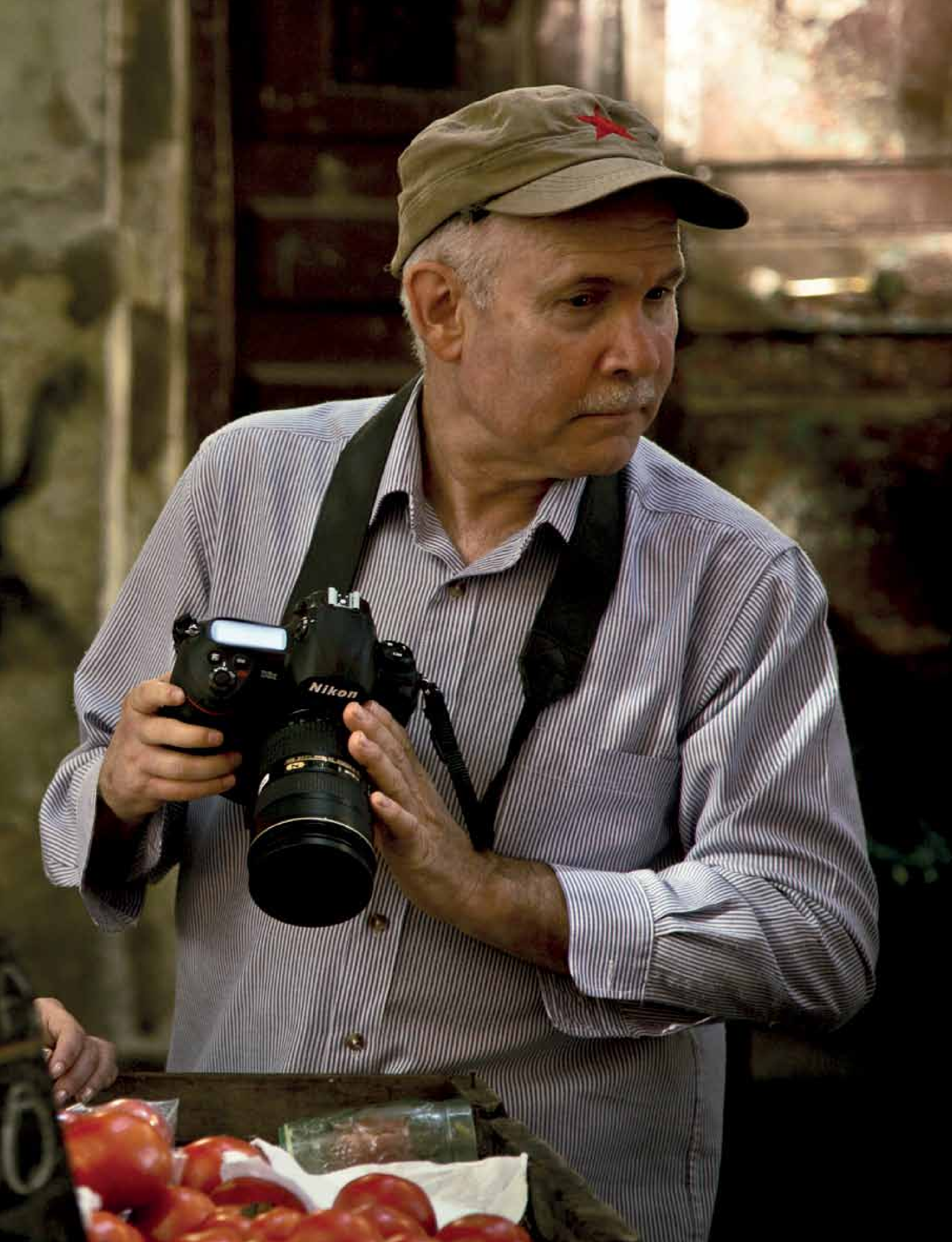
and regulatory provisions, with reference to market abuse;
- adequate information shall be provided with reference to the transactions to dispose of treasury shares, in compliance with the applicable information obligations;
- the treasury shares may be transferred in one or more sessions and at any time, also based on a public offer, an offer to shareholders, on the market or in the framework of possible extraordinary transactions. The shares may also be transferred by being combined with bonds or warrants to exercise the foregoing, and however, in accordance with the procedures permitted by the applicable provision of law or regulatory provision, at the Board of Directors' discretion;
- the disposals of treasury shares may be executed at the price, or however, in accordance with the conditions and the criteria determined by the Board of Directors, having regard to the execution procedures adopted, to the trend of 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 applicable provisions of law and the regulatory provisions, at the Board of Directors' discretion;

c) to execute every accounting entry necessary or appropriate, in relation to the transactions concerning treasury shares, in accordance with Article 2357-*ter*, paragraph 3 of the Italian Civil Code, in compliance with the current provisions of law and the applicable accounting standards;

d) to confer on the Board of Directors – and on the Chairman and Managing Director on behalf of the Board – the fullest powers necessary to execute the transactions to purchase and dispose of the treasury 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 11, 2013

CONSOLIDATED FINANCIAL STATEMENTS


Nikon

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET (in thousands of euro)

		12/31/2012		12/31/2011 (*)	
			of which related parties		of which related parties
9	Property, plant and equipment	2,623,444	-	2,400,727	-
10	Intangible assets	1,022,484	-	908,514	-
11	Investments in associates	113,171	-	140,114	-
12	Other financial assets	118,125	-	127,037	-
13	Deferred tax assets	207,110	-	198,748	-
15	Other receivables	370,210	173,968	347,870	161,013
16	Tax receivables	9,297	-	10,156	-
	Non-current assets	**4,463,841**	**-**	**4,133,166**	**-**
17	Inventories	1,102,560	-	1,036,675	-
14	Trade receivables	704,558	6,377	745,238	7,915
15	Other receivables	341,404	40,536	281,737	28,484
18	Securities held for trading	224,717	-	160,503	-
19	Cash and cash equivalents	679,794	-	556,983	-
16	Tax receivables	28,246	-	29,484	-
27	Derivative financial instruments	47,703	-	70,346	-
	Current assets	**3,128,982**	**-**	**2,880,966**	-
	Total Assets	**7,592,823**	**-**	**7,014,132**	**-**
20.1	Equity attibutable to owners of the Parent:	2,337,403	-	2,146,099	-
	Share capital	1,343,285	-	1,343,285	-
	Reserves	600,333	-	351,206	-
	Net income (loss)	393,785	-	451,608	-
20.2	Equity attributable to non-controlling interests:	52,026	-	45,479	-
	Reserves	47,575	-	56,436	-
	Net income (loss)	4,451	-	(10,957)	-
20	**Equity**	**2,389,429**	**-**	**2,191,578**	**-**
23	Borrowing from bank and other financial institutions	1,995,775	2,565	1,402,497	-
25	Other payables	70,643	-	53,980	-
21	Provisions for liabilities and charges	142,230	-	156,898	-
13	Provisions for deferred tax liabilities	56,056	-	35,198	-
22	Employee benefit obligations	522,957	-	481,736	-
26	Tax payable	4,172	-	4,817	-
	Non-current liabilities	**2,791,833**	**-**	**2,135,126**	**-**
23	Borrowing from bank and other financial institutions	440,526	877	369,451	286
24	Trade payable	1,268,683	5,305	1,382,772	6,432
25	Other payables	417,556	105	631,237	42,521
21	Provisions for liabilities and charges	110,839	-	124,671	-
26	Tax payables	77,609	-	75,385	-
27	Derivative financial instruments	96,348	-	103,912	-
	Current liabilities	**2,411,561**	**-**	**2,687,428**	**-**
	Total liabilities and equity	**7,592,823**	**-**	**7,014,132**	**-**

* The consolidated balance sheet has been restated to include retrospectivly the effects of the final purchase price allocation connected to the business combination "acquisition Russia".

For 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)

		2012		2011	
			of which related parties		of which related parties
29	Revenues from sales and services	6,071,535	3,813	5,654,793	10,873
30	Other income	241,630	849	140,354	3,200
	of which non-recurring events	29,646	-	-	-
	Change in inventories of work in progress, semi-finished and finished products	73,119	-	160,011	-
	Raw materials and consumables (net of change in inventories)	(2,330,139)	-	(2,448,937)	-
31	Personal expenses	(1,205,608)	(9,365)	(1,123,507)	(13,274)
	of which non-recurring events	(28,827)	-	(16,054)	-
32	Amortisation,depreciation and impairment	(282,246)	-	(230,917)	-
	of which non-recurring events	(10,261)	-	(4,860)	-
33	Other costs	(1,791,671)	(40,331)	(1,574,011)	(32,892)
	of which non-recurring events	-	-	(6,861)	-
	Additions to property ,plant and equipment for internal work	4,171	-	4,080	-
	Operating income	**780,791**	**-**	**581,866**	
34	Net income (loss) from equity investments	(52,247)	-	(17,318)	
	share of net income (loss) of associates	(21,293)	(21,293)	2,903	2,903
	gains on equity investments	513	-	3,847	-
	losses on equity investments	(33,359)	-	(28,298)	-
	dividends	1,892	-	4,230	-
35	Financial income	43,012	14,732	56,673	7,623
36	Financial expenses	(172,483)	-	(146,113)	(436)
	Net income (loss) before income tax	**599,073**	**-**	**475,108**	**-**
37	Income tax	(200,837)	-	(34,457)	-
	of which non-recurring events	-	-	128,092	-
	Net income (loss)	**398,236**	**-**	**440,651**	**-**
	Attributable to:				
	Owners of the parent	393,785	-	451,608	-
	Non-controlling interests	4,451	-	(10,957)	-
38	**Earnings (losses) per share** (euro per shares)	**0.808**	**-**	**0.926**	**-**

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)

		12/31/2012		
		Gross	Tax effect	Net
A	**Net income (loss)**	**-**	**-**	**398,236**
	Other components recognised in Equity			
	(Gains) losses on other financial assets transferred to income statement, previously recognised in Equity	20,846	-	20,846
	(Gains) losses on cash flow hedges transferred to income statement, previously recognised in Equity	28,856	(975)	27,881
B	**(Gains) losses transferred to income statement previously recognised directly in Equity**	**49,702**	**(975)**	**48,727**
	Exchange differences from translation of foreign financial statements	(66,934)	-	(66,934)
	Fair value adjustment of other financial assets	2,912	-	2,912
	Net actuarial gains (losses) on employee benefits	(62,000)	6,937	(55,063)
	Fair value adjustment of derivatives designated as cash flow hedges	(16,822)	150	(16,672)
	Share of other components recognised in Equity related to associates and joint ventures	(1,701)	-	(1,701)
C	**Income (loss) recognised directly in Equity**	**(144,545)**	**7,087**	**(137,458)**
B+C	**Total other components recognised in Equity**	**(94,843)**	**6,112**	**(88,731)**
A+B+C	**Total comprehensive income (loss)**	**-**	**-**	**309,505**
	Attributable to:			
	Owners of the Parent	-	-	305,951
	Non-controlling interests	-	-	3,554

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in thousands of euro)

		12/31/2011		
		Gross	Tax effect	Net
A	**Net income (loss)**	**-**	**-**	**440,651**
	Other components recognised in Equity			
	(Gains) losses on other financial assets transferred to income statement, previously recognised in Equity	9,738	-	9,738
	(Gains) losses on cash flow hedges transferred to income statement, previously recognised in Equity	3,820	(884)	2,936
B	**(Gains) losses transferred to income statement previously recognised directly in Equity**	**13,558**	**(884)**	**12,674**
	Exchange differences from translation of foreign financial statements	(61,617)	-	(61,617)
	Fair value adjustment of other financial assets	(45,085)	-	(45,085)
	Net actuarial gains (losses) on employee benefits	(80,647)	6,917	(73,730)
	Fair value adjustment of derivatives designated as cash flow hedges	(31,465)	3,199	(28,266)
	Share of other components recognised in Equity related to associates and joint ventures	(150)	-	(150)
C	**Income (loss) recognised directly in Equity**	**(218,964)**	**10,116**	**(208,848)**
B+C	**Total other components recognised in Equity**	**(205,406)**	**9,232**	**(196,174)**
A+B+C	**Total comprehensive income (loss)**	**-**	**-**	**244,477**
	Attributable to:			
	Owners of the Parent	-	-	254,074
	Non-controlling interests			(9,597)

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

	Attributable to owners of the Parent					Non controlling interests	Totale
	Share Capital	Translation reserve	Total IAS Reserves *	Other reserves/ retained earnings	Total attributable to owners of the Parent		
Total at 12/31/2010	**1,375,733**	**127,427**	**(378,909)**	**866,580**	**1,990,831**	**37,152**	**2,027,983**
Total other components recognised in Equity	-	(62,981)	(134,552)	-	(197,533)	1,359	(196,174)
Net income (loss)	-	-	-	451,608	451,608	(10,957)	440,651
Total gains (losses)	**-**	**(62,981)**	**(134,552)**	**451,608**	**254,075**	**(9,598)**	**244,477**
Capital increases (decreases)	(32,448)	-	-	32,448	-	9,880	9,880
Purchase of non-controlling interests in Pirelli Tyre Co Ltd- China	-	-	-	(10,228)	(10,228)	(17,796)	(28,024)
Transfer of non-controlling interests in environment products and services BU	-	-	-	(32,749)	(32,749)	25,766	(6,983)
Dividend paid	-	-	-	(81,151)	(81,151)	(2,393)	(83,544)
Venezuela inflation effect	-	-	-	21,711	21,711	853	22,564
Other	-	-	(33)	3,643	3,610	1,615	5,225
Total at 12/31/2011	**1,343,285**	**64,446**	**(513,494)**	**1,251,862**	**2,146,099**	**45,479**	**2,191,578**
Totale other components recognised in Equity	-	(66,052)	(21,782)	-	(87,834)	(882)	(88,716)
Net income (loss)	-	-	-	393,785	393,785	4,451	398,236
Total gains (losses)	**-**	**(66,052)**	**(21,782)**	**393,785**	**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)**	**(538,122)**	**1,533,846**	**2,337,403**	**52,026**	**2,389,429**

(in thousands of euro)

	Breakdown of IAS reserves *				
	Reserve for fair value adjustment of avaible-for-sale financial assets	Reserve for cash flow hedge	Reserve for actuarial gains/losses	Reserve for deferred taxes	Total IAS reserve
Balance at 12/31/2010	**16,131**	**(27,509)**	**(405,889)**	**38,358**	**(378,909)**
Total other components recognised in Equity	(35,347)	(27,795)	(80,640)	9,230	(134,552)
Other changes	-	-	(33)	-	(33)
Balance at 12/31/2011	**(19,216)**	**(55,304)**	**(486,562)**	**47,588**	**(513,494)**
Total other components recognised in Equity	23,758	10,333	(61,979)	6,106	(21,782)
Other changes	(2,541)	-	(305)	-	(2,846)
Balance at 12/31/2012	**2,001**	**(44,971)**	**(548,846)**	**53,694**	**(538,122)**

CONSOLIDATED STATEMENT OF CASH FLOW (in thousands of euro)

		2012		2011	
			of which related parties		of which related parties
	Net income (loss) from continuing operations before taxes	599.073	-	475.108	-
	Amortisation, depreciation, impairment losses and reversals of impaired property, plant and equipment and intangible assets	282.246	-	230.917	-
	Reversal of financial expenses	172.483	-	146.113	-
	Reversal of financial income	(43.012)	-	(56.673)	-
	Reversal of dividends	(1.892)	-	(4.230)	-
	Reversal of gains/(losses) on equity investments	32.846	-	24.451	-
	Reversal of share of net income from associates and joint ventures	21.293	-	(2.903)	-
	Income taxes	(200.837)	-	(162.549)	-
	Change in inventories	(73.967)	-	(350.834)	-
	Change in trade receivables	29.885	-	(82.995)	-
	Change in trade payables	(97.887)	-	326.824	-
	Change in other receivables/payables	(168.319)	-	125.945	-
	Change in provisions for employee benefits and other provisions	(14.440)	-	(85.798)	-
	Other changes	(23.541)	-	4.597	-
A	**Net cash flows provided by (used in) operating activities**	**513.931**	**-**	**587.973**	**-**
	Purchase of property, plant and equipment	(455.548)	-	(617.786)	-
	Disposal of property, plant and equipment	19.917	-	6.035	-
	Purchase of intangible assets	(15.414)	-	(8.424)	-
	Disposal of intangible assets	149	-	102	-
	Acquisitions of equity investments in subsidiaries - Russia net of cash acquired	(168.887)	-	(55.000)	-
	Acquisitions of equity investments in subsidiaries - Brazil (Campneus)	(22.844)	-	-	-
	Acquisitions of equity investments in subsidiaries - Sweden (Dackia) net of cash acquired	(70.195)	-	-	-
	Acquisitions of equity investments in subsidiaries	-	-	(35.007)	(6.983)
	Disposals (Acquisition) of equity investments in associates and joint ventures	-	-	(3.983)	-
	Disposals (Acquisition) of avaible-for-sale financial assets	3.584	(818)	7.444	(638)
	Dividends received	1.892	-	4.230	-
B	**Net cash flows provided by (used in) investing activities**	**(707.346)**	**-**	**(702.389)**	**-**
	Increase (reduction) in Equity	5.487	-	9.880	-
	Change in financial payables	705.293	-	631.051	(1.100)
	Change in financial receivables	(107.196)	-	(37.327)	-
	Financial income (expenses)	(129.471)	-	(89.440)	-
	Dividends paid	(135.286)	-	(83.544)	-
C	**Net cash flows provided by (used in) financing activities**	**338.827**	**-**	**430.620**	**-**
D	**Total cash flows provided (used) during the period (A+B+C)**	**145.412**	**-**	**316.204**	**-**
E	**Cash and cash equivalents at beginning of year**	**542.443**	**-**	**226.770**	**-**
F	**Exchange differences on translation of cash and cash equivalents**	**(8.705)**	**-**	**(531)**	**-**
G	**Cash and cash equivalents at end of the period (D+E+F) (°)**	**679.150**	**-**	**542.443**	**-**
(°)	of which:		-		-
	cash and cash equivalents	679.794	-	556.983	-
	bank overdrafts	(14.790)	-	(14.540)	-

The Statement of Cash Flows discloses the cash flows with related parties only if they cannot be directly derived from the other statements. Please refer to note 41 of the Explanatory Notes for more detailed information.

The reconciliation between the cash and cash equivalents as shown on the balance sheet and as shown in the statement of cash flows is provided in note 19.

EXPLANATORY NOTES

1. GENERAL INFORMATION

Pirelli & C. S.p.A. is a corporation organised under the laws of the Republic of Italy.
Established 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 mainly operates in the tyre sector. The other activities are represented by emissions control technologies, renewable energy sources and fashion.

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 11, 2013 the consolidated financial statements have been authorised for issue by the Board of Directors.

2. BASIS OF PRESENTATION

Financial statements formats

The Company has applied the provisions of Consob Resolution no. 15519 of July 27, 2006 in regard to the presentation of the financial statements and Consob Notice no. 6064293 of July 28, 2006 in regard to corporate disclosure.
The consolidated financial statements at December 31, 2012 consist of the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Explanatory Notes, and are accompanied by the Directors' Report on Operations.
The Balance Sheet classifies assets and liabilities as current and non-current.
The Group has opted to present the components of profit or loss for the year in a schedule in a separate Income Statement, rather than include these components directly in the Statement of Comprehensive Income. The Income Statement classifies costs by nature.
The Statement of Comprehensive Income includes the result for the period and, for homogeneous categories, the revenues and costs which, in accordance with IFRSs, are recognised directly in equity.
The Group chose to present both the tax effects and reclassifications to the Income Statement of gains/losses recognised directly in equity in previous periods directly in the Statement of Comprehensive Income and not in the Explanatory Notes.
The Statement of Changes in Equity includes the amounts of transactions with the equity holders and the changes that occurred during the period in retained earnings.
In the Statement of Cash Flows, the cash flows deriving from operating activities are presented using the indirect method, according to which the net income 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 operating policies through agreements with other shareholders, even if it owns less than or up to one-half of the voting rights.
The financial statements of subsidiaries are included in the consolidated financial statements beginning on the date when control is acquired until the time when control ceases. Equity and net income (loss) attributable to non-controlling interests are separately indicated on the consolidated Balance Sheet and Income Statement.
All companies over which the Group can exercise significant influence (as defined by IAS 28 – Investments in Associates) are considered associates. This influence is normally assumed to exist if the Group holds between 20% and 50% of the voting power of the investee or – even with a smaller proportion of voting rights – it has the power to participate in determining the financial and operating policies of the investee on the basis of particular legal relationships. Such relationships may take the form of shareholders' agreements together with other forms of significant exercise of governance rights.
Companies in which two or more parties operate a business under joint control on the basis of a contractual or statutory agreement are considered joint ventures.
The principal changes in the scope of consolidation during 2012 refer to the acquisitions of CJSC Voronezh Tyre Plant (Russia), Campneus Lider de Pneumaticos Ltda (Brazil) and Däckia Holding AB (Sweden); see the note on "Business combinations" below.

Consolidation Policies

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

The consolidation policies may be summarised as follows:

- subsidiaries are consolidated on a line-by-line basis, according to which:
    - the assets, liabilities, revenue, and costs 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 on the Balance Sheet and Income Statement;
    - upon disposal of the subsidiary with consequent loss of control, the gain or loss from that disposal reflects 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 correspond-

ing part of acquired equity is recognised in equity. Likewise, the effects of disposing an 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 to take into account the followings:
  - the investor's share of the post-acquisition results of the associate or joint venture;
  - the share of profits and losses recognised directly in the equity of the associate or joint venture, in accordance with the reference accounting standards;
  - dividends paid by the associate or joint venture;
  - when the Group's share of losses in the associate/ joint venture exceeds the carrying amount of the investment in the financial statements, the carrying amount of the investment is eliminated and the share of any further losses is recognised in the "Provisions for liabilities and charges," to the extent that the Group has a contractual or implicit obligation to cover the losses;
  - the profits resulting from sales made by subsidiaries to joint ventures or associates are eliminated in proportion to the percentage of equity interest owned 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 (IRFSs) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union at December 31, 2012, as well as the measures issued in implementation of Article 9 of Legislative Decree 38/2005. The term IFRSs also refers to all revised International Accounting Standards (IAS) and all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly known as the Standing Interpretations Committee (SIC).
The consolidated financial statements have been prepared in accordance with the historic cost method, with the exception of:

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

Business combinations

Business combinations 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 previously held must be recognised at fair value through profit or loss.
Costs related to 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 having finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.
Amortisation is charged 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 intangible assets are determined as the difference between the net sale proceeds and the carrying amount of the asset.
In addition to goodwill, the Group has not identified other intangible assets with an indefinite useful life.

Goodwill
Since this is an intangible asset with an indefinite useful life, goodwill is not amortised.
Goodwill is tested for impairment in order to identify any impairment losses at least annually or whenever there are indications of an impairment loss, and is allocated to cash generating units for this purpose.

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

Software
Software license costs, including direct additional 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 relationship
Customer relationships are intangible assets acquired in a business combination and are recognised on the balance sheet at their fair value as at the purchase date. They are amortized over 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 additional expenses.
Subsequent expenditure and the cost of replacing certain parts of property, plant and equipment are capitalised only if they increase the future economic benefits inherent in the affected asset. All other costs are expensed as incurred. When the cost of replacing certain parts is capitalised, the carrying amount of the replaced part is recognised in the Income Statement.
Property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses, except for land, which is not depreciated and is recognised at cost less accumulated impairment losses.
Depreciation is recognised starting from the month in which the asset is available for use, or is potentially capable of providing the economic benefits associated with it.
Depreciation is charged monthly on a straight-line basis at rates that allow depreciating the assets until the end of their useful life or, in the case of disposal, until the last month of use.

The applied depreciation rates are illustrated as follows:

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

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

Borrowing costs directly attributable to the purchase, construction or production of a qualifying asset are capitalised as part of the cost of the asset. A qualifying asset is one that requires substantial time in order to be prepared for use. The capitalisation of borrowing costs ceases when substantially all the activities necessary to render the qualifying asset available for use have been completed.
Leasehold improvements are classified as property, plant and equipment, consistently with the nature of the cost incurred. The depreciation period corresponds to the remaining useful life of the asset or the residual period of the lease agreement, whichever is shorter.
Spare parts of significant value are capitalised and depreciated over the estimated useful life of the assets to which they refer.
Any dismantling costs are estimated and added to the cost of property, plant and equipment with a corresponding accrual to provisions for liabilities and charges if the prerequisites for establishing such provisions are satisfied. They are then depreciated over the remaining useful life of the assets to which they refer.
Assets acquired under finance lease agreements, in which substantially all the risks and rewards of ownership are transferred to the Group, are recognised as property, plant and equipment at their fair value or, if lower, at the present value of the minimum lease payments, with a corresponding entry for the relevant financial payable. The lease instalment payments are allocated between interest expense, which is recognised in the Income Statement, and principal repayment, which is recorded as a reduction of the financial payable.

Leases in which the lessor maintains substantially all the risks and rewards associated with ownership are classified as operating leases. The costs referring to an operating lease are recognised as an expense in the Income Statement over the lease term on a straight-line basis.
Property, plant and equipment are derecognised at the time of disposal or retirement from use and, consequently, when no future economic benefits are expected to derive from their sale or use.
Gains and losses resulting from the sale or disposal of property, plant and equipment are determined as the difference between the 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 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, net of income taxes and applying a discount rate, which should be the after-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 in order 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 of the fair value, less selling costs, 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 equal to its market value, irrespective of the percentage of ownership.

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

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

If there is evidence that an impairment loss recognised in previous years may no longer exist or can be reduced, the recoverable amount of the investment is estimated again,

and if it is higher than the amount of the investment, then the latter amount should be increased up to the recoverable amount. The reversal of an impairment loss may not exceed the amount of the investment that would have been recognised (net of impairment) had no impairment loss been recognised in previous years.
The reversal of an impairment loss on investments in associates and joint ventures is recognised in the Income Statement.

Available-for-sale financial assets

The category of available-for-sale financial assets includes investments in entities other than subsidiaries, associates and joint ventures and other financial instruments not held for trading. They are recognised as “Other financial assets” in the Balance Sheet.
They are measured at fair value, if this can be reliably determined.
Gains and losses deriving from changes in fair value are recognised in a specific equity reserve.
When a reduction in fair value has been recognised directly in equity and there is objective evidence that the asset was impaired, the losses recognised up to that time in equity are recognised in the Income Statement. A prolonged (meaning more than 12 months) or significant (meaning more than 50% for instruments issued by entities operating in the bank sector and more than one-third for instruments issued by entities in other sectors) reduction in the fair value of equities compared with their cost is considered an indicator of impairment. Beginning with 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 that sector. This threshold revision was determined on the basis of the updated historical analysis carried out in 2008 and only reflects the adjustments in new context conditions. The exacerbation of volatility on 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 defining impairment losses in regard to the securities belonging to this sector. Instead, there has been no change in the definition of the threshold duration of impairment losses (12 months). The impact of this change is illustrated below at note 12 ("Other financial assets").
In the event of disposal, the gains and losses recognised up to that time in equity are recognised in the Income Statement.
Any impairment losses of an available-for-sale financial asset recognised in the Income Statement may be reversed through the Income Statement, with the exception of those recognised for equity instruments classified as available for sale, which may not be reversed through the Income Statement.
Available-for-sale financial assets, whether debt or equity instruments for which fair value is not available, are accounted for at cost, reduced by any impairment losses based on the best market information available at the reporting date.
Purchases and sales of available-for-sale financial assets are accounted for at the settlement date.

Inventories

Inventories are measured at the lower of cost, determined according to the FIFO method, and their estimated realisable value.
The measurement of inventories includes direct costs of materials and labour and indirect costs. Provisions are calculated for obsolete and slow-moving inventories, taking into account their expected future use and estimated realisable value. The realisable value is the estimated selling price, net of all costs estimated to complete the asset and selling and distribution costs that will be incurred.
Cost includes incremental expenses and borrowing costs qualifying for capitalisation, similarly to what has been described for property, plant and equipment.

Construction contracts

A construction contract is a contract specifically negotiated for the construction of an asset, based on the instructions of a principal who, as a preliminary step, designs the plans and the technical characteristics.
Contract revenues include the consideration initially agreed with the customer, as well as changes in the construction work and price variations envisaged by the contract that can be determined reliably.

When the outcome of a contract can be estimated reliably, the contract revenues and costs are measured using the percentage of completion method. The stage of completion is determined with reference to the costs incurred up to the reporting date as a percentage of the total estimated costs for each contract.
Costs incurred in connection with future activities on the contract are excluded from contract costs when determining the stage of completion and are recognised as inventories.
When total contract costs are expected to exceed total contract revenues, the expected loss is immediately recognised as an expense.
The gross amount due from customers for contract work for all the contracts in progress and for which the costs incurred plus recognised profit (or net of recognised losses) exceed progress billings is recognised as a receivable, under the item "trade receivables."
The gross amount due to customers for contract work for all the contracts in progress and for which the progress billings exceed the costs incurred plus recognised profit (or net of recognised losses) is recognised as a payable, under the item "trade payables."

Receivables

Receivables are initially recognised at their fair value, which normally corresponds to the consideration agreed or to the present value of the amount that will be collected. They are subsequently measured at amortised cost, less impairment losses.
Amortised cost is calculated by using the effective interest rate method, which is equivalent to the discount rate that, when applied to future cash flows, renders the present value of such flows equal to the initial fair value.

Impairment losses on receivables are calculated according to counterparty default risk, which is determined by considering available information on the solvency of the counterparty and 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 by crediting the Income Statement up to the amortised cost that would have been recognised had no impairment loss been recognised.
Receivables in currencies other than the functional currency of the individual companies are adjusted to the year-end exchange rates, with a balancing entry in the Income Statement.
Receivables are derecognised when the right to receive cash flows is extinguished, when substantially all the risks and rewards connected with holding the receivable have been transferred, or when the receivable is considered definitely irrecoverable after all necessary credit recovery procedures have been completed. When the receivable is

derecognised, the 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 that are purchased mainly for resale in the short term and classified under current assets as “securities held for trading,” financial assets that are initially recognised at fair value through profit or loss, classified as “other financial assets,” and derivatives (except those designated as effective hedging instruments), classified as “derivative financial instruments.”
They are measured at fair value with a balancing entry in the Income Statement. Transaction costs are expensed to the Income Statement.
Purchases and sales of these financial assets are accounted for at the settlement date.

Cash and cash equivalents

Cash and cash equivalents include bank deposits, postal deposits, cash and cash equivalents on hand, and the 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 other liabilities and charges

Provisions for other liabilities and charges include accruals for current obligations (legal or constructive) deriving from a past event, for the fulfilment of which an outflow of resources will probably be necessary and whose amount can be reliably estimated.
Changes in estimates are recognised in the Income Statement of the period when the change occurs.
If the effect of discounting is material, provisions are presented at their present value.

Employee benefit obligations

Employee benefits paid after termination of the employment relationship under defined benefit plans and other long-term benefits are subject to actuarial measurements. The liability recognised in the financial statements is the present value of the Group’s obligation, net of the fair value of any plan assets.
With regard to defined benefit plans, the Pirelli Group has elected the option allowed by IAS 19, under which actuarial gains and losses are fully recognised in equity in the financial year when they arise.
For other long-term benefits, actuarial gains and losses are recognised immediately in the Income Statement.
The provision for employees' leaving indemnities (TFR) of Italian companies with at least 50 employees is a 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 interest expense and expected return on plan assets are recognised under personnel costs.
The costs relating to defined contribution plans are rec-

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

These derivative instruments are recognised at fair value.
The following accounting treatment is applied according to the type of hedge:

- ***Fair value hedge*** – if a derivative financial instrument is designated as a hedge against exposure to changes in the fair value of an asset or liability attributable to a specific risk, the gain or loss resulting from subsequent changes in fair value of the hedging instrument is recognised in the Income Statement. For the portion attributable to the hedged risk, the gain or loss on the hedged item modifies the carrying value of that item (basis adjustment), and it is also recognised in the Income Statement;
- ***Cash flow hedge*** – if a derivative instrument is designated as a hedge against exposure to the variable cash flow of an asset or liability carried on the balance sheet or of 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 remain in equity until the hedged item produces an effect on the Income Statement. Subsequently they are reclassified to 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 impact the Income Statement, the fair value adjustments accumulated in equity are immediately recognised in the Income Statement.

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

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

Determination of the fair value of financial instruments

The fair value of financial instruments traded on an active market is based on listed market prices at the reporting date. The listed market price used for financial assets is the bid price, while for financial liabilities it is the ask price. The fair value of instruments that are not traded on an active market is determined by using measurement techniques with a variety of methods and assumptions that are based on market conditions at the balance sheet date.
The fair value of interest rate swaps is calculated as the present value of expected future cash flows.
The fair value of forward exchange contracts is determined by using the forward rate at the reporting date.

Income taxes

Current taxes are determined on the basis of a realistic forecast of the taxes payable under the current tax law of the country.
Deferred taxes are calculated according to the temporary differences existing between the asset and the liability amounts in the balance sheet and their tax basis (full liability method), and are classified under non-current assets and liabilities.
Deferred tax assets on tax loss carried-forwards, as well as on temporary differences, are only recognised when there is a likelihood of future recovery.

Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and when there is a legally enforceable right to offset. Deferred tax assets and liabilities are determined according to enacted tax rates that are expected to be applicable to taxable income in the years when those temporary differences are expected to be recovered or settled, with reference to the jurisdictions where the Group operates.
The deferred tax liabilities related to equity investments in subsidiaries, associates and joint ventures are not recognised if the participating entity can control the turnover of temporary differences and they are unlikely to arise in the foreseeable future.
Deferred taxes are not discounted.
Deferred tax assets and liabilities are credited or debited to equity if they refer to items that have been credited or debited directly in equity during the period or during previous periods.

Equity

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

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

Recognition of revenue

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

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

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

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

Provision of services
Revenue from the provision of services is recognised only when the results of the transaction can be measured reliably, by reference to the state of completion of the transaction at the balance sheet date.
The results of a transaction can be measured reliably only when all the following conditions are met:

- the amount of revenue can be determined reliably;
- it is likely that the company will enjoy the economic benefits of the transaction;
- the stage of completion of the transaction at the report-

ing date can be reliably measured;
- the costs incurred for the transaction and the costs to be incurred to complete it can be determined reliably.

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

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

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

Earnings (losses) per share

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

Operating segments

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

Accounting policies for hyperinflationary countries

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

Companies operating in countries where the cumulative inflation rate over a three-year period approximates or exceeds 100% adopt inflation accounting and discontinue it in the event that the cumulative inflation rate over a three-year period falls below 100%.
Gains or losses on the net monetary position are recognised in the Income Statement.

Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying value is recovered mainly through sale rather than through continuous use. This occurs if the non-current asset or disposal group are available for sale under current conditions and the sale is highly probable, 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 Balance Sheet, the non-current assets held for sale and the current and non-current assets/liabilities of the disposal group are presented as a separate item from other assets and liabilities, and their totals are reflected in current assets and liabilities, respectively.
Non-current assets classified as held for sale and disposal groups are measured at the lesser of their respective carrying value and fair value net of the costs of sale.
The property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Discontinued operations

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

On the consolidated Income Statement for the period, the net result of the discontinued operations, as well as the gain or loss resulting from fair value measurement net of the costs of sale or from disposal of the assets or disposal groups constituting the discontinued operation, are combined in a single item at the end of the Income Statement separately from the result from 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, 2012

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

3.3 INTERNATIONAL ACCOUNTING STANDARDS AND/OR INTERPRETATIONS THAT HAVE BEEN ISSUED BUT NOT YET IN FORCE AND/OR ENDORSED

Pursuant to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, the new standards and/or interpretations that have been issued but are not yet in force or not yet endorsed by the European Union, and which are therefore not applicable, are mentioned and described briefly as follows.
None of these standards and interpretations has been early adopted by the Group.

- **Amendments to IAS 1 – Presentation of Financial Statements – Presentation of items of other comprehensive income**
  The principal amendments to IAS 1 concern the new way to present items of other comprehensive Income: the items presented in the Statement of Other Comprehensive Income will have to be grouped between those that may be recycled in future to the income statement and those for which this possibility is not envisaged.
  The following are examples of reclassification to the Income Statement: translation exchange differences, fair value adjustment of cash flow hedge derivatives, fair value adjustment of available-for-sale equity investments. The actuarial gains/losses for defined benefit pension plans are an example of items not subject to reclassification to the Income Statement.
  These amendments were endorsed by the European Union in June 2012 (EC Regulation 475/2012) and are applicable from January 1, 2013. Future application of these amendments will affect the format of the Statement of other Comprehensive Income of the current as well as of the comparative period.

- **IAS 19 – Employee Benefits**
  The amendment of IAS 19 is focused on the procedures used to account for defined benefit plans, other long-term benefit plans and termination benefits. The principal changes from the current standard concern:
  - defined benefit plants: actuarial gains/losses (renamed “remeasurements”) must be immediately and fully recognised in the Statement of other 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 cost,” 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 li-

ability net of the plan assets);
- request for additional disclosure to be included in the Explanatory Notes to the financial statements for an improved illustration of the risks stemming from defined benefit plans;
- termination benefits: according to the new standard, the factor that determines the timing for recognition in the financial statements is the fact that the entity may not withdraw the offered benefit, i.e. it is irrevocable. Accordingly, termination benefits can essentially be of two types:
  - benefits connected with a broader restructuring plan, where the entity may not withdraw the offer and the employee has no alternative to accepting it; in this case, the offer is considered irrevocable when the lay-off plan is notified to the affected persons;
  - individual benefits that the entity may theoretically withdraw at its discretion until acceptance by the employee: in this case, the offer becomes irrevocable when the employee accepts it.

These amendments were endorsed by the European Union in June 2012 (EC Regulation 475/2012) and are applicable from January 1, 2013. In regard to the foreseeable impact on the consolidated financial statements, it should be noted that there will be no impact on equity due to elimination of the corridor approach since the Group does not use this option, nor there will be other significant impacts on equity for whichever reasons. The new quantity called "net interest," calculated by applying the discount rate now used only for the gross liability to the net liability (i.e. the gross liability net of plan assets) and which will replace the interest costand the expected return on plan assets, would have had a negative impact of about euro 9.3 million in the 2012 Income Statement before the tax effect.

- **Amendments to IAS 12 – Income Taxes – Deferred Taxes: recovery of underlying assets**
  IAS 12 requires measurement of deferred taxes related to an asset or liability according to whether the book value of the asset is recovered through use or through sale. In the case of assets carried at fair value pursuant to IAS 40 – Investment Property, determining whether recovery is realised through use or sale might be difficult and subjective. These changes offer a practical solution to the problem, by allowing one to assume that investment property will be recovered entirely through sale. Consequently, SIC 21 – Income Taxes – Recovery of Revalued Non-Depreciable Assets is no longer applicable to investment property carried at fair value. The guidelines of SIC 21 that are still applicable have been incorporated in the amended version of IAS 12, and SIC 21 will consequently be abrogated.
  These amendments, endorsed by the European Union in December 2012 (EC Regulation no. 1255/2012) and in force from January 1, 2013, are not applicable to the Group.

- **Amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards – Hyperinflation and elimination of fixed dates on first-time adoption**
  The amendments that have been introduced concern:
  - guidelines for preparing the financial statements in accordance with IFRSs after a period when application of IFRSs was suspended due to hyperinflation;
  - elimination of fixed dates upon first-time adoption of IFRSs. The entities that adopt IFRSs apply the requirements applicable to prospective derecognition of financial assets and liabilities, i.e. they are no longer obligated to reconstruct transactions that occurred before first-time adoption of IFRSs and that led to derecognition of financial assets and liabilities.

  These amendments, endorsed by the European Union in December 2012 (EC Regulation no. 1255/2012) and in

force from January 1, 2013, are not applicable to the Group.

- **IFRS 10 – Consolidated Financial Statements**
  The new standard replaces IAS 27 – Consolidated and Separate Financial Statements – for the portion relating to the consolidated financial statements – and SIC 12 – Consolidation – Special Purpose Entities. IAS 27 – renamed "Separate Financial Statements" – only contains the principles and guidelines to be used in preparing the separate financial statements.
  The new version of IFRS 10 defines just one control model that applies to all entities and represents the key factor in determining whether an entity has to be consolidated. Instead, the accounting treatment and consolidation procedures have not changed from what is currently envisaged in IAS 27.
  The new control model introduces a greater degree of subjectivity and will demand that management exercise a higher standard of judgement to determine whether an entity is controlled and thus has to be consolidated. This new standard also explicitly envisages the possibility of controlling an entity even in the absence of a majority of votes (de facto control), a concept that was not explicitly stated in IAS 27.
  This standard was endorsed by the European Union in December 2012 (EC Regulation no. 1254/2012) and will come into force on January 1, 2014.
  The impact on the scope of consolidation resulting from introduction of the new standard on first-time application is currently being analysed.

- **IFRS 11 – Joint Arrangements**
  The new standard, which 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 that are associated with different accounting treatment:
  - *joint-operations*: these are agreements that give the parties of the agreement, which have joint control of the initiative, rights to the individual activities and obligations for the individual liabilities related to the agreement. In the case of joint operations, the assets, liabilities, costs and revenue of the agreement must be recognised on the basis of the applicable accounting standards;
  - *joint-ventures*: a joint venture exists when the parties, which have joint control of the venture, do not have rights or obligations in relation to the individual assets or liabilities covered by the agreement, but only in relation to the net assets or net income (loss) of the venture. Joint ventures must be consolidated under the equity method, while IAS 31 allowed the option of choosing between proportional consolidation and consolidation under the equity method.

  To determine in what category a joint arrangement must be classified, the substance of the arrangement must be considered on the basis of the rights and obligations defined therein and not be limited to the formal aspect of the legal form, as was the case under IAS 31.
  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 includes – and expands on – all the requirements governing the disclosure that must be given in regard to subsidiaries, associates, joint arrangements and other equity investments ("structured entities"). Many of the disclosures required under IFRS 12 were previously included in IAS 27 – Consolidated and Separate Financial Statements, IAS 28 – Investments in Associates, and IAS 31 – Interests in Joint Ventures, while others are new.
  This standard was endorsed by the European Union in December 2012 (EC Regulation no. 1254/2012) and will

come into force on January 1, 2014.
The impact of disclosure on the consolidated financial statements following application of this standard is being analysed.

- **IAS 27 – Separate Financial Statements**
  Following the introduction of the new IFRS 10 and 12, what remains of IAS 27 is limited to the accounting of subsidiaries, joint ventures and associates in the separate financial statements. This amendments were endorsed by the European Union in December 2012 (EC Regulation no. 1254/2012) and will come into force on January 1, 2014. Application of these amendments will not have any impact on the separate financial statements.

- **IAS 28 – Investments in Associates and Joint Ventures**
  Following the introduction of the new IFRS 10 and 12, IAS 28 has been renamed "Investments in Associates and Joint Ventures" and describes application of the equity method for equity investments in joint ventures, in addition to associates. This amendments were endorsed by the European Union in December 2012 (EC Regulation no. 1254/2012) and will come into force on January 1, 2014. Application of these amendments will not have any impact on the consolidated financial statements.

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

This standard was endorsed by the European Union in December 2012 (EC Regulation no. 1255/2012) and is applicable from January 1, 2013.
No impact on the consolidated financial statements is expected.

- **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). This amendments were endorsed by the European Union in December 2012 (EC Regulation no. 1256/2012) and are applicable from January 1, 2013.
  It is not expected that application of these amendments will have any impact on the Group financial statements.

- **Amendments to IAS 32 – Financial Instruments: Presentation – Offsetting of financial assets and liabilities**
  These amendments better clarify the significance of the requirements for offsetting financial assets and liabilities, already present in this standard, i.e.
  - the meaning of currently enjoying the statutory right to offsetting financial assets and liabilities;
  - the fact that in certain cases, realisation of the asset at the same time as extinguishment of the liability may be considered de facto extinguishment of a net amount.

  These amendments were endorsed by the European Union in December 2012 (EC Regulation no. 1256/2012) and are applicable from January 1, 2013.
  Application of these amendments have no impact on the Group financial statements.

- **IFRS 9 – Financial Instruments (issued in November 2009 and October 2010) and amendments (issued in December 2011)**
  IFRS 9 represents the completion of the first of three stages of the planned replacement of IAS 39 – Financial Statements: Recognition and Measurement, which has the principal aim of reducing its complexity. In the version issued by the IASB in November 2009, the scope of IFRS 9 was restricted to financial assets only. In October 2010 the IASB amended IFRS 9 by adding the requirements for classification and measurement of financial

liabilities, thereby completing the first phase of the project.
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 second phase of the project, concerning the impairment of financial instruments, and the third phase, concerning hedge accounting, led to the issuance of two Exposure Drafts in November 2009 and December 2010, respectively. Issuance of the respective final standards, which had originally been planned for 3Q 2011, has not occurred yet. The IASB is still working on a new Exposure Draft concerning the impairment of financial instruments, and is expected to be issued in 1Q 2013. It is expected that the new standard for hedge accounting will be issued in 2Q 2013.
The principal changes introduced by IFRS 9 in regard to financial assets can be summarised as follows:

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

In regard to financial liabilities, the IASB has substantially confirmed the provisions of IAS 39, except for the requirements applicable to the fair value option. When

the fair value option is adopted for financial liabilities, the change in fair value attributable to the change in the issuer's credit risk must be recognised in the Statement of Comprehensive Income and not in the Income Statement. The endorsement process for IFRS 9, which was originally scheduled to come into force on January 1, 2013, has not yet been completed. In December 2011, the IASB published a document that postponed the mandatory application date of IFRS 9 to the financial years beginning January 1, 2015, while leaving the option of early application unchanged. This standard has not been endorsed yet by the European Union.
It is currently impossible to quantify the impact resulting from future application of this standard to the classification and measurement of financial assets. The changes affecting financial liabilities are not applicable to the Group.

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

- **Amendments to IFRS 1 – Government Loans**
These amendments concern government loans received at below-market rates and during transition allow adoption of the same accounting treatment applicable to financial statements that already use IFRSs, rather than apply IAS 20, "Accounting for Government Grants and Disclosure of Government Assistance" on a fully retrospective basis.
These changes were endorsed by the European Union in March 2013 (EC Regulation no. 183/2013) and are applicable as from January 1, 2013. They are not applicable to the Group.

- **"Improvements" to IFRSs (issued by the IASB in May 2012)**
As part of the project begun in 2009, the IASB has issued a series of amendments to five current standards.

The following table summarises the standards and issues addressed by these amendments:

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

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

- **Amendments to IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements and IFRS 12 – Disclosure of Interests in Other Entities – Transition Guide**
  These amendments clarify the transitional provisions for applying IFRS 10, which have been found too burdensome. They also limit the obligation to provide restated comparative data to only the comparative period preceding first-time application of IFRS 10, 11 and 12. In regard to the disclosure required by IFRS 12 in regard to interests held in other entities, these amendments eliminate the obligation of providing comparative information for periods prior to application of IFRS 12.
  These amendments, which were expected to come into force effective January 1, 2013, have not yet been endorsed by the European Union. The impacts of these amendments on the Group consolidated financial statements are currently under examination.

- **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 business purpose consists of investing funds in order to realise investment income or returns from capital appreciation, or both. Examples of such entities include private equity and venture capital organizations, pension funds, and other types of investment funds. In consequence of these amendments, the companies controlled by investment entities must not be consolidated line-by-line but instead recognised at fair value through profit and loss.
  These amendments, which are expected to come into force on January 1, 2014, have not yet been endorsed by the European Union and are not applicable to the Group.

4. FINANCIAL RISK MANAGEMENT POLICIES

The Group is exposed to financial risks. These are principally associated with foreign exchange rates, fluctuations in interest rates, the price of financial assets held as investments, the ability of customers to honour their obligations to the Group (credit risk), and raising funds on the market (liquidity risk).
Financial risk management is an integral part of 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.

Types of financial risks

Exchange rate risk
The varied 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 exchange gains or losses.
  The Group aims to minimise the impact of transaction exchange rate risk on the income statement. To do so, Group procedures make the operating units responsible for collecting complete information about the assets and liabilities that are subject to transaction exchange rate risk. This risk is hedged with forward contracts made with the Group Treasury.
  The items subject to exchange rate risk are mainly represented by receivables and payables denominated in foreign currency.

  The Group Treasury is responsible for hedging the net position for each currency. In accordance with established guidelines and restrictions, it closes all risk positions by trading derivative hedging contracts on the market, which typically take the form of forward contracts.
  The Group has decided not to opt for hedge accounting pursuant to IAS 39, insofar as representation of the effects of the transaction exchange risk hedging strategy in the income statement and equity is substantially guaranteed even without adopting hedge accounting.
  Furthermore, as part of the annual and three-year planning process, the Group makes exchange rate forecasts by using the best information available on the market. The fluctuation in exchange rates between the time when the forecast is made and the time when the commercial or financial transaction is established represents the transaction exchange rate risk on future transactions.
  In accordance with established policy, the Group monitors the opportunity to hedge future transactions, with each hedge being authorised by the Finance Department on a case-by-case basis. Hedge accounting in accordance with IAS 39 is used when the conditions for doing so are satisfied.

- **Translation exchange rate 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 32% of total consolidated equity at December 31, 2012 was expressed in euro (compared with about 27% at December 31, 2011). The most important currencies

for the Group other than the euro are the Brazilian Real (17%; 22% at December 31, 2011), the Turkish Lira (8%; 8% at December 31, 2011), the Chinese Renminbi (9%; 9% at December 31, 2011), the Romanian Leu (11%; 8% at December 31, 2011), the Venezuelan Bolivar (6%; 5% at December 31, 2011), the Egyptian Pound (3%; 4% at December 31, 2011), the British Pound (3%;4% at December 31, 2011), the Argentine Peso (3%; 3% at December 31, 2011) and the U.S. Dollar (3%; 3% at December 31, 2011).

The tables below show the effects on 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%	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
Brazilian real	45,393	52,474	(37,140)	(42,933)
Turkish lira	20,771	19,929	(16,994)	(16,305)
Chinese renminbi	23,891	21,640	(19,547)	(17,705)
Romanian leu	27,946	20,185	(22,865)	(16,515)
Venezuelan bolivar	15,354	12,533	(12,562)	(10,254)
Egyptian pound	8,966	8,592	(7,336)	(7,030)
British pound	8,238	8,781	(6,740)	(7,184)
Argentinian pesos	7,949	7,915	(6,503)	(6,476)
US dollar	7,418	6,625	(6,070)	(5,421)
Total out of consolidated equity	**165,927**	**158,674**	**(135,757)**	**(129,823)**

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 enters into 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%	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
Impact on net income (loss)				
Companies consolidated line-by-line	(5,183)	(2,914)	6,208	2,760
Total	**(5,183)**	**(2,914)**	**6,208**	**2,760**
Direct impact on equity				
Companies consolidated line-by-line	7,233	7,373	(12,314)	(12,785)
Total	**7,233**	**7,373**	**(12,314)**	**(12,785)**

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 4.5% of total consolidated assets at December 31, 2012 (4.1% at December 31, 2011). Such assets are classified as available-for-sale financial assets or financial assets held for trading.
No derivatives contracts are made to limit the volatility of these assets.
The available-for-sale financial assets represented by listed equity instruments total euro 73,602 thousand (euro 71,259 thousand at December 31, 2011) and those represented by securities that are indirectly related to listed financial instruments (Fin. Priv. S.r.l. and Emittenti Titoli) total euro 11,939 thousand (euro 10,943 thousand at December 31, 2011). These financial assets represent 24.5% of all financial assets subject to price risk (28.6% at December 31, 2011). A 1% change in the aforementioned listed securities, all else being equal, would entail a change of euro 846 thousand (euro 797 thousand at December 31, 2011) in the Group's equity.

Credit risk

Credit risk represents Group exposure to contingent losses resulting from default by commercial and financial counterparties.
The Group is exposed to credit risk as part of its operating activities and financing activities.
To limit commercial counterparty default risk, the Group has implemented procedures to evaluate its customers' potential and financial solidity, monitor expected incoming cash flows and take credit recovery action if necessary.
The aim of these procedures is to define customer credit limits. Further sales are suspended when those limits are exceeded.
In 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.
Insurance policies are another instrument used to manage commercial credit risk. These policies aim to prevent the risk of non-payment through careful selection of covered customers in collaboration with the insurance company, which undertakes to indemnify the Group in the event of customer insolvency.
The Group transacts 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.”
In regard to financial receivables, the valuation of the receivable from Prelios S.p.A. (euro 173,506 thousand) is based on the underlying assumptions of the extraordinary capital transaction, whose negotiations are now at an advanced stage. This transaction, aimed at relaunching the business development prospects and strengthing the financial position of the group owned by Prelios S.p.A., as well as rebalancing of its overall financial structure, calls for converting a portion of the financial receivable into Prelios S.p.A. ordinary shares and another portion into equity linked bonds destined for conversion (the *convertendo*), with a cash option for redemption exercisable by Prelios S.p.A. The valuation performed on the basis of these assumptions, with its principal one being that the transaction will occur, does not indicate the need to impair the financial receivable at the reporting date.

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 equivalents and/or highly liquid short-term financial instruments, and the availability of funds through an adequate amount of committed credit facilities and/or recourse to the capital market.

At December 31, 2012, the Group had, besides cash and securities held for trading of euro 904,511 thousand, unused committed credit facilities of euro 625,000 thousand (euro 840,000 thousand at December 31, 2011), with the following maturities:

(in thousands of euro)

	12/31/2012	12/31/2011
2015	625,000	840,000
	625,000	**840,000**

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
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**

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, 2012 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, 2011 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	1,382,772	-	-	-	1,382,772
Other payables	631,237	1,120	48,385	4,475	685,217
Financial instruments	103,912	-	-	-	103,912
Borrowings from banks and other financial institutions	369,451	100,631	1,227,373	74,493	1,771,948
	2,487,372	**101,751**	**1,275,758**	**78,968**	**3,943,849**

Additional information: categories of financial assets and liabilities

The table below shows the carrying amounts for each class of financial asset and liability identified by IAS 39:

(in thousands of euro)

	Note	Carrying amount at 12/31/2012	Carrying amount at 12/31/2011
FINANCIAL ASSETS			
Financial assts carried at fair value through profit and loss			
Securities held for trading	18	224,717	160,503
Current derivative financial instruments	27	42,208	62,281
		266,925	222,784
Loans and receivables			
Non-current other receivables	15	370,210	347,870
Current trade receivables	14	704,558	745,238
Current other receivables	15	341,404	281,737
Cash and cash equivalents	19	679,794	556,983
		2,095,966	1,931,828
Available-for-sale financial assets			
Non-current other financial assets	12	118,125	127,037
Hedging financial instruments			
Current derivative financial instruments	27	5,495	8,065
		2,486,511	**2,289,714**
FINANCIAL LIABILITIES			
Financial liabilities carried at fair value through profit and loss			
Current derivative financial instruments	27	44,756	51,795
Financial liabilities carried at amortised cost			
Non-current borrowings from banks and other financial institutions	23	1,995,775	1,402,497
Non-current other payables	25	70,643	53,980
Current borrowings from banks and other financial institutions	23	440,526	369,451
Current trade payables	24	1,268,683	1,382,772
Current other payables	25	417,556	631,237
		4,193,183	3,839,937
Hedging financial instruments			
Current derivative financial instruments	27	51,592	52,117
		4,289,531	**3,943,849**

Additional information: fair value hierarchy

The classification of financial instruments carried at fair value on the basis of a hierarchy of levels pursuant to IFRS 7 is illustrated as follows. This hierarchy reflects the significance of the inputs used to determine fair value. The following levels are distinguished:

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

The following table shows assets and liabilities carried at fair value at December 31, 2012, divided into the three levels defined above:

FINANCIAL ASSETS

	Note	Carrying amount at 12/31/2012	Level 1	Level 2	Level 3
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:					
Equities		105,782	73,602	11,939	20,241
Investment funds		12,343	-	12,343	-
Other financial assets	12	118,125	73,602	24,282	20,241
Total Assets		**390,546**	**74,357**	**295,948**	**20,241**

FINANCIAL LIABILITIES

	Note	Carrying amount at 12/31/2012	Level 1	Level 2	Level 3
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)**	**-**

The situation at December 31, 2011 was as follows:

FINANCIAL ASSETS

	Note	Carrying amount at 12/31/2012	Level 1	Level 2	Level 3
Financial assets carried at fair value through profit and loss					
Securities held for trading	18	160,503	832	159,671	-
Current derivative financial instruments	27	62,281	-	62,281	-
Hedging financial instruments					
Current derivative financial instruments	27	8,065	-	8,065	-
Available-for-sale financial assets					
Equities		114,664	71,229	10,943	32,492
Investment funds		12,373	30	12,343	-
Other financial assets	12	127,037	71,259	23,286	32,492
Total Assets		**357,886**	**72,091**	**253,303**	**32,492**

FINANCIAL LIABILITIES

	Note	Carrying amount at 12/31/2012	Level 1	Level 2	Level 3
Financial liabilities carried at fair value through profit and loss:					
Current derivative financial instruments	27	(51,795)	-	(51,795)	-
Hedging financial instruments:					
Current derivative financial instruments	27	(52,117)	-	(52,117)	-
Total liabilities		**(103,912)**	**-**	**(103,912)**	**-**

During 2012, 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 2012:

(in thousands of euro)

	12/31/2012	12/31/2011
Opening balance	32,492	40,604
Increases / Subscription of capital	1,981	1,824
Disposals	(136)	(5,274)
Impairment	(12,055)	(1,110)
Fair value adjustments through Equity	(2,029)	(3,341)
Other changes	(12)	(211)
Closing balance	**20,241**	**32,492**

The item **increases / subscription of capital** refers to the capital increase for the investment in F.C. Internazionale S.p.A. (euro 638 thousand), in Equinox Two SCA (euro 993 thousand) and S.In.T. S.p.A (euro 350 thousand).

Impairment refers mainly to impairment losses on the equity investments in Alitalia S.p.A. (euro 4,775 thousand), F.C. Internazionale S.p.A. (euro 6,655 thousand) and Tlcom I LP (euro 591 thousand).

The **fair value adjustment through equity** refers mainly to the investment in the Istituto Europeo di Oncologia (euro 1,121 thousand) and Euroqube (euro 477 thousand).

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

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

The fair value of financial instruments not traded on active markets (e.g. derivatives) is measured by means of techniques that maximise the use of observable and available market data. If the most material data for determining the fair value of a financial instrument are observable, the instrument is included in level 2. The measurement techniques used to determine the fair value of these instruments include:
- market prices for similar instruments;
- the fair value of interest rate swaps is calculated by discounting estimated future cash flows based on observable yield curves;
- the fair value of foreign exchange derivatives (forward contracts) is determined by using the forward exchange rate at the reporting date.

5. CAPITAL MANAGEMENT POLICIES

The Group's objective is to maximise the return on net invested capital while maintaining the ability to operate over time, ensuring adequate returns for its shareholders and benefits for the other stakeholders, with a sustainable financial structure.
In order to achieve these objectives, as well as pursue satisfactory earnings results and generate cash flows, the Group may adjust its dividend policy and the configuration of the Company's capital.

The main indicators used by the Group to manage its capital are:
- R.O.I. (Return on Investments) – Ratio between operating income and average net invested capital: the indicator represents the capacity of business results to remunerate net invested capital, construed as the sum of non-current assets and net working capital. The Group's objective is for this ratio to be greater than the weighted average cost of capital (WACC);
- 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 book value of equity. It is an indicator representing the Group's ability to remunerate its shareholders. The objective is for the indicator to be higher than the rate of return on a risk-free investment, correlated to the nature of the operated businesses.

The figures for 2012 and 2011 are shown below:

		2012	2011
1	R.O.I. (operating income / average net invested capital)	19.15%	16.64%
2	Gearing	0.50	0.34
3	R.O.E. (Return on Equity)	17.39%	20.89%

The change in R.O.I. stems from the increase in operating income, while the decrease in R.O.E. reflects the decrease in net income for 2012 compared to the previous year. The net income for 2011 benefited from the recognition of deferred tax assets carried forward by the parent Pirelli & C. S.p.A.

6. ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements entails that management make estimates and assumptions which, under certain circumstances, are based on difficult and subjective assessments and estimates that are based on historical experience, and assumptions that are periodically considered reasonable and realistic in light of the circumstances. The results that actually emerge could therefore differ from such estimates. Estimates and assumptions are reviewed regularly and the effects of each change made to them are recognised in income for the year when the estimate is revised if the revision itself only affects that year, or also in subsequent periods if the revision affects both the current period and future ones.
In this context it is important to note that the situation caused by the current economic and financial crisis has entailed making extremely uncertain assumptions about future performance. Therefore, it cannot be ruled out that next year's results will be different from those estimated and that adjustments to the carrying value of the relevant items might be necessary, including significant adjustments, which obviously cannot be estimated or foreseen at this time. Such estimates affect the carrying amounts of certain assets and liabilities, costs and revenues, and also disclosures relating to contingent assets/liabilities at the reporting date.
The estimates and assumptions relate mainly to assessments of the recoverability of intangible assets, to the definition of the useful lives of property, plant and equipment, to the recoverability of receivables and to the recognition/measurement of provisions, pension schemes and other post-employment benefits and are based on data that reflect the current state of available knowledge.

Estimates entailing greater subjectivity and having a particularly material impact

What follows is a brief description of the accounting policies that, more than others, require management to exercise greater subjectivity in the calculation of estimates, and for which a change in the conditions underlying the assumptions used could have a material impact on the Consolidated Financial Statements, or for which there is a risk that material adjustments to the carrying amount of assets and liabilities may emerge in the year subsequent to the reference period.

Goodwill
In accordance with the accounting standards adopted for preparation of the financial statements, goodwill is tested annually in order to ascertain the existence of any impairment losses to be recognised in Income. In particular, the test in question entails allocation of goodwill to cash generating units and subsequent determination of their recoverable value, understood as the greater of 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 expected returns on plan assets. Actuarial assumptions of a financial nature regard the discount rate, the expected return on plan assets, the rates of future salary increases and trends in healthcare costs.
Demographic actuarial assumptions 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. The measurement of future earnings to account for deferred taxes depends on factors that may change over time and materially impact the measurement of deferred tax assets.
The determination of adjustment items reflects budget figures and plans consistent with those used for the impairment tests and described in the previous paragraph in relation to the recoverable amount of non-current assets. Moreover, it is believed that the accrued adjustments adequately 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 can be recovered over a very long period of time (without limit for the deferred tax assets on tax losses carried forward from the tax consolidation program of Pirelli & C. S.p.A., accrued at December 31, 2011 in the amount of euro 128,092 thousand, and euro 127,478 thousand at December 31, 2012, following amendments to tax laws governing the use of losses, which represent 62% of all deferred tax assets), and thus compatible with a situation where emergence from the financial crisis and economic recovery will extend beyond the implicit time horizon of the aforementioned plans.

Provisions for liabilities and charges
Provisions are set aside against contingent legal and fiscal liabilities, representing the risk of losing lawsuits. The amount of provisions recognised in relation to these liabilities represents the best estimate at the reporting date made by management for lawsuits and tax claims regarding a vast range of issues which are subject to the jurisdiction of various countries. Such an estimate entails making assumptions that depend on factors that may change over time and which could therefore have a material impact with respect to the current estimates made by management for preparation of the Consolidated Financial Statements.

Measurement of the financial receivable from Prelios S.p.A.
In regard to financial receivables, the amount recognised for the receivable from Prelios S.p.A. (euro 173,506 million) is based on the underlying assumptions of the extraordinary capital transaction, whose negotiations are now at an advanced stage. This transaction, aimed at relaunching the business development prospects and strengthening the financial position of the corporate group owned by Prelios S.p.A., as well as rebalancing its overall financial structure, calls for converting a portion of the financial receivable into equity and another portion into Prelios S.p.A. ordinary shares (the convertendo), with a cash option for redemption exercisable by Prelios S.p.A. The valuation performed on the basis of these assumptions, with its principal one being that the transaction will be ultimately carried out, does not indicate the need to impair the receivable at the reporting date.

7. BUSINESS COMBINATIONS

Kirov and Voronezh (Russia) Acquisition
In execution of the agreement signed on July 25, 2011 by Pirelli Tyre S.p.A. and Russian Technologies, on one side, and Sibur Holding, on the other side, the company E-Volution Tyre LLC (now renamed Pirelli Tyre Russia LLC), a Russian holding company that is 100% owned by E-Volution Tyre B.V., a joint venture formed on July 25, 2011 by Pirelli Tyre S.p.A., Russian Technologies and Fleming Family & Partners Asset Management Holdings Limited, acquired the second production site covered by the agreement (at Voronezh) on February 29, 2012, through the acquisition from Sibur Holding of 100% of the company CJSC Voronezh Tyre Plant.
This transaction follows the transfer from Sibur Holding of the Kirov tyre plant on December 14, 2011.

The acquisitions of the Kirov and Voronezh production plants constitute a single business combination principally because the parties signed an agreement stipulating a single price for the entire transaction. This consideration was allocated between the two acquired production sites only at a later time, in 2012. Moreover, the transfers were also accompanied by put and call options granted to the buyer and seller, respectively, which would have stopped the finalization of the purchase of the Kirov plant if the purchase of the Voronezh plant had not been subsequently finalized as well.

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

(in thousands of euro)

	Fair value recognised on acquisition
Property,plant and equipment	150,453
Customer relationship	12,200
Tradmarkes	13,000
Other intangible assets	155
Intangible assets	25,355
Property, plant and equipment under construction	474
Deferred tax assets	238
Inventories	20,708
Trade receivables	13,754
Other recevibales	17,690
Cash and cash equivalents	2,418
	231,090
Trade payables	(6,464)
Other payables	(4,094)
Provision for deferred tax liabilities	(14,059)
Borrowings from bank and other financial institutions	(45,754)
	(70,371)
Fair value of total net identifiable assets acquired	**160,719**
Goodwill	**35,016**
Total consideration	**195,735**

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

(in thousands of euro)

	Kirov 12/14/2011 provisional amounts	Adjustment	Voronezh 02/29/2012 provisional amounts	Total	Purchase Price Allocation	Total Russia acquisiton
Property,plant and equipment	18,090	-	88,252	106,342	44,111	150,453
Customer relationship	-	-	-	-	12,200	12,200
Tradmarkes	-	-	-	-	13,000	13,000
Other intangible assets	155	-	-	155	-	155
Intangible assets	155	-	-	155	25,200	25,355
Property, plant and equipment under construction	474	-	-	474	-	474
Deferred tax assets	86	-	152	238	-	238
Inventories	14,264	-	6,444	20,708	-	20,708
Trade receivables	5,930	-	7,824	13,754	-	13,754
Other recevibales	1,687	-	16,003	17,690	-	17,690
Cash and cash equivalents	1,766	-	652	2,418	-	2,418
	42,452	**-**	**119,327**	**161,779**	**69,311**	**231,090**
Trade payables	(2,535)	-	(3,929)	(6,464)	-	(6,464)
Other payables	(713)	(1,205)	(2,176)	(4,094)	-	(4,094)
Provision for deferred tax liabilities	(56)	-	(103)	(159)	(13,900)	(14,059)
Borrowings from bank and other financial institutions	(29,772)	-	(15,982)	(45,754)	-	(45,754)
	(33,076)	**(1,205)**	**(22,190)**	**(56,471)**	**(13,900)**	**(70,371)**
Fair value of total net identifiable assets acquired	**9,376**	**(1,205)**	**97,137**	**105,308**	**55,411**	**160,719**
Goodwill	**86,127**	**4,426**	**(126)**	**90,427**	**(55,411)**	**35,016**
Contractual price	122,000	-	100,000	222,000	-	222,000
Financial receivable towards the acquired companies OJSC Kirov and CJSC Voronezh	(27,357)	-	(13,259)	(40,616)	-	(40,616)
Price adjustment	(9,140)	3,175	10,270	4,305	-	4,305
Contingent consideration ("earn out")	10,000	46	-	10,046	-	10,046
Total consideration	**95,503**	**3,221**	**97,011**	**195,735**	**-**	**195,735**

The agreement with the seller envisaged that Pirelli would take over from the seller a the financial receivables owed to the seller by the acquired entities OJCS Kirov and CSJC Voronezh for an aggregate total of euro 40,616 thousand. The consideration paid for the acquisition, including the consideration for taking over the aforementioned receivables, totalled euro 226,305 thousand, including euro 4,305 as a price adjustment. The acquired cash and cash equivalents totalled euro 2,418 thousand. Therefore, the total net cash flow generated by the acquisition was euro 223,887 thousand (euro 168,887 thousand in 2012).

The provisional goodwill recognised on December 14, 2011 (the closing date for transfer of ownership of the Kirov site) was euro 86,127 thousand. The closing for transfer of title to the Voronezh site took place in 2012. The process of allocating the price paid to the fair value of the assets and liabilities acquired for the en-

tire business combination (purchase price allocation – "PPA") was also completed in accordance with IFRS 3 – Business Combinations. The consequent calculation of the goodwill resulting from acquisition of the two production sites must be considered final, as previously reported in the half year financial report at June 30, 2012.
The difference between the total consideration paid (euro 195,735 thousand) and the net assets acquired (euro 105,308 thousand) was added to the aggregate value of property, plant and equipment in the amount of euro 44,111 thousand and to the aggregate value of intangible assets in the amount of euro 25,200 thousand (of which euro 13,000 thousand for brands and trademarks and euro 12,200 thousand for customer relationships). Considering the related deferred tax effects of euro 13,900 thousand, the residual goodwill is thus euro 35,016 thousand, with euro 32,214 thousand being allocated to the consumer cash generating unit and euro 2,801 thousand being allocated to the industrial cash generating unit.

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

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

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

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

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

(in thousands of euro)

		12/31/2011	Adjustments and PPA Russia	12/31/2011 restated
9	Property, plant and equipment	2,356,616	44,111	2,400,727
10	Intangible assets	934,299	(25,785)	908,514
11	Investments in associates	140,114	-	140,114
12	Other financial assets	127,037	-	127,037
13	Deferred tax assets	198,748	-	198,748
15	Other receivables	347,870	-	347,870
16	Tax receivables	10,156	-	10,156
	Non-current assets	**4,114,840**	**18,326**	**4,133,166**
17	Inventories	1,036,675	-	1,036,675
14	Trade receivables	745,238	-	745,238
15	Other receivables	281,737	-	281,737
18	Securities held for trading	160,503	-	160,503
19	Cash and cash equivalents	556,983	-	556,983
16	Tax receivables	29,484	-	29,484
27	Derivative financial instruments	70,346	-	70,346
	Current assets	**2,880,966**	**-**	**2,880,966**
	Total Assets	**6,995,806**	**18,326**	**7,014,132**
20.1	Equity attibutable to owners of the Parent:	2,146,099		2,146,099
	Share capital	1,343,285	-	1,343,285
	Reserves	351,206	-	351,206
	Net income (loss)	451,608	-	451,608
20.2	Equiti attributable to non-controlling interests:	45,479	-	45,479
	Reserves	56,436	-	56,436
	Net income (loss)	(10,957)	-	(10,957)
20	**Equity**	**2,191,578**	**-**	**2,191,578**
23	Borrowing from bank and other financial institutions	1,402,497	-	1,402,497
25	Other payables	53,980	-	53,980
21	Provisions for liabilities and charges	156,898	-	156,898
13	Provisions for deferred tax liabilities	21,298	13,900	35,198
22	Employee benefit obligations	481,736	-	481,736
26	Tax payable	4,817	-	4,817
	Non-current liabilities	**2,121,226**	**13,900**	**2,135,126**
23	Borrowing from bank and other financial institutions	369,451	-	369,451
24	Trade payable	1,382,772	-	1,382,772
25	Other payables	626,811	4,426	631,237
21	Provisions for liabilities and charges	124,671	-	124,671
26	Tax payables	75,385	-	75,385
27	Derivative financial instruments	103,912	-	103,912
	Current liabilities	**2,683,002**	**4,426**	**2,687,428**
	Total liabilities and equity	**6,995,806**	**18,326**	**7,014,132**

Campneus (Brazil) Acquisition

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

Pirelli aims to reinforce its market leadership in Brazil through this transaction, both in the retail and wholesale sectors, by promoting concentration on the higher growth areas of the premium segment and increasing the number of its proprietary sales outlets from the current 48 to 102. The 54 acquired sales outlets already belong to the Pirelli distribution network in Brazil, which has over 600 stores. The Campneus stores will keep their own brand for sale of the full range of Pirelli tyres used on cars, light-range trucks, trucks, bus, agricultural and earth-moving equipment and off-road vehicles.

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

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

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

(in thousands of euro)

	Fair value recognised on acquisition
Property, plant and equipment	1,016
Tradmark	14,084
Other intangible assets	173
Intangible assets	14,257
Inventories	12,561
Other recevibales	958
Cash and cash equivalents	1
	28,794
Trade payables	(8,723)
Other payables	(158)
Deferred tax liabilities	(4,789)
Provision for liabilities and charges	(2,991)
Borrowings from bank and other financial institutions	(25)
	(16,684)
Fair value of total net identifiable assets acquired	**12,109**
Goodwill	**24,881**
Purchase of 60% shareholding	21,220
Purchase obligation of further 20% shareholding	7,073
Seller's put option on the residual 20% shareholding	7,073
price adjustment	1,624
Total consideration	**36,990**

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

The difference between the total consideration (euro 36,990 thousand) and the value of the net acquired assets (euro 2,814 thousand) has been allocated as a euro 14,084 thousand addition to non-current assets. Considering the related deferred tax effects of euro 4,789 thousand, the residual goodwill is euro 24,881 thousand, with 11,196 thousand being allocated to the consumer cash generating unit and euro 13,685 thousand to the industrial cash generating unit.

The consideration paid for the acquisition is euro 22,844 thousand (inclusive of a euro 1,624 thousand price adjustment).

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

Däckia (Sweden) Acquisition

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

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

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

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

(in thousands of euro)

	Fair value recognised on acquisition
Property, plant and equipment	3,640
Customer relationship	6,933
Tradmarkes	27,160
Other intangible assets	10,516
Intangible assets	44,609
Inventories	18,004
Trade receivables	5,875
Other recevibales	2,601
Cash and cash equivalents	1,048
	75,777
Trade payables	(12,311)
Other payables	(5,581)
Provision for employees	(3,554)
Provision for other risks	(120)
Deferred tax liabilities	(11,507)
Borrowings from bank and other financial institutions	(599)
	(33,672)
Fair value of total net identifiable assets acquired	**42,105**
Goodwill	**29,138**
Contractual price	**71,243**

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

The difference between the total consideration (euro 71,243 thousand) and the value of net acquired assets (euro 9,859 thousand) has been allocated as a euro 43,753 thousand addition to non-current assets (including trademarks for euro 27,160 thousand, customer relationships for euro 6,933 thousand, and other non-current assets for euro 9,660 thousand). Considering the related deferred tax effects of euro 11,507 thousand, the residual goodwill consequently totals euro 29,138 thousand, entirely allocated to the consumer cash generating unit.

The consideration paid for the acquisition totalled euro 71,243 thousand, and the acquired cash and cash equivalents totalled euro 1,048 thousand. The net cash flow generated by the acquisition consequently totalled euro 70,195 thousand.

The incurred costs related to the transaction in 2012 total euro 1,319 thousand. These costs have been recognised in the Income Statement under "other costs" and mainly refer to various advisory services provided in support of the acquisition process.

8. OPERATING SEGMENTS

Following completion of a process of reorganisation into a "pure tyre company," the Tyre Business, which issued its own separate financial statements at December 31, 2011, was redefined as "Total Tyre" in 2012. It includes not only the Tyre activities but also the data of the holding and service companies (including the parent company), which were reported under "Other activities" at December 31, 2011.
Consequently, the "Other activities" at December 31, 2012 are comprised by the Pirelli Ecotechnology Group, the Pirelli Ambiente Group and PZero S.r.l.
The comparative data at December 31, 2011 have thus been restated.

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

(in thousands of euro)

	Total Tyre	Other activities	Eliminations and adjustments	Total 2012
Total net sales	**6,031,359**	**40,176**	**-**	**6,071,535**
Gross operating profit	**1,075,856**	**(23,658)**	**-**	**1,052,197**
Depreciation and amortisation	(266,797)	(4,610)	-	(271,407)
Operating income (loss)	**809,060**	**(28,269)**	**-**	**780,791**
Net income (loss) from equity investments	(53,284)	(1,536)	2,573	(52,247)
Financial income (expenses)	(126,717)	(2,754)	-	(129,471)
Net income (loss) before income taxes	**629,060**	**(32,560)**	**2,573**	**599,073**
Income taxes	(200,708)	(129)	-	(200,837)
Net income (loss)	**428,352**	**(32,689)**	**2,573**	**398,236**

The segment **results** for **2011** are as follows:

(in thousands of euro)

	Total Tyre	Other activities	Eliminations and adjustments	Total 2011
Total net sales	**5,601,557**	**53,236**	**-**	**5,654,793**
Gross operating profit	**845,120**	**(38,319)**	**-**	**806,801**
Depreciation and amortisation	(220,681)	(4,254)	-	(224,935)
Operating income (loss)	**624,439**	**(42,573)**	**-**	**581,866**
Net income (loss) from equity investments	(24,450)	3,164	3,968	(17,318)
Financial income (expenses)	(85,293)	(4,147)		(89,440)
Net income (loss) before income taxes	**514,696**	**(43,556)**	**3,968**	**475,108**
Income taxes	(34,429)	(28)	-	(34,457)
Net income (loss)	**480,267**	**(43,584)**	**3,968**	**440,651**

Sales within business segments are made on an arm's length basis.

The **assets, liabilities and capital expenditure** broken down by segment at **December 31, 2012** are illustrated as follows:

(in thousands of euro)

	Total Tyre	Other activities	Eliminations and adjustments	Total 12/31/2012
Segment assets	5,622,561	55,837	(15,147)	5,663,251
Investments in associates and jv	88,566	24,605	-	113,171
Total allocated assets	**5,711,126**	**80,442**	**(15,147)**	**5,776,421**
Unallocated assets				1,816,402
Total assets				**7,592,823**
Segment liabilities	2,405,803	21,268	-	2,427,071
Unallocated liabilities				2,776,323
Total liabilities				**5,203,394**
Purchase of property, plant and equipment	452,785	2,763	-	**455,548**
Purchase of intangible assets	15,121	293	-	**15,414**

The **assets, liabilities and capital expenditure** broken down by segment at **December 31, 2011** are illustrated as follows:

(in thousands of euro)

	Total Tyre	Other activities	Eliminations and adjustments	Total 12/31/2012
Segment assets	5,221,267	79,828	(15,147)	5,285,948
Investments in associates and jv	112,574	27,540	-	140,114
Total allocated assets	**5,333,841**	**107,368**	**(15,147)**	**5,426,062**
Unallocated assets				1,588,070
Total assets				**7,014,132**
Segment liabilities	2,456,748	321,611	-	2,778,359
Unallocated liabilities				2,044,195
Total liabilities				**4,822,554**
Purchase of property, plant and equipment	612,471	5,315	-	**617,786**
Purchase of intangible assets	93,050	1,110	-	**94,160**

Segment assets consist mainly of property, plant and equipment and intangible assets, leased assets, inventories, trade receivables and other receivables. Financial receivables, cash equivalents, other financial assets, securities held for trading and both current and deferred tax assets are excluded.
Segment liabilities mainly comprise trade payables and other payables, advances from customers and provisions for contingent liabilities and employee benefits. Financial payables and both current and deferred tax liabilities are excluded.
The **purchase of property, plant and equipment** was concentrated on expanding premium product production capacity in Italy, Romania, China, Mexico and Germany, where the production mix was increased. Other capital expenditure was made in Russia, where work proceeds to bring the sites there up to Group process and quality standards.
In 2012 the production of car tyres began at the plant in Mexico and of radial motorcycle tyres in China.

The purchase of intangible assets mainly consists of the new Digital Innovation system, for which two macro-initiatives have been undertaken in the area of knowledge management: the Group intranet that offers access not only to corporate information but also to tools useful for work and the enterprise search engine.

Net sales by geographical area are shown below. They are allocated on the basis of the country in which the customer is resident.

(in thousands of euro)

	2012		2011	
Europe:				
Italy	425,323	7.01%	479,838	8.49%
Rest of Europe	1,448,734	23.86%	1,803,475	31.89%
Russia	244,271	4.02%	40,605	0.72%
Nafta	936,929	15.43%	561,320	9.93%
Central/South America	2,067,549	34.05%	1,915,467	33.87%
Asia/Pacific	528,278	8.70%	352,815	6.24%
Middle East/Africa	420,450	6.92%	501,273	8.86%
	6,071,535	**100.00%**	**5,654,793**	**100.00%**

Non-current assets by geographical area are shown below. They are allocated on the basis of the country where these assets are located.

(in thousands of euro)

	12/31/2012		12/31/2011	
Europe:				
Italy	403,153	11.06%	437,500	13.22%
Rest of Europe	934,666	25.64%	692,148	20.92%
Nafta	195,422	5.36%	163,728	4.95%
Central and South America	633,746	17.38%	628,540	18.99%
Asia/Pacific	342,042	9.38%	310,560	9.38%
Middle East/Africa	218,211	5.99%	212,428	6.42%
Non-current assets not allocated	918,689	25.20%	864,336	26.12%
	3,645,928	**100.00%**	**3,309,241**	**100.00%**

The **allocated non-current assets** shown in the table above consist of property, plant and equipment and intangible assets, excluding goodwill. The **unallocated non-current assets** pertain to goodwill (see note 10).

9. PROPERTY, PLANT AND EQUIPMENT

At December 31, 2012 the breakdown and changes are as follows:

(in thousands of euro)

	12/31/2012			12/31/2011*		
	Gross Amount	Accumulated Depreciation	Net Amount	Gross Amount	Accumulated Depreciation	Net Amount
Land	108,399	-	108,399	92,947	-	92,947
Buildings	1,101,203	(416,187)	685,016	1,008,432	(391,114)	617,318
Plant and machinery	3,521,488	(1,971,572)	1,549,916	3,337,527	(1,891,612)	1,445,915
Industrial and commercial equipment	715,488	(524,765)	190,723	650,694	(499,602)	151,092
Other assets	260,803	(171,413)	89,390	264,825	(171,370)	93,455
	5,707,381	**(3,083,937)**	**2,623,444**	**5,354,425**	**(2,953,698)**	**2,400,727**

* The amounts at 12/31/2011 has been restated to include retrospectively the effects of the final purchase price allocation related to the acquisition in Russia as described in note 7 "Business Combination".

The change at December 31,2012 are as follows:

GROSS AMOUNT (in thousands of euro)

	12/31/2011	Restated *	12/31/2011 restated	Hyperinflation Effect	Business combination effect	Transaltion differ.	Increases	Decreases	Reclassif.	Other	12/31/2012
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)

	12/31/2011	Restated *	12/31/2011 restated	Hyperinflation Effect	Business combination effect	Transaltion differ.	Reclassif.	Decreases	Deprec.	Other	12/31/2012
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)

	12/31/2011	Restated *	12/31/2011 restated	Hyperinflation Effect	Business combination effect	Transaltion differ.	Increases	Decreases	Reclassif.	Deprec.	Other	12/31/2012
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 as describe in note 7 "Business Combination"

The changes at December 31, 2011 were as follows:

GROSS AMOUNT (in thousands of euro)

	12/31/2010	Hyperinflation Effect	Business combination effect	Transaltion differ.	Increases	Decreases	Reclassif.	Other	12/31/2011
Land	86,826		965	(2,191)	3,048	(306)	4,509	796	93,647
Buildings	822,873	8,684	2,937	(18,243)	123,392	(920)	16,233	15,868	970,824
Plant and machinery	3,142,269	9,419	16,680	(112,168)	357,650	(66,198)	5,293	(30,218)	3,322,727
Industrial and commercial equipment	645,340	2,669	452	(28,612)	40,220	(22,919)	15,539	(1,995)	650,694
Other assets	216,489	8,822	506	(4,989)	93,476	(3,943)	(41,574)	3,635	272,422
	4,913,797	**29,594**	**21,540**	**(166,203)**	**617,786**	**(94,286)**	**-**	**(11,914)**	**5,310,314**

ACCUMULATED DEPRECIATION (in thousands of euro)

	12/31/2010	Hyperinflation Effect	Business combination effect	Transaltion differ.	Reclassif.	Decreases	Deprec.	Other	12/31/2011
Buildings	(369.371)	(7.501)	(285)	10.518	(21)	1.047	(25.245)	(254)	(391.114)
Plant and machinery	(1.911.773)	(7.072)	(2.556)	77.849	19.159	61.041	(141.173)	12.913	(1.891.612)
Industrial and commercial equipment	(510.293)	(2.402)	(54)	23.425	11.623	19.942	(44.327)	2.484	(499.602)
Other assets	(145.254)	(1.594)	(159)	3.784	(30.761)	6.222	(10.632)	7.024	(171.370)
	(2.936.691)	**(18.569)**	**(3.054)**	**115.576**	**-**	**88.251**	**(221.377)**	**22.167**	**(2.953.698)**

NET AMOUNT (in thousands of euro)

	12/31/2010	Hyper-inflation Effect	Business combina-tion effect	Transal-tion differ.	Increases	Decreases	Reclassif.	Deprec.	Other	12/31/2011
Land	86,826	-	965	(2,191)	3,048	(306)	4,509	-	796	93,647
Buildings	453,502	1,183	2,652	(7,725)	123,392	127	16,212	(25,245)	15,613	579,710
Plant and machinery	1,230,496	2,347	14,124	(34,319)	357,650	(5,157)	24,452	(141,173)	(17,305)	1,431,115
Industrial and commercial equipment	135,047	267	398	(5,187)	40,220	(2,977)	27,162	(44,327)	489	151,092
Other assets	71,235	7,228	347	(1,205)	93,476	2,279	(72,335)	(10,632)	10,659	101,052
	1,977,106	**11,025**	**18,486**	**(50,627)**	**617,786**	**(6,035)**	**-**	**(221,377)**	**10,252**	**2,356,616**

The **additions in 2012** were focused on expanding premium product production capacity in Italy, Romania, China, Mexico and Germany, where the production mix was increased. Other capital expenditure was made in Russia, where work proceeds to bring the sites there up to Group process and quality standards.
In 2012 the production of car tyres began at the plant in Mexico and of radial motorcycle tyres in China.
About 20% of total capital expenditure was directed to improve the quality of the plants and the optimization of the workplace environments and safety.
The ratio of increases of property, plant and equipment on depreciation in 2012 was 1.75 (2.80 at December 31, 2011).

The **effect of business combinations** refers to the acquisitions of Campneus in Brazil, of Däckia in Sweden, and the manufacturing site at Voronezh in Russia, in completion of the acquisition in Russia that began in December 2011 with acquisition of the first site, at Kirov (see note 7 “Business combinations” for more details).

Construction in progress at December 31, 2012, included in the individual categories of property, plant and equipment, totalled euro 241,107 thousand (euro 373,611 thousand at December 31, 2011).

The **impairment losses** for 2012, included in the “gross amount – decrease” column in the above table, totalled euro 10,838 thousand (euro 1,122 thousand in 2011). They largely consisted of plant write-offs following termination of truck tyre production in Italy as part of concentration of activities at the Settimo Torinese technological centre on high-end car production.
They are accounted for in the income statement under the item “Amortisation, depreciation and impairment” (note 32).

In regard to restrictions on the ownership of assets, note that:

- the subsidiary Pirelli Tyres Alexandria Co. pledged plant and machinery totalling euro 5,230 thousand (euro 6,900 thousand at December 31, 2011) as collateral for loans granted by the National Bank of Egypt;
- the subsidiary Pirelli Pneus Ltda. pledged its machinery and land as collateral for a total of euro 50,573 thousand (euro 55,760 thousand at December 31, 2011) against bank loans granted by BNDES (Banco Nacional de Desenvolvimento) and litigation with the national social security institution INSS (Instituto nacional de seguridade social);
- the subsidiary Pirelli Neumaticos SAIC pledged its own land and buildings for a total of euro 11,019 thousand as collateral for a loan granted by Banco de la Nacion Argentina (euro 12,839 thousand at December 31, 2011).

No borrowing costs were capitalised on property, plant and equipment.

9.1 FINANCE LEASES

The value of land, buildings, plant, machinery and other assets for which the Group has entered into a financial leasing agreement is included in the respective categories of property, plant, and equipment.

The breakdown is shown as follows:

(in thousands of euro)

	12/31/2012			12/31/2011		
	Cost	Accumulated Depreciation	Net amount	Cost	Accumulated Depreciation	Net amount
Leased land	10,348	-	10,348	10,348	-	10,348
Leased buldings	52,537	(12,605)	39,932	56,344	(10,492)	45,852
Other leased assets	2,955	(2,158)	797	464	(93)	371
Leased plant and machinery	96	(96)	-	98	(98)	-
	65,936	**(14,859)**	**51,077**	**67,254**	**(10,683)**	**56,571**

The payables for finance leases are included in financial payables (note 23).

The minimum payments due (or the payments required of the lessee during the remaining term of the lease) can be broken down as follows:

(in thousands of euro)

	12/31/2012	12/31/2011
up to 1 year	13,692	4,253
from 1 to 5 years	1,800	16,204
over 5 years	3,238	7,586
Total	**18,730**	**28,043**
Future financial expenses	(1,376)	(4,941)
Amount of leasing payables (note 23)	**17,354**	**23,102**

The table below shows the amount of financial lease payables broken down by maturity date:

(in thousands of euro)

	12/31/2012	12/31/2011
up to 1 year	13,041	3,152
from 1 to 5 years	1,581	14,384
over 5 years	2,732	5,566
Total (note 23)	**17,354**	**23,102**

10. INTANGIBLE ASSETS

The breakdown and changes for intangible assets in 2012 are shown as follows:

(in thousands of euro)

	12/31/2011	Effect of business combination *	12/31/2011 restated *	Translation differences	Effect of business combination	Increase	Decrease	Amort.	Other	12/31/2012
Patents and intellectual property rights	31	-	31	-	-	-	-	(12)	-	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	-	-	-	-	918,689
Application software	8,376	-	8,376	21	843	12,968	-	(3,912)	275	18,570
Other intangible asstes	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 12/31/2011 has been restated to include retrospectively the effects of the final purchase price allocation related to the acquisition in Russia as describe in note 7 "Business Combination"

The changes in 2011 were as follows:

(in thousands of euro)

	12/31/2010	Translation differences	Change in scope	Increase	Decrease	Amort.	Impairment	Other	12/31/2011
Patents and intellectual property rights	161	-	-	-	-	(130)	-	-	31
Concessions/ licenses/ trademarks	7,634	526	159	316	(51)	(554)	-	(132)	7,898
Goodwill	834,461	(490)	-	86,127	-	-	(4,860)	84	915,321
Application software	3,550	(29)	3	6,811	(4)	(2,138)	-	183	8,376
Other intangible asstes	2,955	394	-	906	(48)	(735)	-	(801)	2,672
	848,761	**400**	**163**	**94,160**	**(102)**	**(3,558)**	**(4,860)**	**(665)**	**934,299**

The increase in **goodwill** from December 31, 2011 totalled euro 54,019 thousand, and related to the acquisitions of Campneus in Brazil (euro 24,881 thousand) and Däckia in Sweden (euro 29,138 thousand).
Please see above at note 7 “Business combinations” for more details.

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

(in thousands of euro)

Operating segment	Cash generating unit	12/31/2011	Business combination effect	12/31/2011 restated	12/31/2012	Recoverable amount
Total Tyre	Consumer	517,165	31,950	549,115	590,488	Value in use
Total Tyre	Industrial	312,420	2,801	315,221	328,201	Value in use
Total Tyre	Unallocated goodwill - Russia acquisition	85,736	(85,736)			
		915,321	**(50,985)**	**864,336**	**918,689**	

Goodwill was tested for impairment at December 31, 2012, 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 rate that reflects the specific risks of the single CGU at the measurement date.

In applying this method management uses numerous assumptions, including estimates of future sales increases, operating cash flows, the rate of growth of terminal values and the weighted average cost of capital (discount rate).

In regard to the consumer and industrial CGUs, the forecast cash flows cover a two-year period (2013 and 2014) and refer to the 2013 budget and, for 2014, to the “2012-2014 Business Plan” announced to the financial community on November 9, 2011. This period was reduced by a percentage corresponding to the negative difference between the 2013 budget and the old plan for 2013.

The calculation also factored in 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:

(in migliaia di euro)

Operating segment	Cash Generating Unit	2012			2011		
		discount rate (WACC)	growth rate (g)	WACC - g	discount rate (WACC)	growth rate (g)	WACC - g
Total Tyre	Consumer	9.28%	-	9.28%	9.61%	-	9.61%
Total Tyre	Industrial	9.28%	-	9.28%	9.61%	-	9.61%

On the basis of these tests, no impairment loss was revealed in regard to the consumer and industrial CGUs.

A sensitivity analysis of the results for the consumer and industrial 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 50 basis points;
- a change in the growth rate by 50 basis points.

The item **concessions, licenses and trademarks** mainly covers trademarks resulting from the acquisitions in Russia (euro 11,187 thousand), the acquisition of Däckia in Sweden (euro 26,838 thousand) and of Campneus in Brazil (euro 12,629 thousand).

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

The **other intangible assets** mainly consist of the fair value of customer relationships resulting from the acquisition in Russia (euro 11,141 thousand) and Däckia in Sweden (euro 6,733 thousand), as well as the fair value of commercial partnerships associated with the Däckia acquisition (euro 9,331 thousand).

11. INVESTMENTS IN ASSOCIATES

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

(in thousands of euro)

	12/31/2012	12/31/2011
Opening balance	**140,114**	**152,927**
Increases	-	29,198
Distribution of dividends	(3,928)	(2,302)
Impairment	(29)	(16,816)
Disposal and liquidation	-	(25,215)
Share of net income (loss)	(21,293)	2,903
Share of other components recognised in Equity	(1,701)	(150)
Reclassifications and other	8	(431)
Closing balance	**113,171**	**140,114**

The following table shows in detail the changes in equity investments in associates:

(in thousands of euro)

	12/31/2011	Distrub. of dividends	Impairment	Share of net income (loss)	Components recognised in equity	Riclass. and other	12/31/2012
Eurostazioni S.p.A.	**60,892**	(3,553)	-	2,573	-	-	**59,912**
RCS MediaGroup S.p.A.	**39,870**	-	-	(20,132)	(411)	-	**19,327**
Sino Italian Wire Tech. Co Ltd	**10,944**	-	-	(2,453)	-	-	**8,491**
GWM Renewable Energy II S.p.A.	**26,681**	-	-	(1,568)	(1,290)	-	**23,823**
Other companies	**1,727**	(375)	(29)	287	-	8	**1,618**
Associates	**140,114**	**(3,928)**	**(29)**	**(21,293)**	**(1,701)**	**8**	**113,171**

(in thousands of euro)

	12/12/2010	Increase	Distrub. of dividends	Impairment	Disposal and liquidation	Share of net income (loss)	Components recognised in equity	Riclass. and other	12/31/2011
Eurostazioni S.p.A.	**58,798**	-	(1,884)	-	-	3,968	-	10	**60,892**
Cyoptics Inc.	**17,535**	-	-	-	(17,535)	-	-	-	**-**
RCS MediaGroup S.p.A.	**57,851**	-	-	(16,816)	-	(1,015)	(150)	-	**39,870**
Sino Italian Wire Tech. Co Ltd	**12,579**	-	-	-	-	(1,635)	-	-	**10,944**
GWM Renewable Energy II S.p.A.	**-**	25,416	-	-	-	1,265	-	-	**26,681**
GP Energia S.r.l.	**3,920**	3,760	-	-	(7,680)	-	-	-	**-**
Other companies	**2,244**	22	(418)	-	-	320	-	(441)	**1,727**
Associates	**152,927**	**29,198**	**(2,302)**	**(16,816)**	**(25,215)**	**2,903**	**(150)**	**(431)**	**140,114**

The investment in the company RCS Mediagroup S.p.A (5.3% of the voting shares) is owned by Pirelli & C. S.p.A., one of the major shareholders. It is represented on the Board of Directors and is a party to the shareholders' agreement, which aims to ensure the stability of the shareholding structure and coherent strategies in the management of the RCS Group (the parties to the agreement hold shares representing 63.5% of the share capital).
For the purpose of consolidation of this investment under the equity method, the latest published financial statements were used, as set out in the interim financial report at September 30, 2012 (consistently to the annual financial statements at December 31, 2011, which used the latest published financial statements, as set out in the interim financial report at September 30, 2011).
The fair value attributable to the investment in the associate RCS Mediagroup S.p.A., which is listed on the Milan Stock Exchange, calculated using the spot price at December 31, 2012 (euro 1.255 per share), was euro 49.1 million (euro 26.6 million in 2011, using the spot price of euro 0.68 per share at December 31, 2011).

The investment in GWM Renewable Energy II S.p.A., amounting to a 16.87% shareholding, qualifies as an associated insofar as the Group exercises significant influence over it through, inter alia, the membership of

some Pirelli managers on its Board of Directors.

In regard to the column **share of net income (loss)**, see the comments made below at note 34.1 “Share of net income (loss) of associates and joint ventures.”

The highlights of gross amounts of assets an liabilities (and not the Group’s share) with reference to the principal associates are illustratedas follows:

(in thousands of euro)

	12/31/2012	12/31/2011
Non-current assets	2,081,320	2,874,312
Current assets	862,926	1,100,012
Non-current liabilities	1,319,206	1,467,380
Current liabilities	969,038	1,090,049
Revenues from sales and services	1,260,453	1,554,861
Production costs	(1,643,793)	(1,572,799)
Net income (loss)	(396,581)	(30,755)

12. OTHER FINANCIAL ASSETS

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

The following changes took place during the year:

(in thousands of euro)

	12/31/2012	12/31/2011
Opening balance	**127,037**	**185,267**
Increases	1,981	1,825
Decreases	(1,727)	(9,778)
Impairment	(12,066)	(1,110)
Fair value adjustements through Equity	2,912	(45,085)
Fair value adjustements through Income Statement	-	(3,917)
Other	(12)	(165)
Closing balance	**118,125**	**127,037**

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

(in thousands of euro)

	12/31/2012					12/31/2011
	Historical cost	Cumulated FV adjustments through equity	FV adjustments through P&L		Fair value	Fair value
			Previous periods	2012		
Listed stock	**A**	**B**	**C**	**D**	**A+B+C+D**	
Mediobanca S.p.A.	90,247	-	-	(16,805)	73,442	69,496
Prelios S.p.A.	246	-	-	(201)	45	47
Advanced Digital Broadcast Holdings SA	-	-	-	-	-	1,560
Other companies	-	126	-	(11)	115	156
	90,493	**126**	**-**	**(17,017)**	**73,602**	**71,259**
Unlisted stock						
Alitalia S.p.A.	20,000	-	(10,300)	(4,775)	4,925	9,700
Fin. Priv. S.r.l.	14,458	-	-	(4,217)	10,241	9,728
Fondo Anastasia	13,250	(907)	-	-	12,343	12,343
Istituto Europeo di Oncologia S.r.l.	4,039	1,493	-	-	5,532	6,653
F.C. Internazionale Milano S.p.A.	6,655	-	-	(6,655)	-	6,017
Euroqube	373	177	-	-	550	1,028
Tlcom I LP	1,319	-	-	(591)	728	1,399
Emittenti Titoli	117	1,581	-	-	1,698	1,215
Equinox Two SCA	5,346	-	-	-	5,346	4,353
Other companies	3,664	(470)	-	(35)	3,160	3,342
	69,221	**1,874**	**(10,300)**	**(16,273)**	**44,523**	**55,778**
	159,714	**2,000**	**(10,300)**	**(33,290)**	**118,125**	**127,037**

The **increases** relate mainly to the capital increase related to the investments in F.C. Internazionale S.p.A. (euro 638 thousand), Equinox Two SCA (euro 993 thousand) and S.In.T. S.p.A (euro 350 thousand).

The **decreases** mainly refer to disposal of the investment in Advanced Digital Broadcast Holding S.A. (euro 1,567 thousand).

The **impairment losses** refer principally to the investments in F.C. Internazionale S.p.A. (euro 6,655 thousand), Alitalia S.p.A (euro 4,775 thousand) and Tlcom I LP (euro 591 thousand).
Moreover, the accumulated losses recognised in equity in relation to the investments in Mediobanca S.p.A., Fin. Priv. S.r.l. and Prelios S.p.A., totalling euro 21,223 thousand, were transferred to the income statement insofar as there was objective evidence of impairment at December 31, 2012. The evidence consists in a prolonged (more than 12 months) reduction in fair value as compared with the related cost. In this regard, also see note 34.3 - Losses from investments.

The **fair value adjustment through equity**, totalling a positive euro 2,912 thousand, mainly refers to the investments in Mediobanca S.p.A (positive euro 3,946 thousand), Fin. Priv. S.r.l. (positive euro 513 thousand),

Emittenti Titoli (positive euro 482 thousand), Istituto Europeo di Oncologia (negative euro 1,121 thousand), Euroqube (negative euro 477 thousand) and S.In.T. S.p.A (negative euro 350 thousand).

As illustrated in the accounting policies section, the quantitative limit for qualifying a reduction in the fair value of equity instruments below their cost as significant has been increased from one third to 50% for equity instruments issued by banks and financial institutions, due to exceptional increase in the volatility of banking and financial sector yields. However, this change did not have any differential impact on the Income Statement.

The fair value of listed financial instruments corresponds to their stock market price at December 31, 2012. 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 item is broken down as follows:

(in thousands of euro)

	12/31/2012	12/31/2011
Deferred tax assets	207,110	198,748
Provision for deferred tax liabilities	(56,056)	(35,198)*
	151,054	**163,550**

* The amount of the provision for deferred tax liabilities at 12/31/2011 has been restated to include retrospetively the effects of the final purchase price allocation related to the acquisition in Russia as described in the note 7 "Business combinations".

Deferred tax assets and liabilities have been recognised on the balance sheet if they satisfied the applicable conditions and considering the offsets made for each legal entity. They are broken down as follows, gross of offsets:

(in thousands of euro)

	12/31/2012	12/31/2011
Deferred tax assets	**294,026**	**299,992**
of which recoverable in 12 months	67,286	70,985
of which recoverable after 12 months	226,740	229,007
Provision for deferred tax liabilities	**(142,972)**	**(136,442)**
of which recoverable in 12 months	(3,947)	(1,328)
of which recoverable after 12 months	(139,025)	(135,114)
	151,054	**163,550**

The tax effect of temporary differences and of tax losses carried forward which make up the item at December 31, 2012 and at December 31, 2011 is shown in the following table:

(in thousands of euro)

	12/31/2012	12/31/2011
Deferred tax assets:		
Provisions for future liabilities and charges	23,187	26,739
Provision for employee benefits	49,090	39,893
Stocks	14,402	14,195
Tax losses carried forward	151,661	156,958
Amortisation and depreciation	677	3,765
Trade receivables and other receivables	8,537	4,499
Trade payables and other payables	32,629	42,534
Derivatives	11,718	9,618
Other	2,125	1,791
Total	**294,026**	**299,992**
Provision for deferred tax liabilities:		
Amortisation and depreciation	(132,007)	(127,880)
Other	(10,965)	(8,562)
Total	**(142,972)**	**(136,442)**

At December 31, 2012 unrecognised deferred tax assets relating to temporary differences amounted to euro 113,740 thousand (euro 139,645 thousand at December 31, 2011), and those relating to tax losses amounted to euro 179,558 thousand (euro 166,653 thousand at December 31, 2011). These amounts refer to situations where recovery is not deemed likely at this time.

Tax losses broken down by maturities, against which no deferred tax assets were recognised, are shown below:

(in thousands of euro)

Year of expiry	12/31/2012	12/31/2011
2014	285	285
2015	1,424	1,437
2016	5,255	5,352
2017	5,421	3,989
2018	4,212	4,298
2019	4,341	1,239
2020	3,254	3,254
2021	9,973	5,403
2022	26,613	5,046
2023	-	4,235
2024	343	10,631
2025	12,690	12,690
2026	1,477	1,477
2027	2,765	-
with no expiry	543,931	509,954
	621,983	**569,289**

Of the total tax losses without expiry date, euro 462,242 thousand refer to losses recognised in the past by the subsidiary Pirelli Finance (Luxembourg) S.A., in relation to which no taxable income sufficient to recover those losses is expected.
The tax effect of gains and losses recognised directly in equity was a positive euro 6,112 thousand (a positive euro 9,232 thousand at December 31, 2011), and is shown in the statement of comprehensive income. These changes were mainly due to the tax effects associated with actuarial gains/losses on employee benefits and to the adjustment to fair value of derivatives in cash flow hedges.

14. TRADE RECEIVABLES

Trade receivables may be broken down as follows:

(in thousands of euro)

	12/31/2012			12/31/2011		
	Total	Non-current	Current	Total	Non-current	Current
Customers	755,640	-	755,640	813,173	-	813,173
Receivable for contract work	-	-	-	207	-	207
	755,640	**-**	**755,640**	**813,380**	**-**	**813,380**
Provision for bad debts	(51,083)	-	(51,083)	(68,142)	-	(68,142)
	704,558	**-**	**704,558**	**745,238**	**-**	**745,238**

Gross trade receivables totalled euro 755,640 thousand (euro 813,380 thousand at December 31, 2011), and of these euro 105,763 thousand were past due (euro 119,089 thousand at December 31, 2011).
Receivables past due and not yet due were impaired in accordance with the Group accounting policies described in the section on adopted accounting standards.
Impaired receivables include both significant single positions subject to individual impairment and positions sharing similar credit risk characteristics that have been grouped together and impaired on a collective basis.

The change in the provision for bad debts is shown below:

(in thousands of euro)

	12/31/2012	12/31/2011
Opening balance	**68,142**	**63,381**
Translation differences	(1,400)	(1,403)
Accruals	8,129	20,667
Utilisation/releases	(24,440)	(14,581)
Other	652	78
Closing balance	**51,083**	**68,142**

Accruals to the provision for bad debts are recognised in the Income Statement at the item “Other costs” (note 33).

The **decrease** in the provision for bad debts from December 31, 2011 is mainly due to the introduction in 2012 of a global credit insurance policy in the replacement channel, which extended the coverage on the volume of insured receivables, thereby reducing insolvency risk.

For trade receivables, the carrying amount is considered approximate to the fair value.

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15. OTHER RECEIVABLES

Other receivables may be broken down as follows:

(in thousands of euro)

	12/31/2012			12/31/2011		
	Total	Non-current	Current	Total	Non-current	Current
Financial receivables	327,617	261,327	66,290	303,271	250,734	52,537
Trade and other accrued income and prepaid expenses	25,878	526	25,352	12,575	333	12,242
Receivables from employees	11,978	1,889	10,089	10,257	2,096	8,161
Receivables from social security and welfare institutions	5,015	-	5,015	2,575	-	2,575
Receivables from tax authorities non related to income taxes	171,819	7,158	164,661	129,868	8,527	121,341
Other receivables	169,596	99,310	70,286	171,135	86,180	84,955
	711,903	**370,210**	**341,693**	**629,681**	**347,870**	**281,811**
Provision for bad debts	(288)	-	(288)	(74)	-	(74)
	711,615	**370,210**	**341,404**	**629,607**	**347,870**	**281,737**

Non-current financial receivables (euro 261,327 thousand) refer primarily:

- to the floating rate loan made to Prelios S.p.A. (6 month Euribor + 7%) for euro 173,506 thousand, of which euro 160,000 thousand in principal and euro 13,506 thousand for the interest accrued from the date the loan was granted until December 31, 2012; the recognised amount of the receivable from Prelios S.p.A. is based on the underlying assumptions of the extraordinary transaction, whose negotiations are now at an advanced stage. This transaction, aimed at relaunching the business development prospects and strengtheningfinancial position of the group owned by Prelios S.p.A., as well as rebalancing its overall financial structure, calls for converting a portion of the financial receivable into Prelios S.p.A. ordinary shares and another portion into equity linked bonds destined for conversion (the *convertendo*), with a cash option for redemption exercisable by Prelios S.p.A. The valuation performed on the basis of these assumptions, with its principal one being that the transaction will occur, does not indicate the need to impair the receivable at the reporting date;
- to euro 77,434 thousand (euro 81,332 thousand at 31 December 2011) deposited as guarantees in tax litigation and lawsuits related to the subsidiary Pirelli Pneus Ltda (Brazil), remunerated at market rates.

Current financial receivables (euro 66,290 thousand) mainly consist of euro 38,273 thousand in loans to associates (euro 24,763 thousand at December 31, 2011), and specifically euro 32,538 thousand to Sino Italian Wire Technology Co. Ltd (China) and euro 5,423 thousand to GWM Renewable Energy II S.p.A.

The **other non-current receivables** (euro 99,310 thousand) mainly refer to amounts deposited as security in lawsuits and tax litigation involving the Brazilian units (euro 80,489) and euro 7,900 thousand in receivables relating to a cash grant paid in connection with the execution of an equity partnership agreement.

The **other current receivables** (euro 70,286 thousand) mainly consist of advances of euro 31,535 thousand (euro 50,399 thousand at December 31, 2011), euro 4,437 million in contributions for research and development activities to be received from the Region of Piedmont, and euro 8,921 thousand in receivables for guar-

antees in favour of Pirelli that may be exercised if contingent liabilities materialise in relation to the newly acquired company Campneus Lider de Pneumaticos Ltda (Brazil).

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

16. TAX RECEIVABLES

Tax receivables refer to income taxes and amount to euro 37,543 thousand (including euro 9,297 thousand in non-current assets), compared with euro 39,640 thousand at December 31, 2011 (including 10,156 thousand for non-current assets). They mainly refer to receivables for income taxes of the various associates (mainly referable to tax prepayments for the year), corporate income tax (IRPEG) for previous years paid by Pirelli & C. S.p.A, and receivables for taxes paid in previous years by the Brazilian units.

17. INVENTORIES

Inventories may be broken down as follows:

(in thousands of euro)

	12/31/2012	12/31/2011
Total Tyre	1,088,945	1,019,034
Other activities	13,615	17,641
	1,102,560	**1,036,675**

(in thousands of euro)

	12/31/2012	12/31/2011
Raw and auxiliary materials and consumables	255,517	305,540
Sundry materials	6,448	1,746
Work in progress and semi-finished products	81,756	96,048
Finished products	747,724	614,441
Goods for resale	6,769	9,997
Advances to suppliers	4,346	8,903
	1,102,560	**1,036,675**

The change in the value of inventories from December 31, 2011, which grew by a total of about euro 66 million, is mainly due to growth in the value of finished product inventories by about euro 133 million, which was partly offset by a reduction in the value of raw material inventories (euro 50 million), and by a reduction in the value of inventories of work in progress and semi-finished products (euro 14 million), related to efficiency gains and lower unit purchase costs during the last quarter of the year.
The increase in finished products is mainly related to the steady increase in the sales mix, which is also reflected in the inventory values, and to the increase totalling euro 46 million in 2012 for the acquisition of new assets in Russia, the Däckia chain in Sweden and the Campneus chain in Brazil. The change is also due to lower efficiency in certain areas suffering from a soft market, particularly in Europe, where countermeasures for recovery in the second half of the year were intensified.

Impairment losses on inventories recognised in 2012 totalled euro 12,518 thousand (euro 5,097 thousand at December 31, 2011). The reversal of previous impairments totals euro 3,124 thousand (euro 7,268 thousand at December 31, 2011).

Inventories were not subject to any collateral pledges.

18. SECURITIES HELD FOR TRADING

Securities held for trading amounted to euro 224,717 thousand (euro 160,503 thousand at December 31, 2011) and consisted of:

- unlisted floating-rate bonds for euro 134,808 (euro 158,318 thousand at December 31, 2011);
- unlisted fixed-rate bonds for euro 80,413 thousand (euro 1,130 thousand at December 31, 2011);
- equities for euro 8,347 thousand (euro 1,020 thousand at December 31, 2011), including euro 755 thousand in listed stock (euro 832 thousand at December 31, 2011);
- other securities for euro 1,149 thousand (euro 35 thousand at December 31, 2011).

The fair value of listed financial instruments corresponds to their stock market price at December 31, 2012.
The fair value of unlisted financial instruments was determined by making estimates on the basis of the best information available.
The changes in fair value are recognised in the Income Statement at “Financial expenses”.

19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents totalled euro 679,794 thousand, compared with euro 556,983 thousand at December 31, 2011.
Cash and cash equivalents are concentrated in the Group’s holding companies and at companies that generate cash and invest it locally. They are used essentially on the market for short-term maturity deposits with major banking counterparties at interest rates in line with the prevailing market terms.
In the statement of cash flows, the balance of cash and cash equivalents was indicated net of bank overdrafts of euro 14,790 thousand at December 31, 2012 (euro 14,540 thousand at December 31, 2011).

20. EQUITY

20.1 EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT

The **equity attributable to owners of the Parent** rose from euro 2,146,099 thousand at December 31, 2011 to euro 2,337,403 thousand at December 31, 2012.
The net increase from December 31, 2011 (euro 191,304 thousand) is substantially due to the net income for the period (positive euro 393,785 thousand), the combined effect of inflation/depreciation upon application of inflation accounting in Venezuela (positive euro 21,245 thousand), fair value adjustment of available-for-sale investments (positive euro 23,758 thousand) and derivative financial instruments in cash flow hedges (positive euro 12,034 thousand), offset by the negative changes related to dividend pay-outs (euro 132,382 thousand), exchange differences from conversion into euro of the financial statements of subsidiaries whose functional currency is not the euro (euro 66,052 thousand), and actuarial losses on pension funds (euro 61,979 thousand).

The subscribed and paid-up **share capital** at December 31, 2012 (including treasury shares) is represented by 475,740,182 ordinary shares and 12,251,311 savings shares, without par value and having normal entitlements, for a total of euro 1,345,381 thousand. The share capital is presented net of the value of treasury shares (351,590 ordinary shares and 408,342 savings shares), for a net total of euro

1,343,285 thousand. The total of treasury shares represents 0.16% of share capital.

The **equity per share** was euro 4.790, compared with euro 4.398 at December 31, 2011.

20.2 EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

The equity attributable to non-controlling interests rose from euro 45,479 thousand at December 31, 2011 to euro 52,026 thousand at December 31, 2012. The net increase of euro 6,547 thousand is mainly due to the net income for the period (positive euro 4,451 thousand) and capital increases for euro 5,487 thousand, offset by euro 3,006 thousand due to dividend pay-outs.

The principal non-controlling interests are illustrated as follows:

	12/31/2012	12/31/2011
Drahtcord Saar Gmbh & Co. K.G. (Germania)	50.00%	50.00%
Euro Driver Car S.L. (Spagna)	47.14%	46.58%
Yanzhou Hixih Ecotech Environment CO. Ltd (Cina)	40.00%	40.00%
PT EVOLUZIONE TYRES (Indonesia)	40.00%	-
Driver Italia S.p.A. (Italia)	27.64%	27.55%
E-VOLUTION Tyre B.V. (Olanda)	25.00%	25.00%
S.C. Cord Romania S.R.L (Romania)	20.00%	20.00%
Alexandria Tyre Co. S.A.E. (Egitto)	10.90%	10.90%
Pirelli Tyre Co. Ltd (Cina)	10.00%	10.00%
Pirelli de Venezuela C.A. (Venezuela)	3.78%	3.78%

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)

	12/31/2012	12/31/2011
Opening balance	156,898	165,732
Translation differences	(9,690)	(9,551)
Increases	19,178	7,896
Decreases	(24,156)	(7,181)
Other	-	2
Closing balance	**142,230**	**156,898**

PROVISION FOR LIABILITIES AND CHARGES/CURRENT PORTION (in thousands of euro)

	12/31/2012	12/31/2011
Opening balance	124,671	115,984
Translation differences	(1,806)	(173)
Increases	23,337	39,425
Decreases	(33,869)	(32,243)
Other	(1,494)	1,678
Closing balance	**110,839**	**124,671**

The **provisions for liabilities and charges – non-current portion** mainly refer to accruals made by the Brazilian subsidiary Pirelli Pneus Ltda for lawsuits and tax litigation (euro 53,006 thousand) and labour lawsuits (euro 37,875 thousand) and the parent company Pirelli & C. S.p.A. for tax litigation (euro 26,104 thousand) and commercial risks, site clean-up and labour disputes (euro 24,382 thousand).

The **increases in the non-current portion** mainly refer to accruals for labour disputes at the subsidiary Pirelli Pneus Ltda, commercial risks, site clean-up and labour disputes at the parent company Pirelli & C. S.p.A. and to contingent liabilities at the newly acquired company Campneus Lider de Pneumaticos Ltda.

The **decreases in the non-current portion** refer both to utilizations associated to the occurring of the obligation and to reversal of excess accruals, and mainly reflect settlement of labour disputes and tax litigation at the Brazilian subsidiary Pirelli Pneus Ltda.

The **provisions for liabilities and charges – current portion** mainly include amounts set aside for claims and product warranties (euro 40,847 thousand), site clean-up of disused tracts of land (euro 7,971 thousand), reorganisation and closure of business units (euro 18,311 thousand), litigation for occupational diseases (euro 8,424 thousand), tax risks (euro 3,489 thousand), labour lawsuits (euro 7,166 thousand) and industrial accident insurance (euro 4,759 thousand).

The **increases in the current portion** mainly concern the accruals for product warranties, reorganisation and closure of business units, and labour lawsuits.

The **decreases in the current portion** related mainly to closure of the disputes for occupational diseases, product warranties and claims at the Italian based units, and to product warranties and claims in Germany, China and North America.

22. EMPLOYEE BENEFIT OBLIGATIONS

This item includes:

(in thousands of euro)

	12/31/2012	12/31/2011
Pension funds:		
funded	271,288	266,404
unfunded	99,681	85,014
Employees'leaving indemnity (Italian companies)	47,007	40,484
Healthcare plans	20,403	21,270
Other benefits	84,578	68,564
	522,957	**481,736**

Pension funds

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

(in thousands of euro)

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

The characteristics of the principal pension funds existing at December 31, 2012 are described as follows:

- Germany: this is an unfunded defined-benefit plan based on the final salary. It provides a supplementary pension in addition to the state pension. The plan was closed in October 1982; consequently the members of the plan are employees whose employment began prior to that date;
- USA: this is a funded defined-benefit plan based on the final salary. It provides a supplementary pension in addition to the state pension and is administered by a trust. The plan was closed in 2001 and frozen in 2003 for employees who were transferred to a defined-contribution scheme. All members of the plan are retired;
- UK: these are funded defined-benefit plans based on the final salary. They provide a supplementary pension in addition to the state pension and are administered in trusts. The plans were closed in 2001. The Total Tyre plan was frozen in 2010 for employees hired before 2001, who were transferred to a defined contribution plan. The plan operated by the subsidiary Pirelli UK Ltd, which includes the employees in the Cables and Systems segment sold in 2005, had already been frozen at the time of the sale in 2005;
- Sweden: this is a defined benefits plan (ITP2), which was closed to new participants, with the only participants being retired employees and recipients of deferred pensions.

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

(in thousands of euro)

	12/31/2012	12/31/2011
Opening balance	**1,160,622**	**1,091,594**
Translation differences	18,788	33,114
Business combinations	3,278	-
Movements through Income Statement:		
current service cost	811	1,006
interest cost	55,326	55,869
Actuarial (gains) losses recognised in Equity	48,611	35,024
Employer contributions	27	26
Benefits paid	(63,109)	(55,752)
Other	(441)	(259)
Closing balance	**1,223,913**	**1,160,622**

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

(in thousands of euro)

	12/31/2012	12/31/2011
Opening balance	**(809,204)**	**(789,013)**
Translation differences	(14,915)	(26,346)
Movements through Income Statement:		
expect return on plan assets	(48,829)	(51,302)
Actuarial (gains) losses recognised in Equity	3,988	44,667
Employer contributions	(41,000)	(36,737)
Employee contributions	(27)	(26)
Benefits paid	56,602	49,294
Other	441	259
Closing balance	**(852,944)**	**(809,204)**

The assumptions used to calculate the expected return on the pension plan assets are based on the expected returns of the underlying assets (shares, bonds and deposits). The expected return is derived from the general average of the returns expected from the assets for each separately identified investment class, with reference to an effective or objective composition of the assets.
The expected return of each investment class is derived from the market returns available at the reporting date. In particular, the expected return on stock is derived from a risk-free rate of return with the addition of an adequate risk premium.

The following table shows a breakdown of funded pension plan assets:

(in %)

	12/31/2012			12/31/2011		
	UK	USA	Other	UK	USA	Other
Shares	15%	44%	-	10%	70%	-
Bonds	23%	46%	-	14%	25%	-
Deposits	4%	-	-	19%	-	-
Balanced funds	56%	-	-	56%	-	-
Other	2%	10%	100%	1%	5%	100%
	100%	**100%**	**100%**	**100%**	**100%**	**100%**

In the United Kingdom, the investment strategy has been modified by adopting a new governance system, called fiduciary management. This aims to guarantee higher professional standards and faster reaction to financial market dynamics, as part of a mandate that defines management limits, especially in terms of risk management. Consequently a portfolio of financial instruments was defined with the aim of exact replication of pension liability dynamics in terms of related cash flows. This approach has already reduced risks by about one third overall, in addition to hedging of interest rates (30% plus 35% partial) and inflation (80%). These risks will be further reduced by increasing the degree of their coverage gradually as financial market conditions allow, in view of progressive de-risking.
An analogous governance system was introduced in the United States during 2012, aimed at pursuing the same objectives of reducing volatility.

The actual return on pension plan assets was as follows:

(in thousands of euro)

	USA	UK	Other	Total
Actual return 2012 - (Gains)/Losses	(10,377)	(33,707)	(759)	(44,843)
Actual return 2011 - (Gains)/Losses	(2,694)	(5,564)	(166)	(8,424)

The pension fund costs recognised in the income statement are as follows:

(in thousands of euro)

	12/31/2012	12/31/2011
Current service cost	811	1,006
Interest cost	55,326	55,869
Expected return on plan assets	(48,829)	(51,302)
	7,308	**5,573**

The amounts expensed to the income statement are included in the item “Personnel Expense” (note 31).

The contributions expected to be paid into the pension funds during 2013 total euro 40,364 thousand.

Employees' leaving indemnities – Italian companies

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

(in thousands of euro)

	12/31/2012	12/31/2011
Opening balance	**40,484**	**44,470**
Movements through Income Statement	2,031	2,165
Actuarial (gains) losses recognised in Equity	7,231	(166)
Payments/advances	(2,551)	(5,690)
Other	(188)	(295)
Closing balance	**47,007**	**40,484**

The changes recognised in the Income Statement for 2012 relate only to interest expenses accrued on employees' leaving indemnities at December 31, 2011. Following the reform introduced in the 2007 Italian Budget Act, employees' leaving indemnities were transformed into a defined-contribution plan.

The amounts expensed to the income statement are included in the item "Personnel Expenses" (note 31).

Healthcare plans

Healthcare plans are broken down as follows:

(in thousands of euro)

	USA
Liabilities recognised at 12/31/2012	20,403
Liabilities recognised at 12/31/2011	21,270

The healthcare plan existing in the United States covers white and blue collars, both active and retired.
The plan is divided into two components "pre-Medicare" and "post-Medicare"; the latter is reserved for participants more than 65 years old.
Contributions are paid by both the employer and the employees.

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

(in thousands of euro)

	12/31/2012	12/31/2011
Opening balance	**21,270**	**19,768**
Translation differences	(399)	716
Movements through Income Statement:		
current service cost	4	4
interest cost	881	925
Actuarial (gains) losses recognised in Equity	(41)	1,019
Benefits paid	(1,312)	(1,162)
Closing balance	**20,403**	**21,270**

The effect of an increase or decrease of one percentage point in the projected healthcare cost trend rates is as follows:

(in thousands of euro)

	Increase 1%		Decrease 1%	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
Effect on current service and interest cost	33	33	(29)	(32)
Effect on liabilities recognised in the balance sheet	697	765	(606)	(742)

The healthcare plan costs expensed to income are as follows:

(in thousands of euro)

	12/31/2012	12/31/2011
Current service cost	4	4
Interest cost	881	925
	885	**929**

The amounts expensed to the income statement are included in the item “Personnel Expense” (note 31).

Additional information regarding post-employment benefits

Net actuarial losses accrued in 2012 and recognised directly in equity totalled euro 62,000 thousand (at December 31, 2011 net actuarial losses totalled euro 80,647 thousand).

The cumulative amount of net losses at December 31, 2012, euro 548,897 thousand, including euro 548,846 thousand attributable to the owners of the parent (at December 31, 2011 net losses totalled euro 486,590 thousand, including euro 486,562 thousand attributable to the owners of the parent), is broken down as follows:

(in thousands of euro)

	Cumulative at 12/31/2012					
	Italy	Germany	USA	UK	Other countries	Total
Pension funds	-	(23,204)	(106,304)	(403,686)	(13,774)	(546,968)
Healthcare plans	-	-	(10,666)	-	-	(10,666)
Employees'leaving indemnity	8,737	-	-	-	-	8,737
Total actuarial gains (losses) recognised in Equity	**8,737**	**(23,204)**	**(116,970)**	**(403,686)**	**(13,774)**	**(548,897)**

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

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

(in thousands of euro)

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

The principal actuarial assumptions used at December 31, 2012 and for determining the projected cost for 2013 are as follows:

(in thousands of euro)

	12/31/2012					
	Italy	Germany	Netherlands	Sweden	UK	USA
Discount rate	3.15%	3.15%	3.15%	3.60%	4,55% - 4,60%	3.75%
Inflation rate	2.00%	2.00%	2.00%	2.00%	2,80% - 2,90%	-
Expected rate of wage and salary increases		3.00%	2.00%		2,90% - 3,80%	-
Healthcare cost trend rates - initial	-	-	-	-	-	7.50%
Healthcare cost trend rates - final	-	-	-	-	-	4.50%

The principal actuarial assumptions used at December 31, 2011 and for determining the projected cost for 2012 were as follows:

(in thousands of euro)

	12/31/2012				
	Italy	Germany	Netherlands	UK	USA
Discount rate	4,60%	4,60%	4,60%	4,80%	4,60%
Inflation rate	2,00%	2,00%	2,00%	3,00%	-
Expected return on plan asset	-	-	4,60%	5,77%	7,10%
Expected rate of wage and salary increases	-	2,50%	2,00%	3,00% - 4,00%	-
Healthcare cost trend rates - initial	-	-	-	-	7,50%
Healthcare cost trend rates - final	-	-	-	-	4,50%

The discount rates are used to measure the obligation and the financial component of the net present cost. The Group selected these rates on the basis of the yield curve of fixed-income securities (corporate bonds) of major companies (with AA+ ratings) at the valuation date of the plans.

The healthcare cost trend rate represents the projected increase in expenses for medical assistance. This rate is determined on the basis of the specific experience of the segment and of various trends, including the specific inflation projections in the healthcare sector.

The initial rate used represents a short-term trend based on recent experience and on prevailing market conditions. The final rate used is a long-term assumption which takes into account, among other factors, inflation in healthcare costs on the basis of the general inflation trend, incremental medical inflation, technologies, new drugs, the average age of the population and a different mix of medical services.

The expected rates of return on the assets reflect the estimates of the trend in average long-term rates of the pension fund assets for the entire duration of the obligation. The expected return is defined for each asset class (equities, bonds, cash, and real estate) and is net of the projected administrative costs. The historical trend and the correlation of the returns, estimates of future trends and other significant financial factors are analysed to ensure that they are reasonable and consistent.

The adjustments based on past experience, in relation to defined benefit plans, are as follows:

(in thousands of euro)

	12/31/2012	12/31/2011	12/31/2010	12/31/2009	12/31/2008
Experience adjustments on plan liabilities - (gains) losses	(213)	(14,842)	19,295	942	(9,553)
Experience adjustments on plan assets - (gains) losses	(13,830)	36,985	(39,786)	(56,158)	224,875

The adjustments of liabilities represent the change of the actuarial liability not deriving from modifications of the actuarial assumptions. They normally include changes in the demographic and compensation structure. Changes to the plan rules (past service costs) are excluded from the past experience.

The adjustments of the assets represent the difference between the actual return of the assets and the return expected at the beginning of the year.

Other benefits

Other benefits are broken down as follows:

(in thousands of euro)

	12/31/2012	12/31/2011
Long-term incentive plans	12,371	7,659
Jubilee awards	16,419	14,633
Benefits similar to employees'leaving indemnity - non-Italian companies	35,931	25,374
Other long-term benefits	19,857	20,898
	84,578	**68,564**

The **long-term bonus plans**, amounting to euro 12,371 thousand (euro 7,659 thousand at December 31, 2011) reflects the best estimate of the amount accrued for 2012 under the three-year Long Term Incentive Plan 2012-2014 for Pirelli Group management, approved by the Board of Directors of Pirelli & C. S.p.A. at its March 12, 2012 meeting and subsequently, pursuant to Article 114-*bis* TUF, by the Shareholders' Meeting on May 10, 2012. The balance at December 31, 2011 (euro 7,659 thousand) referred to the long-term incentive plan approved by the Board of Directors of Pirelli & C S.p.A. on November 3, 2010 for the period 2011-2013, which was closed in 2012 after payment of the vested amounts to plan participants.

23. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

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

(in thousands of euro)

	12/31/2012			12/31/2011		
	Total	Non-current	Current	Total	Non-current	Current
Bonds	614,150	614,150	-	499,662	499,662	-
Borrowings from banks	1,735,225	1,352,850	382,376	1,209,064	875,080	333,984
Borrowings from other financial institutions	6,466	4,890	1,576	7,959	7,216	743
Finance lease payabls	17,353	4,313	13,041	23,102	19,950	3,152
Financial accrued expenses and deferred income	47,565	4,413	43,152	31,671	589	31,082
Other financial payables	15,541	15,159	382	490	-	490
	2,436,301	**1,995,775**	**440,526**	**1,771,948**	**1,402,497**	**369,451**

The item **bonds** refers to:

- the unrated bond placed by Pirelli & C. S.p.A. on the Eurobond market for an aggregate nominal amount of euro 500 million, a fixed coupon of 5.125% and maturity in February 2016;
- the private placement by Pirelli International Ltd on the American market for an aggregate nominal amount of USD 150 million (equal to euro 113,688 thousand), with a duration of between 5 and 12 years and having the following characteristics:

(in thousands of USD)

Maturity	12/05/2017	12/05/2019	12/05/2022	12/05/2024
Notional	15,000	30,000	45,000	60,000
Coupon	4.22%	4.65%	5.20%	5.35%

- issuer: Pirelli International Ltd
- guarantors: Pirelli & C. S.p.A. and Pirelli Tyre S.p.A.
- amount: USD 150 million
- settlement date: December 5, 2012

The carrying value of the bond at December 31, 2012 was determined as follows:

(in thousands of euro)

	12/31/2012	12/31/2011
Nominal value	613,688	500,000
Transaction costs	(6,149)	(5,296)
Amortisation of effective interest rate	1,816	816
Adjustment for fair value hedge accounting	4,795	4,142
	614,150	**499,662**

Bank borrowings refer mainly to:

- loans granted by the European Investment Bank (EIB) in favour of Pirelli & C. S.p.A. and Pirelli Tyre S.p.A. for research and development projects and in favour of S.C. Pirelli Tyres Romania S.r.l. for local industrial investments. These loans total euro 275,000 thousand (euro 400,000 thousand at December 31, 2011), fully used, of which euro 25,000 thousand (euro 125,000 thousand at December 31, 2011) classified as current bank borrowings and euro 250,000 thousand (euro 265,000 thousand at December 31, 2011) classified as non-current bank borrowings;
- euro 575,000 thousand for utilisation of the syndicated facility (euro 360,000 thousand at December 31, 2011), granted to Pirelli & C. S.p.A., Pirelli Tyre S.p.A. and Pirelli International Limited for a total amount of euro 1,200,000 thousand, subscribed on November 30, 2010 and having a maturity of five years. These utilisations were classified as non-current bank borrowings due in 2015 (between 2 and 5 years);
- euro 155,000 thousand for the *Schuldschein*, a syndicated loan by the lender on the basis of a German law debt security, granted to Pirelli International Ltd and guaranteed by Pirelli & C. S.p.A. and Pirelli Tyre S.p.A., disbursed on December 14, 2012 with a duration of between 3.5 and 7 years;
- euro 116,000 thousand classified as non-current bank borrowings, disbursed by BBVA to the Mexican associates in December 2012 with a duration of 5 years;
- euro 29,600 thousand, including euro 22,200 classified as non-current bank borrowings, disbursed by Banco Nacion Argentina between October 2011 and June 2012 in favour of Pirelli Neumaticos S.A.I.C. The loan has a duration of five years and includes an amortisation schedule for repayment of the principal beginning in September 2012. The instalment for principal to be repaid by December 31, 2013 has been classified as a current bank borrowing;
- use of uncommitted credit lines at the local level, especially in China, Brazil and Turkey.

At December 31, 2012 the Group had, aside from cash and financial assets held for trading of euro 904,511 thousand, unused committed credit facilities of euro 625,000 thousand (euro 840,000 thousand at December 31, 2011) maturing in 2015.

Please see note 9.1 “Finance leases” in regard to **finance lease payables**.

Financial accrued expenses and deferred income, totalling euro 47,565 thousand, mainly include euro 21,974 thousand (unchanged from December 31, 2011) for the interest accrued but not yet paid on the bond, the accrued expense for interest accrued but not yet paid on interest rate swaps (euro 17,854 thousand; euro 5,148 thousand at December 31, 2011), and the deferred income for euro 2,565 thousand on the up-front commission for the loan made to Prelios S.p.A.

The **non-current other financial payables** include the euro 15,159 thousand debt for acquisition of 40% of the company Campneus Lider de Pneumaticos Ltda from the Faria da Silva family, as described in detail at note 7 “Business combinations”.

Financial payables backed by secured guarantees (pledges and mortgages) totalled euro 42,058 thousand (euro 26,738 thousand at December 31, 2011).

For current payables, the carrying amount is considered approximate to their fair value.
Current payables include the portion of non-current financial payables, totalling euro 297,000 thousand (euro 284,900 thousand at December 31, 2011), that will be settled within one year.

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

(in thousands of euro)

	12/31/2012		12/31/2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	614,150	641,149	499,662	481,370
Borrowings from banks	1,352,850	1,364,677	875,080	879,864
Othr non-current financial payables	28,775	28,775	27,755	27,755
	1,995,775	**2,034,601**	**1,402,497**	**1,388,989**

At December 31, 2012, the breakdown of payables by interest rate and by currency of origin of the debt is as follows:

(in thousands of euro)

	Fixed rate		Floating rate		Total
EUR	54,460		18,799		73,259
BRL (Brazil 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
USD	37,998		81,195		119,193
BRL (Brazil 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 situation at December 31, 2011 was as follows:

(in thousands of euro)

	Fixed rate		Floating rate		Total
EUR	131,693		11,730		143,423
BRL (Brazil Real)	131,200		9,759		140,959
CNY (Chinese Renminbi)	19,616		-		19,616
RON (Romanian Leu)	296		24,643		24,939
TRY (Turkish Lira)	30,755		-		30,755
Other currencies	9,759		-		9,759
Current payables	**323,319**	**88%**	**46,132**	**12%**	**369,451**
EUR	861,350		222,550		1,083,900
USD (US Dollar)	5,308		-		5,308
BRL (Brazil Real)	19,530		104,564		124,094
CNY (Chinese Renminbi)	-		113,277		113,277
RON (Romanian Leu)	-		65,101		65,101
ARS (Argentinian Pesos)	10,817		-		10,817
Non current payables	**897,005**	**64%**	**505,492**	**36%**	**1,402,497**
	1,220,324	**69%**	**551,624**	**31%**	**1,771,948**

The value of fixed-rate payables indicated above includes those established by contract as fixed-rate payables and those established by contract as variable-rate payables to offset which hedging derivatives have been put in place.

The Group's exposure to fluctuations in interest rates on financial payables, both in terms of the type of rate and their resetting date, are summarised below:

(in thousands of euro)

	12/31/2012			12/31/2011		
	Total	Fixed rate	Floating rate	Total	Fixed rate	Floating rate
Up to 6 months	889,636	419,430	470,206	686,448	244,824	441,624
From 6 to 12 months	12,701	12,701	-	87,818	87,818	-
From 1 to 5 years	1,506,501	1,375,744	130,757	979,010	869,010	110,000
More than 5 years	27,463	27,463	-	18,672	18,672	-
	2,436,301	**1,835,338**	**600,963**	**1,771,948**	**1,220,324**	**551,624**

The **average cost of debt** in 2012 was about 5.79% (about 5.5% in 2011).

In regard to the financial covenants and negative pledge clauses, we note 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 used for euro 575,000 thousand, contains just one financial covenant: a certain ratio must be maintained between consolidated net indebtedness and gross operating profit. This parameter was fully satisfied at December 31, 2012. In regard to the negative pledges, the

credit facility provides for a commitment not to grant secured guarantees, above a threshold defined as the greater of euro 100,000 thousand and 3% of Total Assets (as defined in the consolidated financial statements of Pirelli & C. S.p.A.), with the exception of secured guarantees on the existing debt or debt to replace it, to be granted pursuant to law, relating to trade finance, project finance and subsidised finance;

- the private placement for a total of USD 150 million with due dates falling between December 5, 2017 and December 5, 2024 envisages, aside from the commitments indicated hereinabove:
  - satisfaction of a ratio between non-centralised indebtedness (at companies other than Pirelli International Limited, Pirelli & C. S.p.A. and Pirelli Tyre S.p.A.) and total assets as reported in the consolidated financial statements of Pirelli & C. S.p.A. set at 25% (and that the ratio between secured debt and total assets not exceed 15% in any event);
  - introduction of a financial covenant whereby the ratio between gross operating profit and financial expenses as reported in the consolidated financial statements of Pirelli & C. S.p.A. be greater than or equal to 3.5 when the ratio between net consolidated indebtedness and gross operating profit is greater than 2.5;
- the *Schuldschein* obtained by Pirelli International Limited for a total of euro 155,000 thousand, with due dates falling between June 14, 2016 and December 14, 2019 envisages, in the case of negative pledges, the undertaking not to grant secured guarantees beyond the threshold defined as being the higher of euro 100,000 thousand and 3% of Total Assets (as defined in the consolidated financial statements of Pirelli & C. S.p.A.), with the exception of secured guarantees on existing debt or debt to replace it, to be granted pursuant to law, relating to trade finance, project finance and subsidised finance.

The other outstanding financial payables do not contain financial covenants.

24. TRADE PAYABLES

Trade payables may be broken down as follows:

(in thousands of euro)

	12/31/2012			12/31/2011		
	Total	Non-current	Current	Total	Non-current	Current
Suppliers	1,251,404	-	1,251,404	1,365,402	-	1,365,402
Notes payable	17,279	-	17,279	17,370	-	17,370
	1,268,683	**-**	**1,268,683**	**1,382,772**	**-**	**1,382,772**

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

25. OTHER PAYABLES

Other payables may be broken down as follows:

(in thousands of euro)

	12/31/2012			12/31/2011		
	Total	Non-current	Current	Total	Non-current	Current
Trade and other accrued liabilities and deferred income	77,032	28,393	48,640	87,554	16,829	70,725
Tax payables	103,966	8,860	95,107	66,434	13,972	52,462
Payables to employees	86,555	154	86,401	210,060	101	209,959
Payables to social security and welfare intitutions	60,867	20,862	40,005	69,273	16,588	52,685
Dividends payable	1,870	-	1,870	408	-	408
Other payables	157,907	12,374	145,534	251,488	6,490	244,998*
	488,198	**70,643**	**417,556**	**685,217**	**53,980**	**631,237**

* The amount of other payables at 12/31/2011 has ben restated to include retrospectively the effects of the final purchase price allocation related to the acquisition in Russia as described in the note 7 "Business Combination".

Non-current trade accrued liabilities and deferred income include euro 24,389 thousand for capital grants received for investments made in Mexico and Romania.

The reduction in **current payables to employees** from December 31, 2011, amounting to euro 123,558 thousand, is mainly due to payment of the 2009-2011 long-term bonus plan (euro 77,136 thousand) and lower provisions accrued for the annual variable management bonus plan.

The **other current payables** (euro 145,534 thousand) mainly consist of:

- euro 95,568 thousand payables for the purchase of property, plant and equipment (euro 121,197 at December 31, 2011);
- payables of euro 7,838 thousand for withholdingtax owed by the Tyre Business (euro 8,266 thousand at December 31, 2011) ;
- euro 7,491 thousand advances from customers (euro 5,918 thousand at December 31, 2011);
- payables of euro 5,263 thousand to agents, professionals and consultants (euro 4,427 thousand at December 31, 2011).

The euro 99,464 reduction in **other current payables** from December 31, 2011, stems principally from payment of the debt to Sibur Holding for euro 57,860 thousand for the residual amount of the price for acquisition of the Russian companies OJSC Kirov Plant and Amtel Russian Tyre, and elimination of the liability for the contractually agreed earn-out in the acquisition of assets in Russia for euro 10,046 thousand, owed upon punctual revision of the estimated benchmarks, which show that the thresholds necessary for its payment probably will not be reached.

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

26. TAX PAYABLES

Tax payables mainly consist of national and regional income taxes in the various countries and total euro 81,781 thousand (including euro 4,172 thousand in non-current liabilities), compared with euro 80,202 thousand at December 31, 2011 (including euro 4,817 thousand in non-current liabilities).

27. DERIVATIVE FINANCIAL INSTRUMENTS

This item includes the fair value of derivative instruments outstanding at December 31, 2012.
The breakdown is shown as follows:

(in thousands of euro)

	12/31/2012		12/31/2011	
	Current Assets	Current Liabilities	Current Assets	Current Liabilities
Hedge accounting not adopted				
Foreign currency derivatives - commercial transactions	28,847	(25,588)	46,161	(45,036)
Foreign currency derivatives - included in net financial position	13,065	(19,168)	16,120	(6,138)
Interest rate derivatives	-	-	-	(621)
Other derivatives - included in net financial position	296	-	-	-
Hedge accounting adopted				
cash flow hedge:				
Foreign currency derivatives - commercial transactions	603	(927)	-	-
Interest rate derivatives	-	(50,665)	-	(42,288)
Other derivatives	117	-	-	(9,829)
fair value hedge				
Interest rate derivatives - included in net financial position	4,775	-	4,142	-
Other derivatives	-	-	3,923	-
	47,703	**(96,348)**	**70,346**	**(103,912)**
Total derivatives included in net financial position	**18,136**	**(19,168)**	**20,262**	**(6,138)**

Derivative financial instruments for which hedge accounting was not adopted

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

Derivative financial instruments for whichhedge accounting was adopted

CASH FLOW HEDGE

The value of **interest rate derivatives**, recognised under current liabilities for euro 50,665 thousand (euro 42,288 thousand at December 31, 2011), consists mainly of:

- euro 2,334 thousand (euro 613 thousand at December 31, 2011) for the fair value of four "plain vanilla" interest rate swaps on a notional amount of euro 100 million, which envisage the payment of an average fixed interest rate of 1.338% on a quarterly basis and collection of a variable 3-month Euribor interest rate on a quarterly basis with the same frequency of payment of the coupon on the financing. These derivatives were made to hedge against a rise in interest rates on a euro 100 million loan at a variable 3-month Euribor rate of 0.328% with spread granted by the European Investment Bank (EIB) in favour of Pirelli Tyre S.p.A. for research and development projects. A negative euro 1,721 thousand was recognised in equity for the year;
- euro 39,566 thousand (euro 41,567 thousand at December 31, 2011) for the fair value of 12 "plain vanilla" interest rate swaps negotiated in 2009 and 2010 on a notional amount of euro 575 million forward start beginning February 2012 and maturing February 2015, which envisage the payment of an average fixed interest rate of 3.384% per annum and collection of a variable 1-month Euribor interest rate on a monthly basis. These derivatives had initially been made to hedge against the

rise in interest rates associated with the variable rate revolving syndicated credit facility of euro 675 million subscribed in February 2007 by Pirelli Tyre S.p.A. and Pirelli International Limited or in anticipation of new variable rate financing with similar characteristics replacing the syndicated credit facility on maturity, for which hedge accounting had been used. Following issuance of the fixed rate bond for euro 500 million in February 2011 and simultaneous reimbursement of the utilised portion of the aforementioned syndicated credit facility for euro 380 million, on February 28, 2011, hedge accounting was interrupted for all existing derivatives insofar as the conditions envisaged in IAS 39 no longer existed.
On July 1, 2011 hedge accounting was resumed for these derivatives on the basis of the new variable rate payables included in the 2011-2014 three-year plan.

The change in fair value between the date that hedge accounting was interrupted and the date it was resumed – negative euro 2,341 thousand – was charged to the Income Statement. The cash flow hedge reserve accumulated at the date that hedge accounting was interrupted, amounting to a negative euro 14,291 thousand, was frozen and transferred to the Income Statement beginning February 2012 until February 2015, i.e. the period when the future transaction will impact the Income Statement. The amount recognised in equity during the period for the effective part was euro 5,863 thousand, broken down as follows:

- euro 2,001 thousand for profits recognised in equity during the period;
- euro 3,862 thousand for reclassification to the Income Statement of losses previously accumulated in equity until the interruption of hedge accounting (see note 36 “Financial expenses”);

- euro 8,420 thousand 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 (see 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. The payable is converted into euro and the fixed rate interest flows denominated in U.S. dollars are transformed into euro at an equivalent fixed rate for the tranches maturing in 2017 and 2019. For the tranches maturing in 2022 and 2024, the euro rate is variable for the first two years and then switches to a fixed rate from the third year until maturity. A negative euro 6,159 thousand was recognised in equity for the year.

The value of **other derivatives** (current assets of euro 117 thousand – current liabilities of euro 9,829 thousand at December 31, 2011) reflects the fair value of natural rubber futures contracts that were purchased. The purpose of this hedge is to limit exposure to the economic effects resulting from a change in natural rubber prices, and consequently stabilise the cost of future supplies on a limited portion of the total requirements forecast in 2013. The net amount that was recognised in equity during the period was a positive euro 13,863 thousand, of which:

- euro 13,022 thousand for losses recognised in equity during the period;
- euro 26,885 thousand for reclassification in the income statement, as an adjustment to natural rubber purchases, of losses previously recognised in equity and related to purchases made during the year.

FAIR VALUE HEDGE

The value of **interest rate derivatives** (current assets for euro 4,775 thousand) corresponds to 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 (see note 23 “Borrow-

ings from banks and other financial institutions"). These derivatives envisage the collection of a fixed rate of 5.125% per annum with the same frequency of payment as the coupon on the bond, which also pays interest at a rate of 5.125%, and payment of a variable 6-month Euribor rate with an average spread of 2.38%.
Fair value hedge accounting was adopted for these derivative financial instruments, according to which the positive change in fair value of the derivative instrument (euro 633 thousand at December 31, 2012) is recognised in the Income Statement and is offset by a loss on the bond attributable to the hedged risk for the same amount, recognised in the Income Statement under financial expenses and that adjusted the carrying amount of the bond ("basis adjustment").

28. COMMITMENTS AND CONTINGENCIES

Commitments for purchase of property, plant and equipment
The commitments to purchase property, plant and equipment amount to euro 120,735 thousand (euro 154,803 thousand at December 31, 2011), mostly regarding companies in Russia, Romania, Brazil, China, Germany, Italy, Mexico and Indonesia.

Commitments for purchase of equity interests/fund units
These refer to commitments by Pirelli Finance (Luxembourg) S.A. to subscribe units of the company Equinox Two S.c.a., a private equity company specialised in investments in listed and unlisted companies with high growth potential, for a maximum countervalue of euro 4,107 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 current tax litigation can be summarised as follows.
At the end of 2006, the Italian Internal Revenue Agency ("Agenzia delle Entrate") served Olimpia S.p.A. with an assessment notice for **2001**, concerning IRAP (regional tax on productive activity).
More precisely, on the basis of an assumption which is entirely groundless both legally and economically, the Agenzia delle Entrate had found that non-existent financial income had been realised on the Bell Bond Loan redeemable with Olivetti shares, with a consequent IRAP tax of euro 26.5 million (with euro 21.2 million being the portion attributable to the owners of Pirelli & C. S.p.A.), plus penalties for the same amount.
The Company appealed against this tax assessment, claiming that the ascertained taxable income was manifestly non-existent.
At the trial level, the Trial Tax Court accepted the Company's appeal, cancelling the entire tax assessment.
The Agenzia delle Entrate subsequently appealed this decision.
The appeal by the Agenzia delle Entrate was also rejected by the Regional Tax Court.
Notwithstanding the irreprehensible double judgements against it, the Agenzia delle Entrate filed an appeal before the Court of Cassation, against which the Company has filed a cross-appeal. It is awaiting scheduling of the hearing before the Court of Cassation.
As mentioned above, there are grounds to believe that the final judgement will be favourable.
In the assessment for the **2002** tax year, served at the end of 2007, Olimpia was characterised as a "shell company," on the basis of perfectly arbitrary reclassification of items on its financial statements and arbitrary statutory interpretations. The Company's appeal was not only accepted by the trial court, but the Ministry of Finance was also ordered to pay all legal costs.
The IRPEG (corporate income tax) claim amounted to Euro 29.3 million (with euro 23.4 million being the portion attributable to the owners of Pirelli & C. S.p.A.), plus penalties for the same amount.
Despite such a clear judgement, the Agenzia delle Entrate lodged its own appeal, which was heard before the Regional Tax Court. This court too ruled in favour of the Company.

The Agenzia delle Entrate did not appeal this last decision to the Court of Cassation. Therefore, the tax claim has been extinguished in consequence of the Regional Tax Court decision becoming final.
At the end of 2008, a second notice of assessment was served for the **2003** tax year, in which Olimpia was once again characterised as a "shell company."
The IRPEG (corporate income tax) claim amounted to euro 28.5 million (with euro 22.8 million being the portion attributable to the owners of Pirelli & C. S.p.A.), plus penalties for the same amount.
The Company appealed to the Tax Court of first instance against this tax assessment, which was, like the other ones, absolutely unfounded. The Tax Court ruled in favour of the Company.
The Agenzia delle Entrate lodged an appeal against the Trial Tax Court decision. The Company then submitted its own counter-arguments against that appeal.

Following extinguishment of the similar tax claim previously made for the previous tax year, the Agenzia delle Entrate requested at the hearing held on October 23, 2012 that discussion of this 2003 tax year claim be postponed until February 26, 2013. After that postponement, the case was postponed a second time, until September 24, 2013. Both postponements are aimed at preparing a similar abandonment of the claim, after first obtaining the necessary authorisation to do so from the Lombardy DRE (Regional Revenue Agency Head Office).
Finally, at the end of 2009, a third notice of assessment was served for the **2004** tax year, in which Olimpia was yet again characterised as a "shell company."
The IRES (corporate income tax) claim amounted to euro 29.6 million (with euro 23.7 million being the portion attributable to the owners of Pirelli & C. S.p.A.), plus penalties for the same amount.
This assessment, just like the ones that preceded it, is absolutely unfounded. Therefore, the Company lodged an appeal against it too before the Tax Court of first instance, which ruled in favour of the Company just as it had done before.
The Agenzia delle Entrate lodged an appeal against the Trial Tax Court decision. The Company then submitted its own counter-arguments against that appeal.
The appeal court hearing was held on May 30, 2012. The Regional Tax Court upheld the Trial Tax Court judgement in favour of the Company.
The Agenzia delle Entrate did not appeal this last decision to the Court of Cassation. Therefore, this third tax claim has also been extinguished in consequence of the Regional Tax Court decision becoming final, just as in the case of the 2002 tax year claim.

Other contingencies

As part of the investigation by the European Commission on the underground and submarine electric cable market, Pirelli received notice on **July 5, 2011** of charges against it in regard and limited to its status as controlling shareholder of Prysmian Cavi e Sistemi Energia S.r.l. until July 2005.
The notice contains the Commission's analysis on the allegedly anti-competitive practices of Prysmian Cavi e Sistemi Energia S.r.l. The Commission has not made any charge of direct participation by Pirelli in the alleged cartel.
Pirelli has submitted its own defence against the charges made in the aforementioned notice and will continue maintaining that it had absolutely nothing to do with the conduct criticised by the Commission in the subsequent phases of the proceeding before the Commission.
A mandatory hearing of the parties was held in June 2012 in consequence of the proceeding filed by the European Commission. Nothing new came out during that hearing in regard to what was previously known. No decision on the matter has yet been taken by the European Commission.

29. REVENUE FROM SALES AND SERVICES

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

(in thousands of euro)

	2012	2011
Total Tyre	5,933,871	5,530,048
Other activities	35,312	36,116
Revenue from sales of goods	**5,969,183**	**5,566,164**
Total Tyre	97,488	80,243
Other activities	4,864	8,386
Revenue from services	**102,352**	**88,629**
	6,071,535	**5,654,793**

30. OTHER INCOME

This item is broken down as follows:

(in thousands of euro)

	2012	2011
Gains on the sale of property, plant and equipment	22,485	1,021
Rent income	9,035	9,750
Insurance indemnities	12,676	9,726
Recoveries and reimbursements	59,519	55,235
Government grants	9,157	7,231
Other income	128,758	57,391
	241,630	**140,354**

The **gains from disposal of property, plant and equipment** include euro 19,600 thousand from the sale of several properties in Brazil during the last quarter of 2012.

Public contributions include euro 7,455 thousand for the contributions received from the Region of Piedmont for research projects.

The **other income** mainly consists of income from sports activities (euro 36,084 thousand), income from reversal of provisions for bad debts and provisions for liabilities and charges (euro 45,129 thousand), and elimination of the liability for the contractually agreed earn-out as part of the acquisition of assets in Russia for euro 10,046 thousand, owed upon punctual revision of the estimated benchmarks, which show that the thresholds necessary for its payment probably will not be reached.

The gains resulting from the sale of real estate in Brazil and the income resulting from elimination of the earn-out associated with the acquisition in Russia (for an aggregate amount of euro 29.6 million) are qualified as **non-recurring events** (12.2% of the total).

31. PERSONNEL EXPENSE

This account is broken down as follows:

(in thousands of euro)

	2012	2011
Wages and salaries	898,059	841,479
Social security and welfare contributions	193,306	180,117
Expenses for employees' leaving indemnity and similar costs (*)	33,846	32,102
Expenses for defined contribution pension funds	19,798	17,721
Expenses for defined benefit pension funds	7,308	5,573
Expenses for defined benefit healthcare plans	885	929
Expenses for jubilee awards	3,248	2,333
Expenses for defined contribution healthcare plans	39,032	33,556
Other costs	10,127	9,697
	1,205,608	**1,123,507**

* Includes Italian and foreign companies

The item **wages and salaries** includes euro 12,371 thousand relating to the portion accrued in 2012 for the 2012-2014 long-term bonus plan for Pirelli Group management, approved by the Board of Directors of Pirelli & C. at its meeting on March 12, 2012 and subsequently, pursuant to Article 114-*bis* TUF, by the Shareholders' Meeting on May 10, 2012 – see note 22 “Employee benefit obligations”.

Personnel expense includes euro 28,827 thousand for restructuring costs that are qualified as **non-recurring events** (2.4% of the total), compared with euro 16,054 thousand in 2011 (1.4% of the total).

32. AMORTISATION, DEPRECIATION AND IMPAIRMENT

This account is broken down as follows:

(in thousands of euro)

	2012	2011
Amortisation	11,342	3,558
Depreciation	260,065	221,377
Impairment of intangible assets	-	4,860
Impairment of property, plant and equipment	10,839	1,122
	282,246	**230,917**

This item includes euro 10,261 thousand in impairment, which is qualified as **non-recurring events** (3.6% of the total) compared with euro 4,860 thousand in 2011 (2.1% of the total).

33. OTHER COSTS

This item is broken down as follows:

(in thousands of euro)

	2012	2011
Selling costs	274,928	259,864
Purchases of goods for resale	381,326	324,940
Fluids and power	228,468	207,111
Advertising	196,208	154,653
Professional advice	54,252	45,541
Maintenance	64,767	54,042
Warehouse operating costs	46,485	41,120
Leases, rental and lease instalments	91,103	77,698
Outsourcing	25,350	20,987
Travel expenses	49,252	41,865
IT expenses	26,156	25,080
Compensation of key managers	6,255	13,420
Other provisions	13,352	35,710
Duty stamps, duties and local taxes	35,876	40,205
Canteen	14,014	18,342
Bad debts	8,129	20,667
Insurance	27,149	24,348
Cleaning expenses	17,756	15,200
Waste disposal	26,286	17,353
Security expenses	12,234	9,639
Telephone expenses	11,556	9,928
Other	180,769	116,298
	1,791,671	**1,574,011**

In **2011** this item included euro 6,861 thousand for **non-recurring events** in 2011 (0.4% of the total).

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 a negative euro 21,293 thousand, compared with a positive euro 2,903 thousand in 2011.
This result mainly consists of the amounts recognised for the shareholding in RCS Mediagroup S.p.A. (negative euro 20,132 thousand in 2012, compared with a negative euro 1,015 thousand in 2011), in Sino Italian Wire Technology Co. Ltd (negative euro 2,453 thousand in 2012, compared with a negative euro 1,635 thousand in 2011), in GWM Renewable Energy II S.p.A. (negative euro 1,568 thousand, compared with a positive euro 1,265 thousand in 2011) and in Eurostazioni S.p.A. (positive euro 2,573 thousand, compared with a positive euro 3,968 thousand in 2011).

34.2 GAINS FROM EQUITY INVESTMENTS

This item is broken down as follows:

(in thousands of euro)

	2012	2011
Ganis on disposal of available-for-sale financial assets	513	3,842
Other gains om equity investments	-	5
	513	**3,847**

34.3 LOSSES FROM EQUITY INVESTMENTS

This item is broken down as follows:

(in thousands of euro)

	2012	2011
Losses on disposal of available-for-sale financial assets	40	-
Impairment of equity investments in associates and jv	29	16,816
Impairment of available-for-sale financial assets	33,290	11,482
	33,359	**28,298**

The **impairment of available-for-sale financial assets** refers mainly to the equity investments 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), Fin. Priv. S.r.l. (euro 4,217 thousand), Prelios S.p.A. (euro 201 thousand) and Tlcom I LP (euro 591 thousand), whereas in 2011 it referred principally to the equity investment in Alitalia S.p.A. (euro 10,300 thousand) and the equity investment in FC Internazionale Milano S.p.A. (euro 638 thousand).
In this regard, also see note 12 "Other financial assets."

34.4 DIVIDEND INCOME

The amount of euro 1,892 thousand in 2012 consists principally of euro 788 thousand from Mediobanca S.p.A., euro 924 thousand from mutual fund income, euro 103 thousand from Fin. Priv. S.r.l.

The total for 2011 consisted principally of euro 2,678 thousand from Mediobanca S.p.A., euro 794 thousand from mutual fund income, euro 348 thousand from Fin. Priv. S.r.l. and euro 318 thousand from Advanced Digital Broadcast Holding S.A.

35. FINANCIAL INCOME

Financial income is broken down as follows:

(in thousands of euro)

	2012	2011
Interest	35,520	30,156
Other financial income	7,492	8,652
Fair value measurement of currency derivatives	-	15,343
Fair value measurement of other derivatives	-	2,522
	43,012	**56,673**

Interest includes euro 13,467 thousand on the loan made to Prelios S.p.A. (euro 6,525 thousand at December 31, 2011).

36. FINANCIAL EXPENSES

These are broken down as follows:

(in thousands of euro)

	2012	2011
Interest	106,388	74,741
Commissions	20,865	19,586
High inflation effect	6,427	10,542
Other financial expenses	4,588	4,433
Net losses on exchange rates	24,356	33,113
Fair value measurement of securities held for trading	85	3,698
Fair value measurement of currency derivatives	7,041	-
Fair value measurement of other derivatives	2,733	-
	172,483	**146,113**

Interest includes euro 26,620 thousand on the bond issued by Pirelli & C. S.p.A. (euro 22,790 thousand at December 31, 2011), euro 419 thousand for the private placement by Pirelli International Ltd on the American market, and euro 18,829 thousand for interest on interest rate swaps.

The **net losses on exchange rates** of euro 24,356 thousand (exchange rate losses of euro 765,229 thousand and exchange rate gains of euro 740,873 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 (euro 24,356 thousand) with the fair value measurement of the foreign exchange component of currency hedges negotiated as part of the Group currency risk management strategy (net gain of euro 36,659 thousand, as indicated in the underlying item "fair value measurement of currency derivatives") shows that net foreign exchange gains (losses) are substantially in balance, considering that the positive imbalance, amounting to euro 12,303 thousand, is mainly related to the start-up phase of the

currency risk management policy at the newly acquired companies in Russia.

The item **fair value measurement of currency derivatives** relates to forward purchases/sales of foreign currencies to hedge commercial and financial transactions, in accordance with the Group foreign exchange risk management policy. For transactions open at the end of the year, the fair value is determined using the forward exchange rate at the reporting date. Measurement at fair value is made up of two elements: the interest component linked to the interest rate spread between the two currencies subject to the individual hedges, a net hedging cost of euro 43,700 thousand, and the exchange rate component, a net gain of euro 36,659 thousand.

The **fair value measurement of other derivative instruments** (see note 27 "Derivative financial instruments") mainly consists of:

- negative euro 3,749 thousand for reclassification in the Income Statement of losses that were previously accumulated in equity and associated with interest rate derivatives for which hedge accounting was interrupted (negative euro 2,454 thousand at December 31, 2011);
- positive euro 653 thousand for the positive measurement of the interest rate swaps made by Pirelli & C. S.p.A. and Pirelli International Ltd on a notional value of euro 125 million and USD 150 million, for which fair value hedge accounting was adopted (positive euro 4,142 thousand at December 31, 2011);
- positive euro 396 thousand for the fair value measurement of other derivatives for which hedge accounting was not adopted.

37. INCOME TAXES

Income taxes for the year are broken down as follows:

(in thousands of euro)

	2012	2011
Current taxes	197,643	164,546
Deffered taxes	3,194	(130,089)
	200,837	**34,457**

In **2012** deferred taxes mainly reflect the utilisation of tax losses against the consolidated Italian income during the year and the adjustment of the deferred tax assets recognised in the previous year by Pirelli & C. S.p.A.

The reconciliation between theoretical taxes and effective taxes is presented below:

(in thousands of euro)

	2012	2011
Income (loss) before income taxes	599,073	475,108
Reversal of net income (loss) of associates and joint ventures	21,293	(2,903)
A) Total taxable income	**620,366**	**472,205**
B) Theoretical taxes	**206,724**	**169,248**
Main causes for changes between theoretical and effective taxes:		
Income not subject to taxation	(54,819)	(64,450)
Non-deductible costs	47,063	49,093
Use of tax losses carried forward	(7,897)	(11,622)
Unrecognised deferred tax assets	20,269	16,670
Taxes not related to income and costs for tax assessment	17,792	31,519
Oher	(28,296)	(27,908)
C) Effective taxes before recognition of deferred tax assets on losses carried forward in Italian tax consolidation programme	**200,837**	**162,549**
Deferred tax assets on losses carried forward		(128,092)
D) Effective taxes after recognition of deferred tax assets on losses carried forward in Italian tax consolidation programme	**200,837**	**34,457**
Theoretical Tax rate teorico (B/A)	33%	36%
Effective tax rate before recognition of deferred tax assets on losses carried forward by Pirelli & C. S.p.A. (C/A)	32%	34%
Effective tax rate after recognition of deferred tax assets on losses carried forward by Pirelli & C. S.p.A. (D/A)	32%	7%

The Group's effective tax burden for 2012 is attributable mainly to taxes payable by the Tyre Business (euro 209,955 thousand) for the positive taxable income of its subsidiaries.
The amount of taxes also includes accounting by Pirelli & C. S.p.A. of the positive effects deriving from the option for domestic tax consolidation.
The amount shown for taxes also reflects the benefits resulting from use of tax losses carried forward and income not subject to taxation, as well as the costs for taxes not related to income, such as the regional business tax (IRAP) and withholding taxes.

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:

	2012	2011
EUROPE		
Italy	31.40%	31.40%
Germany	29.48%	29.37%
Rumania	16.00%	16.00%
Great Britain	24.50%	26.50%
Turkey	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 26.50% in 2011 to 24.50% in 2012, 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)

	2012	2011
Net income (loss) attributable to owners of the Parent	393,785	451,608
Net income (loss) attributable to savings shares reflecting 2% minimun dividend	(9,758)	(11,191)
Adjusted net income (loss) attributable to owners of the Parent	384,027	440,417
Basic earning (loss) per ordinary share (in euro per share)	**0.808**	**0.926**
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 2012, Pirelli & C. S.p.A. paid to its shareholders dividends based on 2011 earnings equal to euro 0.27 per each of the 475,388,592 ordinary shares (excluding treasury shares) and euro 0.34 per each of the 11,842,969 savings shares (excluding treasury shares). The total dividends paid out amounted to euro 132,382 thousand. In 2011, Pirelli & C. S.p.A. paid to its shareholders dividends based on 2010 earnings equal to euro 0.165 per ordinary share (excluding treasury shares) and euro 0.229 per savings share (excluding treasury shares). The total dividends paid out amounted to euro 81,151 thousand.

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 beginning with preparation of the consolidated financial statements at December 31, 2009. It is the only Group company operating in a high-inflation country. For this purpose, a blended price index has been used: a consumer price index (IPC) covering only the cities of Caracas and Maracaibo was used until December 31, 2007. Beginning in 2008 the Banco Central de Venezuela and the National Institute for Statistics started to publish a national consumer price index (Indice Nacional de precios al consumidor - INPC) that covers the entire country and uses December 2007 as its basis for calculation.

These indices and the related conversion factors are presented in the table below:

	Index	Coversion Factor
December 31, 2007	100.0	1.6370
December 31, 2008	130.9	1.2506
December 31, 2009	163.7	1.2718
December 31, 2010	208.2	1.2757
December 31, 2011	265.6	1.2007
December 31, 2012	318.9	1.0000

The losses on the net monetary position are recognised in the income statement under the item “Financial expenses” (note 36) for an amount of euro 6,427 thousand (euro 10,542 thousand at December 31, 2011).

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 in any case settled on an arm's length basis and executed in compliance with the rules set out in the Group Procedure for Related Party Transactions.

The statement below shows a summary of the balance sheet and income statement items that include transactions with related parties and their percentage impact:

(in millions of euro)

	Total reported at 12/31/2012	of which related parties	% share	Total reported at 12/31/2011 (restated)	of which related parties	% share
Balance sheet						
Non-current assets						
Other receivables	370.2	174.0	46.99%	347.9	161.0	46.29%
Current assets						
Trade receivables	704.6	6.4	0.91%	745.2	7.9	1.06%
Other receivables	341.4	40.5	11.87%	281.7	28.5	10.11%
Non-current liabilities						
Borrowings from banks and other financial institutions	1,995.8	2.6	0.13%	1,402.5	-	0.00%
Current liabilities						
Borrowings from banks and other financial institutions	440.5	0.9	0.20%	369.5	0.3	0.08%
Trade payables	1,268.7	5.3	0.42%	1,382.8	6.4	0.47%
Other payables	417.6	0.1	0.03%	631.2	42.5	6.74%

	Total 2012	of which related parties	% share	Total 2011	of which related parties	% share
Income statement						
Revenue from sales and services	6,071.5	3.8	0.06%	5,654.8	10.9	0.19%
Other income	241.6	0.8	0.35%	140.4	3.2	2.28%
Personnel expense	(1,205.6)	(9.4)	0.78%	(1,123.5)	(13.3)	1.18%
Other costs	(1,791.7)	(40.3)	2.25%	(1,574.0)	(32.9)	2.09%
Financial income	43.0	14.7	34.25%	56.7	7.6	13.45%
Financial expenses	(172.5)	-	0.0%	(146.1)	(0.4)	0.0%

The effects of related party transactions on the consolidated Income Statement, balance sheet, and statement of cash flows of the Pirelli Group at December 31, 2012 are shown below.

RELATIONS WITH ASSOCIATES AND JOINT VENTURES (in millions of euro)

Revenue from sales and services	3,1	The amount mainly concerns services provided by: Pirelli Tyre S.p.A. to Sino Italian Wire Technology Co. Ltd (euro 2.3 million); Pirelli & C. Ambiente S.p.A. to Idea Granda Società Consortile r.l. (euro 0.6 million).
Other costs	16,9	The amount mainly concerns: costs for purchase of products of Pirelli Tyre Co. Ltd (euro 15.6 million) and Pirelli Tyre S.p.A. (euro 1.0 million) from Sino Italian Wire Technology Co. Ltd; costs of Pirelli & C. S.p.A. from Corimav (euro 0.2 million).
Financial income	1,3	The amount relates to interest income on the loan granted by Pirelli International Ltd to Sino Italian Wire Technology Co. Ltd. (euro 0,9 million) and Pirelli & C. Ambiente S.p.A. to GWM Renewable Energy II S.p.A. (euro 0,4 million).
Current trade receivables	5,8	The amount mainly concerns receivables for provision of services by: Pirelli Tyre S.p.A. to Sino Italian Wire Technology Co. Ltd (euro 5.3 million); Pirelli & C. Ambiente S.p.A. to Idea Granda Società Consortile r.l. (euro 0.5 million).
Current other receivables	2,0	The amount mainly concerns: receivable disposal plant of Pirelli & C. Ambiente S.p.A. to GWM Renewable Energy II S.p.A. (euro 1.2 million) and Pirelli Tyre S.p.A. to Sino Italian Wire Technology Co. Ltd. (euro 0.3 million) and advances of Pirelli Tyre Co. Ltd to Sino Italian Wire Technology Co. Ltd. (euro 0.4 million).
Current financial receivables	38,3	The amount consists mainly of receivables of: Pirelli International Ltd. (euro 22.9 million) and Pirelli Tyre Co. Ltd (euro 9.7 million) from Sino Italian Wire Technology Co. Ltd; Pirelli & C. Ambiente S.p.A. from GWM Renewable Energy II S.p.A. (euro 5.4 million)
Current trade payables	1,4	The amount consists of payables for provision of services by: Pirelli Tyre Co. Ltd to Sino Italian Wire Technology Co. Ltd (euro 1.3 million).
Current other payables	0,1	The amount concerns payables of Pirelli Deutschland Gmbh
Current borrowing from banks and other financial institutions	0,2	The amount mainly concerns the current account between Pirelli Servizi Amministrazione e Tesoreria S.p.A. and Corimav (euro 0.1 million).

TRANSACTIONS WITH PARTIES RELATED TO PIRELLI THROUGH DIRECTORS (in millions of euro)

Revenue from sales and services	0,7	The amount mainly refers to services provided by Pirelli Sistemi Informativi S.p.A. to Prelios Group (euro 0.3 million) and Camfin Group (euro 0.3 million).
Other income	0,7	The amount mainly refers to rental income and associated operating expenses of Pirelli & C. S.p.A. from Prelios S.p.A. (euro 0.4 million) and from Camfin Group (euro 0.3 million).
Other costs	13,4	The amount is mainly refers advertising costs owed to FC Internazionale Milano S.p.A. (euro 12.8 million) and to costs for leases of Poliambulatorio Bicocca S.r.l. (euro 0.2 million) to the Prelios Group.
Financial income	13,5	The amount refers to accrued interest on the outstanding loan granted to Prelios S.p.A. by Pirelli & C. S.p.A..
Non current other financial receivables	173,5	The amount refers only to the loan granted to Prelios S.p.A. as part of the spin-off and related accrued interest.
Current trade receivables	0,6	The amount refers to receivables connected to the services provided to Prelios Group (euro 0,1 million), Camfin Group (euro 0.4 million) and Partecipazioni Industriali S.p.A. Group (euro 0.1 million).
Non current borrowings from banks and other financial institutions	2,6	The amount refers to the deferral of up-front fees on the outstanding loan granted to Prelios S.p.A. by Pirelli & C. S.p.A..
Current borrowings from banks and other financial institutions	0,7	The amount refers to the deferral of up-front fees on the outstanding loan granted to Prelios S.p.A. by Pirelli & C. S.p.A..
Current trade payables	3,8	The amount mainly refers to to payables to FC Internazionale Milano S.p.A. (euro 3.2 million) and Lambda S.r.l. (euro 0.5 million).
Investments in other financial assets (cash outflow)	0,8	This refers to the capital increase of F.C. Internazionale Milano S.p.A. (euro 0.6 million) and of Sint. S.p.A. (euro 0,2 million).

RELATED PARTY TRANSACTIONS (in milllions of euro)

Other income	0,1	The amount refers mainly to income of Pirelli Deutschland Gmbh from Allianz S.p.A. (euro 0.1 million).
Other costs	3,9	The amount mainly refers to insurance costs of Pirelli Tyre S.p.A. (euro 1.5 million), Pirelli Industrie Pneumatici S.r.l. (euro 0.8 million), Pirelli Deuschland Gmbh (euro 0.7 million) and Pirelli & C. S.p.A. (euro 0.5 million) owed to Allianz S.p.A., Assicurazioni Generali S.p.A. and Fonsai S.p.A..
Non current other receivables	0,5	The amount refers mainly to receivables of Pirelli & C. S.p.A. from Allianz S.p.A..
Current other receivables	0,3	The amount refers to insurance costs shown above of Pirelli Tyre S.p.A. (euro 0.1 million) and of Pirelli Industrie Pneumatici S.r.l. (euro 0.2 million) owed to Allianz S.p.A. e Assicurazioni Generali S.p.A..
Current trade payables	0,1	The amount mainly refers to payables of Pirelli Deutschland Gmbh towards Allianz S.p.A. (euro 0.1 million).

Benefits for key managers of the Company

The remuneration payable to key managers, i.e. to those who have the power and responsibility, directly or indirectly, for planning, managing and controlling the business of Pirelli & C. S.p.A., totalled euro 15,620 thousand at December 31, 2012 (euro 26,693 thousand at December 31, 2011). The portion relating to employee benefits was recognised in the income statement item "personnel expense" for euro 9,365 thousand (euro 13,274 thousand at December 31, 2011) and in the income statement item "Other costs" for euro 6,255 thousand (euro 13,420 thousand at December 31, 2011).
The remuneration also include euro 983 thousand for employees' leaving indemnity and retirement benefits (euro 492 thousand at December 31, 2011).

42. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

No significant events occurred after the reporting date such as would entail adjustments to these financial statements.

43. OTHER INFORMATION

Research and development expenses

Research expenses rose from euro 169.7 million in 2011 (3% of sales) to euro 178.9 million in 2012 (2.9% of sales). They were expensed on the income statement insofar as they did not satisfy IFRS requirements for capitalisation.

Compensation of directors and statutory auditors

(in thousands of euro)

	2012	2011
Directors	5,351	14,274
Statutory Auditors	189	167
	5,540	**14,441**

Employees

The **average headcount** of employees at consolidated companies is as follows, broken down by category:

	2012	2011
Executives and white collar staff	7,060	5,838
Blue collar staff	26,595	22,310
Temporary workers	2,729	3,104
	36,384	**31,252**

Compensation of independent auditors

The following statement, prepared pursuant to Art. 149–*duodecies* of the Consob Issuers Regulation, shows the fees accruing to financial year 2012 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.	360		
	Reconta Ernst & Young S.p.A.	Subsidiaries	716		
	Network Ernst & Young	Subsidiaries	1,622	2,698	96.8%
Services other than auditing	Reconta Ernst & Young S.p.A.	Pirelli & C. S.p.A.			
	Reconta Ernst & Young S.p.A.	Subsidiaries	70 [2]		
	Network Ernst & Young	Subsidiaries	19 [3]	89	3.2%
				2,787	100.0%

[1] The item "independent auditing services and certification services" includes amounts paid for legal accounting auditing services and other services that envisage the issuance of an auditor's report as well as amounts paid for certification services linked with legal auditing activities.
[2] Assistance services related to web aplications.
[3] Tax assistance services.

Transactions resulting from unusual and/or exceptional operations

Pursuant to Consob Notice of July 28, 2006, the Group certifies that it did not carry out any unusual and/or exceptional transactions in 2012, 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 %
	12/31/2012	12/31/2011		2012	2011	
Venezuela Bolivar Fuerte	5.6734	5.5638	1.97%	5.6734	5.5638	1.97%
Swedish Krona	8.5820	8.9120	(3.70%)	8.7052	9.0285	(3.58%)
Australian Dollar	1.2712	1.2723	(0.09%)	1.2413	1.3482	(7.93%)
Canadian Dollar	1.3137	1.3215	(0.59%)	1.2846	1.3760	(6.64%)
Singapore Dollar	1.6111	1.6819	(4.21%)	1.6059	1.7491	(8.18%)
U.S. Dollar	1.3194	1.2939	1.97%	1.2854	1.3921	(7.67%)
Taiwan Dollar	38.2666	39.1638	(2.29%)	38.0010	40.9020	(7.09%)
Swiss Franc	1.2072	1.2156	(0.69%)	1.2053	1.2330	(2.24%)
Egyptian Pound	8.3964	7.8187	7.39%	7.8059	8.2780	(5.70%)
Turkey Lira (new)	2.3630	2.4556	(3.77%)	2.3153	2.3356	(0.87%)
New Romanian Leu	4.4445	4.3233	2.80%	4.4581	4.2381	5.19%
Argentinean Peso	6.4888	5.5690	16.52%	5.8516	5.7530	1.71%
Mexican Peso	17.1902	18.0463	(4.74%)	16.9191	17.3090	(2.25%)
South African Rand	11.1727	10.4830	6.58%	10.5537	10.0972	4.52%
Brazilian Real	2.6962	2.4271	11.09%	2.5129	2.3313	7.79%
Chinese Renminbi	8.2931	8.1527	1.72%	8.1140	8.9907	(9.75%)
Russian Ruble	40.2286	41.6714	(3.46%)	39.9083	40.9038	(2.43%)
British Pound	0.8161	0.8353	(2.30%)	0.8110	0.8679	(6.55%)
Japanese Yen	113.6100	100.2000	13.38%	102.6099	110.9897	(7.55%)

Net financial (liquidity) debt position

(ALTERNATIVE PERFORMANCE MEASURE NOT ENVISAGED BY THE ACCOUNTING STANDARDS) (in thousands of euro)

	Note	12/31/2012		12/31/2011	
			of which related parties		of which related parties
Current borrowing from bank and other financial institutions	23	440,526	877	369,451	286
Current derivative financial instruments (liabilities)	27	19,168	-	6,138	-
Non-current borrowing from bank and other financial institutions	23	1,995,775	2,565	1,402,497	-
Total gross debt		**2,455,469**	**-**	**1,778,086**	**-**
Cash and cash equivalents	19	(679,794)	-	(556,983)	-
Securities held for trading	18	(224,717)	-	(160,503)	-
Current financial receivables	15	(66,290)	(38,273)	(52,536)	(24,763)
Current derivative financial instruments (assets)	27	(18,136)	-	(20,262)	-
Net financial debt *		**1,466,532**	**-**	**987,802**	**-**
Non-current financial receivables	15	(261,327)	(173,506)	(250,733)	(161,013)
Total net financial (liquidity) debt position		**1,205,205**		**737,069**	

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

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
EUROPE						
Austria						
Pirelli GmbH	Tyre	Vienna	Euro	726,728	100.00%	Pirelli Tyre (Suisse) SA
Belgium						
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700,000	100.00%	Pirelli Tyre (Suisse) SA
France						
Gecam France S.a.S.	Sustainable mobility	Villepinte	Euro	130,205	70.00%	Pirelli & C. Eco Technology S.p.A.
Pneus Pirelli S.a.S	Tyre	Villepinte	Euro	1,515,858	100.00%	Pirelli Tyre (Suisse) SA
Germany						
Deutsche Pirelli Reifen Holding GmbH	Tyre	Breuberg / Odenwald	Euro	7,694,943	100.00%	Pirelli Tyre S.p.A.
Drahtcord Saar Geschaeftsfuehrungs GmbH	Tyre	Merzig	Euro	60,000	50.00%	Pirelli Deutschland GmbH
Drahtcord Saar GmbH & Co. KG	Tyre	Merzig	Euro	30,000,000	50.00%	Pirelli Deutschland GmbH
Driver Handelssysteme GmbH	Tyre	Breuberg / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Deutschland GmbH	Tyre	Breuberg / Odenwald	Euro	26,334,100	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Personal Service GmbH	Tyre	Breuberg / Odenwald	Euro	25,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
PK Grundstuecksverwaltungs GmbH	Tyre	Hoechst / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pneumobil GmbH	Tyre	Breuberg / Odenwald	Euro	259,225	100.00%	Deutsche Pirelli Reifen Holding GmbH
Greece						
Elastika Pirelli C.S.A.	Tyre	Kallithea (Athens)	Euro	11,192,000	99.90%	Pirelli Tyre (Suisse) SA
					0.10%	Pirelli Tyre S.p.A.
Pirelli Hellas S.A. (in liquidation)	Tyre	Athens	US $	22,050,000	79.86%	Pirelli Tyre S.p.A.
The Experts in Wheels – Driver Hellas S.A.	Tyre	Kallithea (Athens)	Euro	100,000	72.00%	Elastika Pirelli S.A.
Hungary						
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint	3,000,000	100.00%	Pirelli Tyre (Suisse) SA
Ireland						
Pirelli Reinsurance Company Ltd	Reinsurance	Dublin	US $	7,150,000	100.00%	Pirelli Finance (Luxembourg) S.A.

THE FUTURE WILL BE A BETTER PLACE.

READING THE SUBMISSIONS FOR THE PIRELLI "IMAGINING THE FUTURE" CAMPAIGN, I'M CONVINCED OF THAT. THE SPIRIT OF PROGRESS AND POTENTIAL SHOWN HERE IS TANGIBLE AND REAL. THE VALUES THAT THESE YOUNG STUDENTS CELEBRATE – OPTIMISM, EMPATHY, PERSEVERANCE – ARE THE SAME ONES THAT HAVE LONG INSPIRED THE WORLD'S GREAT INNOVATORS. THEY ARE THE VALUES THAT DRIVE PROGRESS, THAT CREATE OPPORTUNITY, AND IMPROVE LIVES. THEY DON'T GUARANTEE SUCCESS, BUT SUCCESS IS IMPOSSIBLE WITHOUT THEM. SO YES, THE FUTURE WILL BE A BETTER PLACE – AND IT WILL BE A BETTER FUTURE BECAUSE OF THESE YOUNG PEOPLE. **THOMAS GOETZ**

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Italy						
Driver Italia S.p.A.	Tyre	Milan	Euro	350,000	72.36%	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.	Services	Milan	Euro	1,020,000	100.00%	Pirelli & C. S.p.A.
Pirelli & C. Ambiente S.p.A.	Enviroment	Milan	Euro	2,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli & C. Ambiente Site Remediation S.p.A.	Enviroment	Milan	Euro	155,700	100.00%	Pirelli & C. Ambiente S.p.A.
Pirelli & C. Eco Technology S.p.A.	Sustainable mobility	Milan	Euro	5,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Industrie Pneumatici S.r.l.	Tyre	Settimo Torinese (To)	Euro	40,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Labs S.p.A.	Services	Milan	Euro	5,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Nastri Tecnici S.p.A. (in liquidation)	Services	Milan	Euro	384,642	100.00%	Pirelli & C. S.p.A.
Pirelli Servizi Amministrazione e Tesoreria S.p.A.	Services	Milan	Euro	2,047,000	100.00%	Pirelli & C. S.p.A.
Pirelli Sistemi Informativi S.r.l.	Services	Milan	Euro	1,010,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre S.p.A.	Tyre	Milan	Euro	756,820,000	100.00%	Pirelli & C. S.p.A.
Poliambulatorio Bicocca S.r.l.	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.
					1.00%	Pirelli & C. Ambiente S.p.A.
					0.95%	Pirelli Servizi Amministrazione e Tesoreria S.p.A.(ex-Centro Servizi Amministrativi Pirelli S.r.l.)
					0.95%	Pirelli Labs S.p.A.
					0.95%	Pirelli Sistemi Informativi S.r.l.
					0.95%	PZero S.r.l.
					0.95%	Pirelli & C. Eco Technology S.p.A.
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	68.50%	Pirelli Polska Sp.ZO.O.
Pirelli Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	625,771	100.00%	Pirelli Tyre (Suisse) SA
Romania						
S.C. Cord Romania S.r.l.	Tyre	Slatina	Rom. Leu	36,492,150	80.00%	Pirelli Tyre S.p.A.
S.C. Pirelli & C. Eco Technology RO S.r.l.	Sustainable mobility	Oras Bumbesti-Jiu	Rom. Leu	55,000,000	100.00%	Pirelli & C. Eco Technology S.p.A.
S.C. Pirelli Tyres Romania S.r.l.	Tyre	Slatina	Rom. Leu	742,169,800	100.00%	Pirelli Tyre S.p.A.
Syro Consumer S.r.l.	Sustainable mobility	Bumbesti-Jiu	Rom. Leu	200	95.00%	Pirelli & C. Eco Technology S.p.A.
					5.00%	Pirelli Tyre S.p.A.

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Headquarter	Currency	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 (ex-OOO Pirelli Tyre Russia)	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	3,500,000	99.90%	E-VOLUTION Tyre B.V.
					0.10%	OOO Pirelli Tyre Services (ex-OOO Pirelli Tyre Russia)
Limited Liability Company "Vyatskaya Shina"	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	6,638.78	100.00%	Pirelli Tyre (Suisse) SA
Spain						
Euro Driver Car S.L.	Tyre	Barcelona	Euro	891,000	52.52%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
					0.34%	Omnia Motor S.A. - Sociedad Unipersonal
Omnia Motor S.A. - Sociedad Unipersonal	Tyre	Barcelona	Euro	1,502,530	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Pirelli 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 AB	Tyre	Taby	Swed. Krona	31,000,000	100.00%	Pirelli Tyre S.p.A.
Inter Wheel Sweden AB	Tyre	Karlstad	Swed. Krona	1,000,000	100.00%	Dackia Aktiebolag
Pirelli Tyre Nordic AB	Tyre	Bromma	Swed. Krona	950,000	100.00%	Pirelli Tyre (Suisse) SA
Switzerland						
Pirelli Group Reinsurance Company SA	Reinsurance	Lugano	Swiss Franc	8,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre (Suisse) SA	Tyre	Basel	Swiss Franc	1,000,000	100.00%	Pirelli Tyre S.p.A.
The Netherlands						
E-VOLUTION Tyre B.V.	Tyre	Heinenoord	Euro	100,000	50.00%	Pirelli Tyre S.p.A.
Pirelli China Tyre N.V.	Tyre	Heinenoord	Euro	38,045,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Heinenoord	Euro	18,152	100.00%	Pirelli Tyre (Suisse) SA

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Turkey						
Celikord A.S.	Tyre	Istanbul	Turkey Lira	29,000,000	98.733%	Pirelli Tyre S.p.A.
					0.632%	Pirelli International Ltd
					0.367%	Pirelli UK Tyres Ltd
					0.267%	Pirelli Industrie Pneumatici S.r.l.
Turk-Pirelli Lastikleri A.S.	Tyre	Istanbul	Turkey Lira	140,000,000	99.84%	Pirelli Tyre S.p.A.
					0.152%	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	Tyre	Burton on Trent	Euro	250,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Motorsport Services Ltd	Tyre	Burton on Trent	British Pound	1	100.00%	Pirelli Tyre S.p.A.
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	Headquarter	Currency	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						
Campneus Lider de Pneumaticos Ltda	Tyre	Campinas (Sao Paulo)	Bra. Real	27,732,700	60.00%	Comercial e Importadora de Pneus Ltda
Comercial e Importadora de Pneus Ltda	Tyre	Sao Paulo	Bra. Real	82,913,526	100.00%	Pirelli Pneus Ltda
Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda	Tyre	Santo Andrè	Bra. Real	84,784,342	100.00%	Pirelli Pneus Ltda
Ecosil - Industria Quimica do Brasil Ltda	Tyre	Meleiro	Bra. Real	5,799,055	96.45%	Pirelli Pneus Ltda
Pirelli Ltda	Financial	Sao Paulo	Bra. Real	14,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Pneus Ltda	Tyre	Santo Andrè	Bra. Real	341,145,811	100.00%	Pirelli Tyre S.p.A.
RF Centro de Testes de Produtos Automotivos Ltda	Tyre	Elias Fausto (Sao Paulo)	Bra. Real	10,000	49.00%	Pirelli Pneus Ltda
TLM - Total Logistic Management Serviços de Logistica Ltda	Tyre	Santo Andrè	Bra. Real	1,006,000	99.98%	Pirelli Pneus Ltda
					0.02%	Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda
Chile						
Pirelli Neumaticos Chile Limitada	Tyre	Santiago	Chile Peso/000	1,918,451	99.98%	Pirelli Pneus Ltda
					0.02%	Comercial e Importadora de Pneus Ltda
Colombia						
Pirelli de Colombia S.A.	Tyre	Santa Fe De Bogota	Col. Peso/000	3,315,069	92.91%	Pirelli Pneus Ltda
					2.28%	Pirelli de Venezuela C.A.
					1.60%	Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda
					1.60%	TLM - Total Logistic Management Serviços de Logistica Ltda
					1.60%	Comercial e Importadora de Pneus Ltda

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Mexico						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	35,098,400	99.98%	Pirelli Pneus Ltda
					0.02%	Comercial e Importadora de Pneus Ltda
Pirelli Neumaticos S.A. de C.V.	Tyre	Silao	Mex. Peso	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%	Comercial e Importadora de Pneus Ltda
Venezuela						
Pirelli de Venezuela C.A.	Tyre	Valencia	Ven. Bolivar/000	20,062,679	96.22%	Pirelli Tyre S.p.A.
AFRICA						
Egypt						
Alexandria Tire Company S.A.E.	Tyre	Alexandria	Egy. Pound	393,000,000	89.08%	Pirelli Tyre S.p.A.
					0.03%	Pirelli Tyre (Suisse) SA
International Tire Company Ltd	Tyre	Alexandria	Egy. Pound	50,000	99.80%	Alexandria Tire Company S.A.E.
South Africa						
Pirelli Tyre (Pty) Ltd	Tyre	Centurion	S.A. Rand	1	100.00%	Pirelli Tyre (Suisse) SA
OCEANIA						
Australia						
Pirelli Tyres Australia Pty Ltd	Tyre	Sydney	Aus. $	150,000	100.00%	Pirelli Tyre (Suisse) SA
New Zealand						
Pirelli Tyres (NZ) Ltd	Tyre	Auckland	N.Z. $	100	100.00%	Pirelli Tyres Australia Pty Ltd
ASIA						
China						
Pirelli Tyre Co. Ltd	Tyre	Yanzhou	Ch. Renminbi	1,721,150,000	90.00%	Pirelli China Tyre N.V.
Pirelli Tyre Trading (Shanghai) Co. Ltd	Tyre	Shangai	US $	700,000	100.00%	Pirelli China Tyre N.V.
Yanzhou Hixih Ecotech Environment CO. Ltd	Sustainable mobility	Yanzhou	Ch. Renminbi	130,000,000	60.00%	Pirelli & C. Eco Technology S.p.A.
Japan						
Pirelli Japan Kabushiki Kaisha	Tyre	Tokyo	Jap. Yen	2,700,000,000	100.00%	Pirelli Tyre S.p.A.
Indonesia						
PT Evoluzione Tyres	Tyre	Kamojing (West Indonesia)	US $	18,360,000	60.00%	Pirelli Tyre S.p.A.

Singapore						
Pirelli Asia Pte Ltd	Pneumatici	Singapore	$ Sing.	2	100,00%	Pirelli Tyre (Suisse) S.A.
Taiwan						
Pirelli Taiwan Co. Ltd	Pneumatici	New Taipei City	$ N.T.	10.000.000	100,00%	Pirelli Tyre (Suisse) S.A.

INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
EUROPE						
Germany						
Industriekraftwerk Breuberg GmbH	Tyre	Hoechst / Odenwald	Euro	1,533,876	26.00%	Pirelli Deutschland GmbH
Greece						
Eco Elastika S.A.	Tyre	Athens	Euro	60,000	20.00%	Elastika Pirelli S.A.
Italy						
A.P.I.C.E. - società per azioni (in liquidazione)	Enviroment	Rome	Euro	200,000	50.00%	Pirelli & C. Ambiente S.p.A.
Consorzio Bonifiche Ambientali S.c.a.r.l.	Enviroment	Rome	Euro	20,000	25.00%	Pirelli & C. Ambiente S.p.A.
					25.00%	Pirelli & C. Ambiente site Remendation S.p.A.
Consorzio per la Ricerca di Materiali Avanzati (CORIMAV)	Financial	Milan	Euro	103,500	100.00%	Pirelli & C. S.p.A.
Eurostazioni S.p.A.	Financial	Rome	Euro	160,000,000	32.71%	Pirelli & C. S.p.A.
Green&Co2 S.r.l.	Enviroment	Milan	Euro	10,000	49.00%	Pirelli & C. Ambiente S.p.A.
GWM Renewable Energy II S.p.A.	Enviroment	Rome	Euro	15,063,016	16.87%	Pirelli & C. Ambiente S.p.A.
Idea Granda Società Consortile r.l.	Enviroment	Cuneo	Euro	1,292,500	49.00%	Pirelli & C. Ambiente S.p.A.
RCS MediaGroup S.p.A.	Finance Holding Company	Milan	Euro	762,019,050	5.33%	Pirelli & C. S.p.A.
Serenergy S.r.l.	Enviroment	Milan	Euro	25,500	50.00%	Pirelli & C. Ambiente S.p.A.
Romania						
S.C. Eco Anvelope S.A.	Tyre	Bucarest	Rom. Leu	160,000	20.00%	S.C. Pirelli Tyres Romania S.r.l.
Spain						
Signus Ecovalor S.L.	Tyre	Madrid	Euro	200,000	20.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
ASIA						
China						
Sino Italian Wire Technology Co. Ltd	Tyre	Yanzhou	Renminbi	227,500,000	49.00%	Pirelli Tyre S.p.A.

OTHER INVESTMENTS CONSIDERED SIGNIFICANT

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

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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, 2012 – December 31, 2012.

2. 2. In this regard it should be noted that the adequacy of the administrative and accounting procedures for preparation of the consolidated financial statements for the year ended December 31, 2012 was determined on the basis of an assessment of the internal control system. This assessment was based on a specific process defined in accordance with the criteria laid down in the "Internal Control – Integrated Framework" guidelines issued by the "Committee of Sponsoring Organizations of the Treadway Commission" (COSO), which is a reference framework generally accepted at the international level.

3. We also certify that:

   3.1 the 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 eporting 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.

Milan, March 11, 2013

The Chairman of the Board of Directors and Chief Executive Officer

(Marco Tronchetti Provera)

The Corporate Financial Reporting Manager

(Francesco Tanzi)

INDIPENDENT AUDITOR'S REPORT

Reconta Ernst & Young S.p.A.
Via della Chiusa, 2
20123 Milano

Tel. (+39) 02 722121
Fax (+39) 02 72212037
www.ey.com

Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated 27 January 2010
(Translation from the original Italian text)

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

1. We have audited the consolidated financial statements of Pirelli & C. S.p.A. and its subsidiaries, (the "Pirelli Group") as of 31 December 2012 and for the year then ended, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Pirelli & C. S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated 29 March 2012.

3. In our opinion, the consolidated financial statements of the Pirelli Group at 31 December 2012 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the Pirelli & C. Group for the year then ended.

4. The Directors of Pirelli & C. S.p.A. are responsible for the preparation of the Directors' Report on Operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Directors' Report on Operations and the specific section on Corporate Governance and Structure of Share Ownership, regarding the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Directors' Report on Operations and the information reported therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) included in the specific section of the report, are consistent with the consolidated financial statements of the Pirelli Group at 31 December 2012.

Milan, 29 March 2013

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

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

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JOE SMITH
ADMITTED
A
MISTAKE

DONNELLY

EXTRAORDINARY PART

EXPLANATORY REPORT BY THE DIRECTORS AND PROPOSALS OF RESOLUTION

Amendments to articles 7 (Shareholders' Meetings), 10 (Administration of the Company), and 16 (Board of Statutory Auditors) of the Company Bylaws, and the introduction therein of article 21. Corresponding and consequent resolutions

1. THE REASONS FOR THE RECOMMENDED AMENDMENTS TO THE COMPANY BYLAWS

Dear Shareholders,
The extraordinary general meeting has been called to submit to you the following proposed resolutions concerning amendments to the Company Bylaws that (i) align it with the law as it relates to gender balance on boards of directors and board of statutory auditors of listed companies, (ii) arise from a number of "new" regulations regarding the shareholdings required for submitting slates for the appointment of boards of directors and board of statutory auditors, and (iii) take into account the amendments to article 126-*bis* of Legislative Decree 58/98 (the Consolidated Law on Financial Intermediation) made through legislative decree no. 91 of 18 June 2012, which has introduced the right – for shareholders that represent at least one fortieth of the share capital – to propose resolutions of their own on matters already tabled for inclusion in the business of the meeting.

A) GENDER BALANCE

Law no. 120 of 12 July 2011 has introduced gender quotas in the make-up of governance bodies in listed companies and lays down that said companies must, for at least three consecutive mandates[1], guarantee compliance with a criterion that determines gender distribution in the make-up of governance bodies. Under that criterion the less represented gender must "obtain" at least one third of the directors and of the statutory auditors appointed.
However, the legislator has ruled that when boards of directors and internal control bodies are renewed for the first time following a one-year period after the law takes effect (as from 12 August 2012, accordingly), the quota of the less represented gender is to be at least one fifth of the directors and the statutory auditors appointed.
In particular, pursuant to the "newly" drafted texts of paragraph 1-*ter*[2], article 147-*ter* and paragraph 1-*bis*[3], article 148 of the Consolidated Law on Financial Intermediation, as well as of article 144-*undecies*.1 of Consob's Regulation gov-

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[1] As regards Pirelli, it is noted that the Board of Directors, appointed on 21 April 2011 for three financial years, ends its term of office concurrent with the Meeting of the Shareholders called to approve the financial statements at 31 December 2013; the Board of Statutory Auditors, appointed on 10 May 2012 for three financial years, ends its term of office concurrent with the Meeting of the Shareholders called to approve the financial statements at 31 December 2014.

[2] "The bylaws further provide that the split between the directors to be appointed is carried out on the basis of a criterion that ensures gender balance. The less represented gender must obtain at least one third of the appointed directors. This gender split criterion applies for three consecutive mandates. If the make-up of the board of directors resulting from the appointments fails to comply with the gender split criterion as provided in this paragraph, Consob serves a warning notice on the company concerned so that it comes into line with that criterion within a maximum term of four months from the notice. Where there is a failure to abide by the notice, Consob applies an administrative fine of between EUR 100,000 and EUR 1,000,000,following the criteria and manner laid down in its rules and it sets a term of three months for compliance. In the event of a further failure in compliance with regard to the new notice, the appointed members forfeit office. The bylaws regulate the way slates are formed and the cases where there is substitution during the mandate in order to ensure compliance with the gender split criterion in this paragraph. Consob decides with regard to the infringement, to the application, and the compliance with the provisions regarding the gender quota, including with reference to the investigation stage and to the procedures to be adopted, on the basis of its own regulations to be adopted within six months of the date when the provisions in this paragraph come into force. The provisions in this paragraph shall apply even to companies organised in accordance with the unitary board system";

[3] "The memorandum of association of the company also lays down that the split between the members as in paragraph 1 is undertaken in such a way that the less represented gender obtains at least one third of the standing members of the board of statutory auditors. This gender split criterion shall apply for three consecutive mandates. If the make-up of the board of statutory auditors resulting from the appointments does not conform to the gender split criterion in this paragraph, Consob serves a warning notice on the company concerned so that it comes into line with the criterion within a maximum term of four months from the notice. Where there is a failure to comply with the notice, Consob applies an administrative fine of between EUR 20,000 and EUR 200,000 and it sets a new term of three months for compliance. Where there in further non-compliance in respect of the new notice, the appointed members forfeit office. Consob decides with regard to the infringement, the application, and the compliance with the provisions regarding the gender quota, including with reference to the investigation stage and to the procedures to be adopted, on the basis of its own regulations to be adopted within six months of the date when the provisions in this paragraph come into force"

erning Issuers of Financial Instruments (hereinafter "Regulation for Issuers"), adopted through its resolution no. 11971 of 14 May 1999 (as amended), company bylaws must regulate the way slates are formed for appointing directors and statutory auditors as well as cases where these are replaced during their mandate in order to ensure compliance with gender balance. Furthermore, Law 120/2011 has defined an extensive and progressive range of penalties to be applied where the make-up of governance bodies following appointment does not comply with the criterion on gender distribution.

B) QUOTAS FOR THE PRESENTATION OF SLATES

On 9th May 2012, Consob, through its resolution no. 18214, amended article 144-*quater* of the Regulation for Issuers in respect of the shareholdings required for presenting slates for the appointment of boards of directors. It lays down, inter alia, that "*without prejudice to any lesser percentage established in the Bylaws, the shareholding required for the presentation of slates of candidates for the appointment of the board of directors in accordance with Article 147-ter of the Consolidated Law:*

- *is 0.5% of the share capital for companies with a market capitalization in excess of fifteen billion euros;*
- *is 1% of the share capital for companies with a market capitalization in excess of one billion euros and less than or equal to fifteen billion euros;*
- *is 2.5% of the share capital for companies with a market capitalization is less than or equal to one billion euros*".

In accordance with the combined effect of paragraph 1, article 147-*ter* of the Consolidated Law on Financial Intermediation and paragraph 2 of article 144-*sexies* of the Regulation for Issuers, article 144-*quater* as above applies also to the presentation of slates for appointing statutory auditors.

Having regard for the current capitalization of Pirelli, the provision that would apply when its governance bodies are renewed is that slates may be presented for the appointment of directors and statutory auditors by those members of the company that, either alone or with others, hold a proportion of the share capital that is at least 1% (point b, paragraph 1, article 144-*quater* of the Regulation for Issuers, as further confirmed by Consob Resolution no. 18452 of 30 January 2013). It follows that the current provisions in the bylaws - as in paragraph 5 article 10 and paragraph 5 article 16, under which the presentation of a slate for the appointment of the Board of Directors and the Board of Statutory Auditors necessitates ownership of shares representing, respectively, at least 2% and at least 1.5% of the share capital carrying a right to vote in the ordinary meeting of the shareholders (barring the application of a lesser proportion as stipulated in Consob's regulations) - would no longer apply.

The above thresholds of 2% and 1.5% had been introduced by Pirelli in order to facilitate the presentation of slates by so-called minority shareholders. The fact is, at that time the minimum thresholds set by the regulations governing the presentation of slates for the appointment of directors and statutory auditors were higher.

The proposal is to reduce the threshold of ordinary share capital required for presenting slates to 1% – subject to any lower threshold decided by Consob – so bringing the threshold as provided in the bylaws into line with what is currently provided in the regulations.

C) ADDITIONAL PROPOSED AMENDMENTS TO THE BYLAWS OF THE COMPANY

In line with the provisions of article 126-*bis* of the Consolidated Law on Financial Intermediation (as amended by Legislative Decree no. 91 of 18 June 2012), paragraph 7 of article 7 includes a provision according to which members - either alone or with others - that represent one fortieth of the share capital are entitled (over and above their right in that article to seek, in the cases and in the manner legally prescribed, the inclusion of additional items in the business of the meeting) to propose the adoption of further resolutions regarding the business already tabled for discussion. Accordingly, paragraphs 8 and 9 of article 7 are modified to reflect the above amendment.

Taking account of the above it is recommended that arti-

cles 7, 10, and 16 of the Bylaws of Pirelli & C. be amended as illustrated below and that a "new" article 21 be included in them.

On the basis of the above, the recommended amendments relate to:

ARTICLE 7
(The shareholders' meeting)

In accordance with the provisions of article 126-*bis* of the Consolidated Law on Financial Intermediation, paragraph 7 of article 7 includes a provision according to which members - either alone or with others - that represent one fortieth of the ordinary share capital are entitled (over and above the content of that article, namely to seek, in the cases and the manner legally prescribed, to include additional items in the business of the meeting) to also propose further resolutions regarding the business already tabled for discussion. Accordingly, paragraphs 8 and 9 of article 7 are modified to reflect the above amendment.

ARTICLE 10
(Management of the Company)

In paragraph 5, article 10, the minimum percentage of the ordinary share capital required to present a slate for the appointment of directors in reduced to 1%, this without prejudice to the adoption of any lower percentage threshold stipulated by Consob.
To ensure that there is gender balance, paragraph 6, article 10 includes a provision whereby slates for the appointment of the Board of Directors with 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 in force at the time, in accordance with what will be stated in the notice of the Shareholder Meeting.
Arguably, the advantage of making reference to the notice of the meeting is that it avoids burdening the bylaws with clauses that are excessively complex for ensuring compliance with the criterion on gender distribution (one fifth for the first mandate and one third for the next two renewals) as in Law 120/2011. It also avoids subsequent amendments to the bylaws in the event that the regulations change.
Likewise, a "new" paragraph 10 has been added (entailing the re-numbering of the paragraphs that follow) in order to provide additional criteria for guaranteeing compliance with gender balance within the Board of Directors. In effect, should the slate voting mechanism fail to secure the required minimum number of directors of the less represented gender there is, in place, a progressive mechanism for automatic substitution. In particular, it is provided that *"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".*
Finally, there is an addition to the re-numbered paragraphs 11, 12, and 13 which provides that where the Shareholders' Meeting or the Board of Directors (where co-option is used) need to appoint directors without following the slate voting procedure, gender balance must in any case be observed within the Board of Directors. In such cases, the directors (or director) appointed are such as ensure compliance with the gender quotas laid down in the law or regulations in force at the time.

ARTICLE 16
(Board of statutory auditors)

To facilitate compliance with the current rules on gender balance not merely when appointing the statutory auditors but also when they are substituted during their term of office, an amendment is proposed to paragraph 1, article 16 whereby the number of alternate statutory auditors, as provided therein, is increased from two to three, so that substitution mechanisms can be arranged that ensure compliance with gender balance.

For the purposes, again, of the above rule, it is recommended that the following new provision be included in paragraph 10: *"in compliance with the current provisions relating to gender balance, slates that - taking account of both sections - present a number of candidates equal to or exceeding three, must include candidates of each gender both in the section for standing statutory auditors and in the section for alternates".*

Following on from the above recommendation to increase the number of alternates from two to three, a provision that two alternates are drawn from the slate attracting the most votes is recommended for inclusion in paragraph 12.

A "new" paragraph 14 has been added (entailing the re-numbering of the paragraphs that follow) to include supplementary criteria for ensuring compliance with gender balance by the Board of Statutory Auditors. In effect, should the slate voting mechanism fail to secure the required minimum number of standing statutory auditors or alternates of the less represented gender there is, in place, a progressive mechanism for automatic substitution. In particular, it is provided that *"the appointed candidate of the more represented gender indicated with the higher progressive number in each section of the slate that attracts most votes shall be substituted by the non-appointed candidate of the less represented gender drawn from the same section of the same slate on the basis of their progressive order of presentation".*

Paragraph 15 (as re-numbered) - which governs the arrangements whereby the alternate fills in a vacated position (in the event of death, a waiver, or forfeiture of office) - includes an additional provision under which the alternate fills in the position in accordance with the progressive order of presentation in such a way that ensures, whatever the circumstances, compliance with gender balance. In particular, if it is necessary to substitute one of the standing statutory auditors drawn from the slate that attracted most votes, it is recommended that provision is made for the first of the alternates drawn from the same slate to fill in the position. However, if the Board of Statutory Auditors, as made up in this manner, fails to comply with the rules in force at the time on gender balance, it is provided that the second of the alternates from the same slate fill in the position. If, subsequently, the other standing statutory auditor drawn from the slate that attracted most votes has to be substituted, it is provided that the other alternate drawn from the same slate fill in the position, whatever the outcome.

With regard to the substitution of the chairman of the Board of Statutory Auditors, said paragraph 15 specifies that the chairmanship goes to the statutory auditor associated with the same slate as the outgoing chairman in accordance with the progressive order on the slate, subject in all cases to observance of the requirements in law and/or the company bylaws for holding that office and to compliance with gender balance as provided in the applicable rules.

Paragraphs 16 and 18 (as re-numbered), which respectively govern the restoration to full strength of the Board of Statutory Auditors by the Shareholders' Meeting and the other circumstances in which statutory auditors may be appointed by it, include an additional provision whereby the Board of Statutory Auditors must, in any case, be formed having regard for gender balance.

Finally, given the above, in paragraph 5 the minimum required holding in the ordinary share capital for presenting slates for the appointment of statutory auditors is reduced to 1%, subject to the adoption of any lower threshold set in this connection by Consob.

ARTICLE 21 (Transitional Clause)

A new article 21 is included for the purpose of regulating the application of the new bylaw provisions regarding the make-up of the Board of Statutory Auditors. It provides that *"The composition of the Board of Statutory Auditors as indicated in article 16.1 which foreseen the appointment of three standing statutory auditors and three alternate statutory auditors, shall be applied as from the first renewal of the control body after one year from the date Law no. 120 of 12 July 2011 takes effect. Up to that time the Board of Statutory Auditors shall be made up of three standing statutory auditors and by two alternate statutory auditors".*

2. AMENDMENT OF THE BYLAW ARTICLES FOR WHICH APPROVAL IS REQUIRE: PARALLEL PRESENTATION

A parallel presentation showing the existing text of the Bylaw articles, the amendment of which is recommended, alongside the text that we submit for your approval is contained in the resolution we recommend below.

3. APPRAISAL OF THE BOARD OF DIRECTORS REGARDING ANY RIGHT OF WITHDRAWAL

In the view of the Board of Directors the amendments to the Bylaws described above do not entitle the members of the company to the right of withdrawal as in article 2437 of the Italian Civil Code.

4. PROPOSAL OF RESOLUTIONS

On the basis of what has been stated above the Board of Directors submits the following resolutions for your approval:

"the extraordinary general meeting of the shareholders of Pirelli & C. S.p.A.,

- having examined the Report of the Board of Directors on the recommended amendments to articles 7 (Shareholders' Meetings), 10 (Management of the Company), and 16 (Board of Statutory Auditors) of the Bylaws and to include in the Bylaws a "new" article 21

RESOLVES

- to amend articles 7 (Shareholders' Meetings), 10 (Management of the Company), and 16 (Board of Statutory Auditors) of the Bylaws of Pirelli & C. S.p.A. and to include in the Bylaws a "new" article 21, as below:

SHAREHOLDERS' MEETINGS	SHAREHOLDERS' MEETINGS
Articolo 7 **7.1** The calling of shareholders' meetings, which may be held anywhere in Italy, including in a place other than the Company's registered office, the right to attend meetings and representation at same are all regulated by law and by these By-laws.	**Articolo 7** **7.1** The calling of shareholders' meetings, which may be held anywhere in Italy, including in a place other than the Company's registered office, the right to attend meetings and representation at same are all regulated by law and by these By-laws.
7.2 Ordinary and extraordinary meetings are held on single call. The corresponding resolutions are adopted by the majorities required by law.	**7.2** Ordinary and extraordinary meetings are held on single call. The corresponding resolutions are adopted by the majorities required by law.

7.3 Persons with voting rights may appoint a representative by proxy issued as provided by the current law and regulations. The proxy may be notified to the Company by electronic means, making alternative use of one of the following methods: **a)** use of the dedicated section of the Company website, indicated by the Company in the notice of call; **b)** dispatch of a message to the certified electronic mail address at the address indicated by the Company in the notice of call. The notice of call may also circumscribe the method to be used for the specific shareholders' meeting to which the notice refers to one of the aforementioned methods. The Company designates, for each general meeting, one or more persons who may be appointed as a proxy holder by those entitled to vote at the meeting, with voting instructions for all or some of the items on the agenda. The proxy has no effect with respect to the items for which no voting instructions have been given. The designated proxy holders, the method and time limits for the issue of proxies are set in the notice of call.	**7.3** Persons with voting rights may appoint a representative by proxy issued as provided by the current law and regulations. The proxy may be notified to the Company by electronic means, making alternative use of one of the following methods: **a)** use of the dedicated section of the Company website, indicated by the Company in the notice of call; **b)** dispatch of a message to the certified electronic mail address at the address indicated by the Company in the notice of call. The notice of call may also circumscribe the method to be used for the specific shareholders' meeting to which the notice refers to one of the aforementioned methods. The Company designates, for each general meeting, one or more persons who may be appointed as a proxy holder by those entitled to vote at the meeting, with voting instructions for all or some of the items on the agenda. The proxy has no effect with respect to the items for which no voting instructions have been given. The designated proxy holders, the method and time limits for the issue of proxies are set in the notice of call.
7.4 The ordinary shareholders' meeting must be called in accordance with the law within a maximum of 180 days after the end of the Company's financial year.	**7.4** The ordinary shareholders' meeting must be called in accordance with the law within a maximum of 180 days after the end of the Company's financial year.
7.5 The directors, in the cases and manners provided by law, must forthwith call the general meeting when this is required by members representing at least a twentieth of the share capital.	**7.5** The directors, in the cases and manners provided by law, must forthwith call the general meeting when this is required by members representing at least a twentieth of the share capital.
7.6 The members who require the meeting to be called prepare a report on the proposed items to be discussed. The Board of Directors, together with the publication of the notice of call and in the manner prescribed by law, makes available to the public the report prepared by the members, along with its potential assessment thereof.	**7.6** The members who require the meeting to be called prepare a report on the proposed items to be discussed. The Board of Directors, together with the publication of the notice of call and in the manner prescribed by law, makes available to the public the report prepared by the members, along with its potential assessment thereof.
7.7 The members who, even together, represent at least one fortieth of the share capital may ask, in the cases and in the manner prescribed by law, to add items to the agenda, specifying in their request the new items proposed thereby.	**7.7** The members who, even together, represent at least one fortieth of the share capital may ask, in the cases and in the manner **and with procedure** prescribed by law, to add items to the agenda, specifying in their request the new items proposed thereby **or propose resolutions on items already included in the agenda for the meeting.**
7.8 The new items submitted under paragraph 7 of Article 7 of these By-Laws, are published, according to the provisions of law, in the same manner prescribed for the publication of the notice of call.	**7.8** The new items **or the proposed additional resolutions on items already included in the agenda,** submitted under paragraph 7 of Article 7 of the By-Laws, are published, according to the provisions of law, in the same manner prescribed for the publication of the notice of call.
7.9 The members who ask to put new items on the agenda prepare a report on the items which they propose to discuss, and deliver it to the Board of Directors by filing it at the Company's offices before the last date indicated for submission of the request for additions to be made to the agenda. The Board of Directors, simultaneously to the publication of the notice of additions to the agenda and in the manner prescribed by law, makes available to the public the report prepared by the members, along with its potential assessment thereof.	**7.9** The members who ask to put new items on the agenda prepare a report on the items which they propose to discuss, **illustrating the reason for the proposed resolutions,** and deliver it to the Board of Directors by filing it at the Company's offices before the last date indicated for submission of the request for additions to be made to the agenda or **the reason for the proposed additional resolutions submitted on items already included in the agenda.** The Board of Directors, simultaneously to the publication of the notice of additions to the agenda and in the manner prescribed by law, makes available to the public the report prepared by the members, along with its potential assessment thereof.
7.10 Special meetings of savings shareholders shall be convened by the common representative of savings shareholders or by the Board of Directors of the Company whenever they deem necessary or in accordance with the law.	**7.10** Special meetings of savings shareholders shall be convened by the common representative of savings shareholders or by the Board of Directors of the Company whenever they deem necessary or in accordance with the law.

MANAGEMENT OF THE COMPANY	MANAGEMENT OF THE COMPANY
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.	**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.	**10.2** 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.	**10.3** 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.	**10.4** 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 2 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.	**10.5** Only shareholders who, alone or together with other shareholders, hold a total number of shares representing at least ~~2~~ **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. Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to 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.	**10.7** 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.	**10.8** 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 thathas 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.	**10.9** 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.
10.10 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.	**10.~~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.**
10.11 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.	**10.~~11~~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.**
10.12 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.	**10.~~12~~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.**
10.13 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.~~13~~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.

10.14 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.~~14~~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.
10.15 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.~~15~~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.
10.16 The Board of Directors shall appoint a Secretary, who need not be a director.	**10.~~16~~17** The Board of Directors shall appoint a Secretary, who need not be a director.
10.17 Until the shareholders' meeting resolves otherwise, the directors shall not be subject to the prohibition contemplated in article 2390 of the Italian Civil Code.	**10.~~17~~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.
BOARD OF STATUTORY AUDITORS	**BOARD OF STATUTORY AUDITORS**
Article 16 **16.1** The Board of Statutory Auditors shall be composed of three standing and two alternate auditors, who must be in possession of the requisites established under applicable laws and regulations; to this end, it shall be borne in mind that the fields and sectors of business closely connected with those of the Company are those stated in the Company's purpose, with particular reference to companies or corporations operating in the financial, industrial, banking, insurance and real estate sectors and in the services field in general.	**Article 16** **16.1** The Board of Statutory Auditors shall be composed of three standing and ~~two~~ **three** alternate auditors, who must be in possession of the requisites established under applicable laws and regulations; to this end, it shall be borne in mind that the fields and sectors of business closely connected with those of the Company are those stated in the Company's purpose, with particular reference to companies or corporations operating in the financial, industrial, banking, insurance and real estate sectors and in the services field in general.
16.2 The ordinary shareholders' meeting shall elect the Board of Statutory Auditors and determine its remuneration. The minority shareholders shall be entitled to appoint one standing auditor and one alternate auditor.	**16.2** The ordinary shareholders' meeting shall elect the Board of Statutory Auditors and determine its remuneration. The minority shareholders shall be entitled to appoint one standing auditor and one alternate auditor.
16.3 The Board of Statutory Auditors shall be appointed in compliance with applicable laws and regulations and with the exception of the provisions of paragraph 17 of this article 16, on the basis of slates presented by the shareholders in which candidates are listed by consecutive number.	**16.3** The Board of Statutory Auditors shall be appointed in compliance with applicable laws and regulations and with the exception of the provisions of paragraph 17 of this article 16, on the basis of slates presented by the shareholders in which candidates are listed by consecutive number.
16.4 Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.	**16.4** Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.
16.5 Shareholders who, alone or together with other shareholders, represent at least 1,5 percent of the shares with voting rights in the ordinary shareholders' meeting or the minor percentage, according to the regulations issued by Commissione Nazionale per le Società e la Borsa for the submission of slates for the appointment of the Board of Directors shall be entitled to submit slates.	**16.5** Shareholders who, alone or together with other shareholders, represent at least 1~~,5~~ percent of the shares with voting rights in the ordinary shareholders' meeting or the minor percentage, according to the regulations issued by Commissione Nazionale per le Società e la Borsa for the submission of slates for the appointment of the Board of Directors shall be entitled to submit slates.
16.6 Each shareholder may present or take part in the presentation of only one slate.	**16.6** Each shareholder may present or take part in the presentation of only one slate.
16.7 The slates of candidates, which must be undersigned by the parties submitting them, shall be filed in the Company's registered office at least twenty five days prior to the date set for the shareholders' meeting that is required to decide upon the appointment of the members of the Board of Statutory Auditors, except for those cases in which the law and/or the regulation provide an extension of the deadline They are made available to the public at the registered office, on the Company website and in the other ways specified by Commissione Nazionale per la Società e la Borsa regulations at least 21 days before the date of the general meeting. Without limitation to any further documentation required by applicable rules, including any regulatory provisions, a personal and professional curriculum including also the offices held in management and supervisory bodies of other companies, of the individuals standing for election must accompany the slates together with the statements in which the individual candidates agree to: - their nomination - declare, under their own liability, that there are no grounds for their ineligibility or incompatibility, and that they meet the requisites prescribed by law, by these By-laws and by regulation for the position. Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.	**16.7** The slates of candidates, which must be undersigned by the parties submitting them, shall be filed in the Company's registered office at least twenty five days prior to the date set for the shareholders' meeting that is required to decide upon the appointment of the members of the Board of Statutory Auditors, except for those cases in which the law and/or the regulation provide an extension of the deadline They are made available to the public at the registered office, on the Company website and in the other ways specified by Commissione Nazionale per la Società e la Borsa regulations at least 21 days before the date of the general meeting. Without limitation to any further documentation required by applicable rules, including any regulatory provisions, a personal and professional curriculum including also the offices held in management and supervisory bodies of other companies, of the individuals standing for election must accompany the slates together with the statements in which the individual candidates agree to: - their nomination - declare, under their own liability, that there are no grounds for their ineligibility or incompatibility, and that they meet the requisites prescribed by law, by these By-laws and by regulation for the position. Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.
16.8 Any slates submitted without complying with the foregoing provisions shall be disregarded.	**16.8** Any slates submitted without complying with the foregoing provisions shall be disregarded.

16.9 Each candidate may appear on only one slate, on pain of ineligibility.	**16.9** Each candidate may appear on only one slate, on pain of ineligibility.
16.10 The slates shall be divided into two sections: one for candidates for the position of standing Auditor and one for candidates for the position of alternate Auditor. The first candidate listed in each section must be selected from among the persons enrolled in the Register of Auditors who have worked on statutory audits for a period of no less than three years.	**16.10** The slates shall be divided into two sections: one for candidates for the position of standing Auditor and one for candidates for the position of alternate Auditor. The first candidate listed in each section must be selected from among the persons enrolled in the Register of Auditors who have worked on statutory audits for a period of no less than three years. **In compliance with the current provisions relating to gender balance, slates that - taking account of both sections - present a number of candidates equal to or exceeding three, must include candidates of each gender both in the section for standing statutory auditors and in the section for alternates.**
16.11 Each person entitled to vote may vote for only one slate.	**16.11** Each person entitled to vote may vote for only one slate.
16.12 The Board of Statutory Auditors shall be elected as specified below: **a)** two standing members and one alternate member shall be chosen from the slate which obtains the highest number of votes (known as the majority slate), in the consecutive order in which they are listed thereon; **b)** the remaining standing member and the other alternate member shall be chosen from the slate which obtains the highest number of votes cast by the shareholders after the first slate (known as the minority slate), in the consecutive order in which they are listed thereon; if several slates obtain the same number of votes, a new vote between said slates will be cast by all those entitled to vote attending the meeting, and the candidates on the slate which obtains the simple majority of the votes will be elected.	**16.12** The Board of Statutory Auditors shall be elected as specified below: **a)** two standing members and **one** ~~**two**~~ alternate member**s** shall be chosen from the slate which obtains the highest number of votes (known as the majority slate), in the consecutive order in which they are listed thereon; **b)** the remaining standing member and the other alternate member shall be chosen from the slate which obtains the highest number of votes cast by the shareholders after the first slate (known as the minority slate), in the consecutive order in which they are listed thereon; if several slates obtain the same number of votes, a new vote between said slates will be cast by all those entitled to vote attending the meeting, and the candidates on the slate which obtains the simple majority of the votes will be elected.
16.13 The chair of the Board of Statutory Auditors shall pertain to the standing member listed as the first candidate on the minority slate.	**16.13** The chair of the Board of Statutory Auditors shall pertain to the standing member listed as the first candidate on the minority slate.
	16.14 If, considering the standing statutory auditor and the alternates statutory auditors separately, the application of the slate voting procedure fails to secure the minimum number of statutory auditors of the less represented gender as required by law and/or regulation in force at the time, the appointed candidate of the more represented gender indicated with the higher progressive number in each section of the slate that attracts most votes shall be substituted by the non-appointed candidate of the less represented gender drawn from the same section of the same slate on the basis of their progressive order of presentation.
16.14 The position of a standing auditor which falls vacant due to his/her death, forfeiture or resignation shall be filled by the alternate auditor chosen from the same slate as the former. In the event of the replacement of the Chairman of the Board of Statutory Auditors, the chair shall pertain to the candidate listed in the same slate of the former Chairman, following the order contained in the list; if it proves impossible to effect substitutions and replacements under the foregoing procedures, a shareholders' meeting shall be called to complete the Board of Statutory Auditors which shall adopt resolutions by relative majority vote.	**16.~~14~~15** The position of a standing auditor which falls vacant due to his/her death, forfeiture or resignation shall be filled by **the first** alternate auditor chosen from the same slate as the former. **If filling the position in this way fails produce a composition of the Board of Statutory Auditors that complies with the rules in force even on gender balance, the position will be filled by the second alternate auditor drawn from the same slate. If, subsequently, there is a need to substitute another statutory auditor from the same slate that obtained most votes, the other alternate auditor drawn from the same slate shall fill the position, whatever the outcome.** In the event of the replacement of the Chairman of the Board of Statutory Auditors, the chair shall pertain to the **statutory auditor of the same slate as the outgoing chairman**, following the order contained in the list, **subject in all cases to observance of the requirements in law and/or in the company bylaws for holding that office and to compliance with gender balance as provided by law and/or regulation currently in force;** if it proves impossible to effect substitutions and replacements under the foregoing procedures, a shareholders' meeting shall be called to complete the Board of Statutory Auditors which shall adopt resolutions by relative majority vote.

16.15 When the shareholders' meeting is required, pursuant to the provisions of the foregoing paragraph or to the law, to appoint the standing and/or alternate members needed to complete the Board of Statutory Auditors, it shall proceed as follows: if auditors elected from the majority slate have to be replaced, the appointment shall be made by relative majority vote without slate constraints; if, however, auditors elected from the minority slate have to be replaced, the shareholders' meeting shall replace them by relative majority vote, selecting them where possible from amongst the candidates listed on the slate on which the auditor to be replaced appeared and in any event in accordance with the principle of necessary representation of minorities to which this By Laws ensure the right to take part to the appointment of the Board of Statutory Auditors. The principle of necessary representation of minorities shall be considered complied with in the event of the appointment of Statutory Auditors nominated before in the minority slate or in slates different other than the one which obtained the highest number of votes in the context of the appointment of the Board of Statutory Auditors.	**16.~~15~~16** When the shareholders' meeting is required, pursuant to the provisions of the foregoing paragraph or to the law, to appoint the standing and/or alternate members needed to complete the Board of Statutory Auditors, it shall proceed as follows: if auditors elected from the majority slate have to be replaced, the appointment shall be made by relative majority vote without slate constraints, **without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time;** if, however, auditors appointed from the minority slate have to be replaced, the shareholders' meeting shall replace them by relative majority vote, selecting them where possible from amongst the candidates listed on the slate on which the auditor to be replaced appeared and in any event in accordance with the principle of necessary representation of minorities to which this By Laws ensure the right to take part to the appointment of the Board of Statutory Auditors, **without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time.** The principle of necessary representation of minorities shall be considered complied with in the event of the appointment of Statutory Auditors nominated before in the minority slate or in slates different other than the one which obtained the highest number of votes in the context of the appointment of the Board of Statutory Auditors.
16.16 In case only one slate has been presented, the shareholders' meeting shall vote on it; if the slate obtains the relative majority of the share capital, the candidates listed in the respective section shall be appointed to the office of standing auditors and alternate auditors; the candidate listed at the first place in the slate shall be appointed as Chairman of the Board of Statutory Auditors.	**16.~~16~~17** In case only one slate has been presented, the shareholders' meeting shall vote on it; if the slate obtains the relative majority of the share capital, the candidates listed in the respective section shall be appointed to the office of standing auditors and alternate auditors; the candidate listed at the first place in the slate shall be appointed as Chairman of the Board of Statutory Auditors.
16.17 When appointing auditors who, for whatsoever reason, were not appointed under the procedures established herein, the shareholders' meeting shall vote on the basis of the majorities required by law.	**16.~~17~~18** When appointing auditors who, for whatsoever reason, were not appointed under the procedures established herein, the shareholders' meeting shall vote on the basis of the majorities required by law, **without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time.**
16.18 Outgoing members of the Board of Statutory Auditors may be re-elected to office.	**16.~~18~~19** Outgoing members of the Board of Statutory Auditors may be re-appointed to office.
16.19 Meetings of the Board of Statutory Auditors may, if the Chairman or whoever acts in his/her stead verifies the necessity, be attended by means of telecommunications systems that permit all attendees to participate in the discussion and obtain information on an equal basis.	**16.~~19~~20** Meetings of the Board of Statutory Auditors may, if the Chairman or whoever acts in his/her stead verifies the necessity, be attended by means of telecommunications systems that permit all attendees to participate in the discussion and obtain information on an equal basis.
	TRANSITIONAL CLAUSE
	Article 21 **21.1 The composition of the Board of Statutory Auditors as indicated in article 16.1 which foreseen the appointment of three standing statutory auditors and three alternate statutory auditors, shall be applied as from the first renewal of the control body after one year from the date Law no. 120 of 12 July 2011 takes effect. Up to that time the Board of Statutory Auditors shall be made up of three standing statutory auditors and by two alternate statutory auditors**

- to grant to on the Board of Directors – and for it to the Chairman of the Board of Directors in office – the fullest powers and all discretion needed so that effect is given to the resolutions above, there is compliance with any legal act and/or formality necessary, and the resolutions are entered in the Company Register, with the acceptance and introduction thereby of the amendments, additions, or cancellations – formal and not substantive – as may be requested by the competent authorities".

The Board of Directors
Milan, March 11, 2013

The illustrations contained in the three volumes of the Annual Report are all work of Liza Donnelly.

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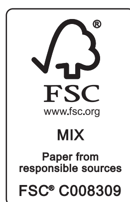
Printed on Fedrigoni paper, Arcoprint E.W.



In line with Pirelli's Green Sourcing Policy, the planning phase of 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, recyclable PET, vegetable-based inks, and water-based paints. The final packages is made out of recyclable cardboard and polypropylene.

The results' documentation can be found online at www.pirelli.com