

In order to estimate the fair value an income approach was used based on the options criterion, and recourse was made to the level 2 input.

The estimate was made starting from the liquidation preference, i.e. the preferential/asymmetric sharing mechanism of any income from the Fenice itself following the sale of Prelios class B shares. As expected date of sale it was decided to adopt the date of first expiry of the shareholders' agreements that is July 31, 2018.

As the pay-off is asymmetrical, it was recalculated based on a portfolio of long and short positions in options and evaluated on December 31, 2014 using the Black & Scholes formulas.

With reference to the equity investments in Prelios S.p.A., the listing of the stock on December 31, 2014 at euro 0.265 per share, significantly lower than the carrying amount of euro 0.62 per share, represents an objective evidence of impairment. An impairment test was therefore carried out that consists of estimating the recoverable amount of the investment and the subsequent comparison with the carrying amount. The recoverable amount is the higher of fair value and value in use.

For the definition of the latter, the company availed of the assistance of an independent third-party professional. In particular, the analyses are based on the expectations of the outcome of 2015-2017 management and services platform resulting from the updated outlook of the Industrial Plan 2015-2017 as well as the carrying amount of the debt and the investment activities at December 31, 2014, as approved by the Board of Directors of Prelios S.p.A. on March 10, 2015 and communicated to the market. The discount rate applied to prospective cash flows used in the determination of the enterprise value of the services platform, defined as the average cost of capital net of tax, is 7.18%.

In order to align the carrying amount to the value in use equal to euro 0.3783 per share, an impairment of the equity investment value totalling euro 35,657 thousand was recorded.

Fair value of the Prelios investment listed to the Milan stock exchange has been calculated using the stock value at December 31, 2014, [euro 0.2651 per share] and amounts to 39.268 thousand of euro.

11. OTHER FINANCIAL ASSETS

This item amounted to euro 173,459 [euro 280,851 thousand on December 31, 2013] and is broken down as follows:

(in thousands of euro)

	12/31/2014	12/31/2013
Financial assets designated at fair value through income statement	-	104,087
Available-for-sale financial assets	173,459	176,764
Total	173,459	280,851

Below are the details:

(in thousands of euro)

	12/31/2014	12/31/2013
Financial assets designated at fair value through income statement		
Equity for debt financial instrument 2013-2019 Prelios "A"	-	56,740
Equity for debt financial instrument 2013-2019 Prelios "B"	-	47,347
Available-for-sale financial assets		
Listed securities		
Mediobanca S.p.A. - Milan	106,650	100,191
RCS Mediagroup S.p.A. - Milan	21,621	30,539
Unlisted securities		
Fin. Priv. S.r.l.	14,473	13,732
Real Estate Investment Fund - Anastasia	14,822	15,084
Alitalia S.p.A.	5,349	7,534
European Institute of Oncology [Istituto Europeo di Oncologia S.r.l.]	5,382	5,038
F.C. Internazionale Milano S.p.A.	558	558
Other companies	4,604	4,088
Total	173,459	280,851

The value of **financial assets designated at fair value through income statement** at December 31, 2013 referred to the Convertendo subscribed as part of the restructuring of the financial credit with Prelios S.p.A. finalized in August 2013.

The bond, with original maturity at December 31, 2019, was converted on April 14, 2014 following the realization of the conditions for which the issuer requested total conversion in advance. Following this conversion Pirelli obtained:

- 111,916,082 Prelios class A ordinary shares;
- 93,390,705 Prelios class B shares – unlisted and without voting rights – recorded at fair value at euro 0.51 per share, for a total of euro 47,536 thousand; the fair value was determined by applying a discount for illiquidity of approximately 18% compared to the value of the Prelios S.p.A. ordinary shares at April 14, 2014 [euro 0.62 per share] - refer to note 10.

Class B shares are classified as financial assets available for sale, and were measured at fair value, with changes in fair value recorded in equity. On June 30, 2014, pursuant to the agreement between the shareholders of the associate Fenice S.r.l., said shares were transferred to Fenice S.r.l. itself, which continues to hold all of the class B shares also post conversion. Losses recognized in equity in the period from the first entry [April 14, 2014] to June 30, 2014 [euro 4,772 thousand] were therefore reclassified to the income statement under "losses from equity investments" [refer to note 31.2].

The table below shows the changes in the item **available-for-sale financial assets**:

(in thousands of euro)

	12/31/2014	12/31/2013
Opening balance	176,764	109,854
Increases	56,579	52,959
Decreases	(42,764)	-
Valuation at fair value through Equity	(5,542)	37,499
Impairment	(11,578)	(60,993)
Reclassification	-	37,480
Other	-	(35)
Closing balance	173,459	176,764

Increases in the year mainly refer to Prelios S.p.A. class B shares obtained following the early conversion of the Prelios bond for euro 47,536 thousand and transactions relating to the investment in Alitalia: in February conversion of the bond for euro 2,842 thousand with a conversion premium of euro 853 thousand; from October, following the announced corporate restructuring of Alitalia Group and of the new Industrial Plan, the subscription of 49,387,729 shares in Alitalia – Compagnia Aerea Italiana S.p.A. for euro 5,349 thousand, equal to 2.7% of the share capital (two payment tranches).

Decreases mainly refer to the transfer of the above Prelios S.p.A. class B shares to the associate Fenice S.r.l on June 30, 2014.

The **fair value adjustments in equity** mainly relate to the investments in Mediobanca S.p.A. (positive for euro 6,459 thousand), Fin.Priv. S.r.l. (positive for euro 741 thousand), Emittente Titoli (positive for euro 965 thousand), IEO (positive for euro 344 thousand), Movincom Servizi S.p.A. (negative for euro 100 thousand) and Fondo Anastasia (negative for euro 262 thousand), Prelios S.p.A. class B share (negative for euro 4,772 thousand) and RCS Mediagroup S.p.A. (negative euro 8,922 thousand).

The item **impairments** refers primarily to the equity investment in Alitalia S.p.A. (euro 11,229 thousand) for the share held in the company before the corporate restructuring.

The fair value of listed securities corresponds to their stock market price as at December 31, 2014. For non-listed securities and real estate funds, the fair value was estimated on the basis of available information.

Further details are set out in the Attachments to the explanatory notes.

12. DEFERRED TAX ASSETS

Amounted to euro 119,085 thousand (euro 101,312 thousand in 2013), referring to deferred tax assets on residual tax losses deemed recoverable based on projections of future taxable income under the Italian tax consolidation in the time period envisaged in the Pirelli Business Plan 2013-2017.

The total deferred tax assets in question also reflect use of tax losses in the year in respect of taxable income and adjustment resulting from the sustainability evaluation of deferred tax assets themselves according to the indications of the future plans of the Italian companies (refer to note 34).