

12. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

(in thousands of euro)

	12/31/2014			12/31/2013		
	ASSOCIATES	JV	TOTAL	ASSOCIATES	JV	TOTAL
Opening balance	111,525	19,941	131,466	113,171	-	113,171
Increases	118,665	12,109	130,774	66,442	10,338	76,780
Distribution of dividends	(1,211)	-	(1,211)	(1,947)	-	(1,947)
Impairment	(20,394)	-	(20,394)	-	-	-
Share of net income (loss)	(53,769)	(1,378)	(55,147)	(26,472)	637	(25,835)
Share of other components recognized in Equity	4,340	-	4,340	(3,932)	-	(3,932)
Reclassifications and other	(271)	(2,774)	(3,045)	(35,737)	8,966	(26,771)
Closing balance	158,885	27,898	186,783	111,525	19,941	131,466

Investments in associates and joint ventures are accounted for in the consolidated Financial Statements with the equity method.

12.1 INVESTMENTS IN ASSOCIATED COMPANIES

The breakdown by individual investment is as follows:

(in thousands of euro)

	12/31/2013	INCREASES	DISTRUB. OF DIVIDENDS	IMPAIRMENT	SHARE OF NET INCOME (LOSS)	SHARE OF COMPONENTS OF OTHER COMPREHENSIVE INCOME	RECLASS. AND OTHER	12/31/2014
Eurostazioni S.p.A.	57,965	-	(1,011)	-	3,587	-	-	60,541
Prelios	8,998	69,858	-	-	(23,612)	290	-	55,534
Fenice S.r.l.	18,185	42,764	-	(18,957)	(30,770)	4,801	-	16,023
GWM Renewable Energy II S.p.A.	24,501	6,043	-	(1,437)	(3,244)	(751)	-	25,112
Idea Granda Società Consortile r.l.	633	-	-	-	-	-	-	633
Other companies	1,243	-	(200)	-	270	-	(271)	1,042
Total	111,525	118,665	(1,211)	(20,394)	(53,769)	4,340	(271)	158,885

The investment in GWM Renewable Energy II S.p.A. [16.87% December 31, 2014, unchanged from the previous year] qualifies as an associate (despite an investment of less than 20%) as the Group exercises significant influence also for the presence of their managers in the Board of Directors of the company.

Increases for the year refer to investments in Prelios S.p.A. [euro 69,858 thousand], Fenice S.r.l. [euro 42,764 thousand] and GWM Renewable Energy II S.p.A. [euro 6,043 thousand].

The increase in the value of the investment in Prelios S.p.A. is associated with the conversion of the Prelios bond (the "Convertendo"); on April 14, 2014, following the occurrence of the conditions for the early request for conversion of the Convertendo at the time signed by Pirelli under the Prelios debt restructuring plan, Pirelli received, in exchange for the Prelios bonds held (Tranche A and B), with a total nominal counter value at that date amounted to euro 148,372 thousand [plus accrued interest], and a carrying amount at the date of the conversion of euro 104,087 thousand [due to the fair value adjustment of the instrument on December 31, 2013, negative for euro 44,285 thousand]:

111,916,082 class A ordinary Prelios shares, which led to an increase in the share of the voting capital held by Pirelli from 13.06% to 29.22% after conversion, of which about 7% freely transferable and about 22% bound by the obligations of the lock-up until July 2016 (with automatic renewal for another three years subject to cancellation) provided in the shareholders' agreement of Fenice (Pirelli, Intesa SanPaolo S.p.A., Unicredit S.p.A. e Feidos 11 S.p.A); these shares were recorded at fair value, corresponding to the Stock Market share price of Prelios S.p.A. of April 14, 2014 (euro 0.62 per share), for a value of euro 69,858 thousand;

93,390,705 class B Prelios shares - unlisted and without voting rights, which qualified under IFRS as financial assets available for sale, and which were recorded at fair value on April 14, 2014, for a value of euro 47,536 thousand (in this regard refer to note 13 below "Other financial assets").

Therefore the replacement of the Convertendo with Prelios class A and B shares, showed a positive effect of euro 13,307 thousand, recognised in the Income Statement under the item "Gains from investments" (refer to note 35.2 below).

The increase in the value of the investment in Fenice S.r.l. is attributable to the transfer, in accordance with the agreements in place between the shareholders of Fenice S.r.l. of the class B shares of Prelios S.p.A. on June 30, 2014, for a total value of euro 42,764 thousand, equal to the fair value of 93,390,705 class B Prelios shares (euro 0.46 per share); this value was determined by applying a discount for illiquidity of 18% over the market price of Prelios S.p.A. as at June 30, 2014 (euro 0.56 per share).

Following the transfer, the percentage of ownership in Fenice rose from 32.83% to 62.56%; although the percentage of ownership is greater than 50%, Pirelli does not take control over Fenice S.r.l. on the basis of the provisions of the shareholder agreement. Reference is made to note 13 "Other financial assets" for further details.

The increase in the value of the investment in GWM Renewable Energy II S.p.A. amounted to euro 6,043 thousand is due to the conversion into the capital payment of the shareholder loan to the associate in 2011. The amount is inclusive of interest accrued at the date of conversion.

Impairments refer to investments in Fenice S.r.l. for euro 18,957 thousand and GMW Renewable Energy II S.p.A. for euro 1,437 thousand.

With reference to the investment in Fenice S.r.l. it is noted that following the increase in Pirelli's interest due to the transfer of the class B Prelios shares, the asymmetry has been accentuated in the share-out among the shareholders of any income from the sale of class B Prelios shares (pay off of the investment) under the shareholders' agreement in place between the shareholders themselves. In fact, under existing clauses, the pay off at maturity of the income attributable to each shareholder is asymmetric with respect to the interest held.

It was deemed that this asymmetry represents an indicator of impairment and therefore the investment was subject to impairment tests, with the goal of comparing the value of the investment, after the application of the equity method, with the recoverable amount of the same, represented by the fair value.

The fair value of the investment at December 31, 2014, for the determination of which Pirelli availed of the services of a professional independent third party, is lower than its carrying amount, and therefore led to an impairment of the investment amounting to euro 18,957 thousand.

An income approach was used to estimate the fair value based on the options criterion and level 2 inputs were applied in the calculation.

The estimate was made starting from the liquidation preference, i.e. the preferential/asymmetric sharing mechanism of any income that it will receive from 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' agreement that is July 31, 2018.

As the pay-off is asymmetrical, it was reproduced on the basis of a portfolio of long and short positions of options, valued at December 31, 2014 on the basis of the Black & Scholes formula.

With reference to the investment in GWM Renewable Energy II S.p.A., it was deemed that the negative results of the GWM Group and the trend in the share price of Greentech Energy System A/S, the

company's main asset, significantly lower than the carrying amount of the investment in GWM Renewable Energy II S.p.A. represented indicators of impairment at December 31, 2014. Consequently, an impairment test was performed, which consists of estimating the recoverable amount of the investment and subsequently comparing it to the net carrying amount, after the application of the equity method. The recoverable value is equal to the value in use, which in its turn is based primarily on the value in use of Greentech Energy Systems A/S, and derives from the assessment of Greentech Energy Systems A/S prepared by an independent third party, and which is based on the expected discounted cash flows and methodologies that use multiples, on the basis of the economic-financial information available on the market. The comparison showed an impairment of euro 1,437 thousand recognized in the Income Statement.

With reference to the equity investment in Prelios, an impairment test, that estimates the recoverable amount of the equity investment and subsequently compares it with the carrying amount, has been performed considering also the statutory Financial Statements investment value (0.62 euro per share compared to 0.37 euro per share in the consolidated Financial Statements after the equity method calculation). The recoverable amount is the higher between fair value and value in use.

For the definition of the latter, the company availed of the assistance of a professional independent third party. In particular, the analyses are based on the expected results 2015-2017 of the management and services platform resulting from the review of the 2015-2017 Industrial Plan as well as the book value of debt and 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 cash flows used in the determination of the enterprise value of the services platform, defined as the average cost of capital net of taxes, amounted to 7.18%. The value in use calculated on the abovementioned basis was higher than the carrying amount of Prelios investment in the consolidated Financial Statements and therefore no impairment was recognized.

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.

The **share of net income [loss]** [negative for euro 53,769 thousand] mainly refers to Prelios S.p.A. [loss of euro 23,612 thousand], Fenice S.r.l. [loss of euro 30,770 thousand] and GWM Renewable Energy II S.p.A. [loss of euro 3,244 thousand].

As performed on December 31, 2013, the Financial Statements of Prelios S.p.A. used in applying the equity method refers to a different closing date compared to December 31, 2014; in particular the portion pertaining to 2014, amounting to euro 23,612 thousand, is composed of the sum of:

- differential, amounting to euro 13,627 thousand, including total loss of the fourth quarter of 2013 [pro rata Pirelli euro 26,465 thousand] and loss only on the sale of the German platform already included in the Financial Statements at December 31, 2013 [pro rata Pirelli euro 12,838 thousand];
- loss for the first nine months of 2014 [euro 9,985 thousand].

The associate Prelios S.p.A. published its results at December 31, 2014 on March 10, 2015, reporting a net loss of euro 61.1 million, of which euro 12.7 million referred to the fourth quarter of 2014 [pro rata Pirelli euro 2.6 million]; this result will be included in the evaluation with the equity method of the associate at March 31, 2015.

The share of net income [loss] related to the Fenice S.r.l., negative for euro 30,770 thousand, refers to the pro-rata share [62.56%] of the losses resulting from the fair value adjustment of 210,988,201 class B Prelios S.p.A. shares held by Fenice itself. The fair value of the Prelios class B shares was determined based on the market value at December 31, 2014 of the Prelios S.p.A. ordinary shares.

The **share of other components recognized in equity** [positive for euro 4,340 thousand] refers for euro 4,801 thousand to the reclassification to the Income Statement following the development of objective evidence of impairment as detailed above, of losses recognized directly in equity by Fenice

S.r.l. in the year 2013, following the fair value adjustment of the Prelios S.p.A. class B shares held at the close of the previous year.

Investments in associates, measured using the equity method, are immaterial in terms of impact on total consolidated assets both individually and in aggregate form.

12.2 INVESTMENTS IN JOINT VENTURES

The Group holds an investment of 60% [% ownership unchanged from the previous year] in PT Evoluzione Tyres, a jointly controlled entity which operates in Indonesia active in the production of tyres. Although it is now owned by 60%, due to contractual agreements between shareholders it falls within the definition of a joint venture as the governance rules explicitly require unanimous consent in decisions relating to significant activities.

Investments accounted for using the net equity method are immaterial in terms of impact on the total consolidated assets.

13. OTHER FINANCIAL ASSETS

Other financial assets amounted to euro 180,741 thousand, compared to euro 289,096 thousand at December 31, 2013. The breakdown is as follows:

(in thousands of euro)

	12/31/2014	12/31/2013
Financial assets available for sale	180,741	185,009
Financial assets at fair value through income statement	-	104,087
	180,741	289,096

The value of financial assets at fair value through the Income Statement at December 31, 2013 referred to the "Convertendo", an equity financial instrument subscribed as part of the restructuring plan of the financial receivable from Prelios S.p.A. finalised in August 2013. The loan, with original maturity at December 31, 2019, was converted on April 14, 2014 following the realization of the conditions for which the issuer requested the total conversion in advance. Following this conversion Pirelli obtained:

- 111,916,082 Prelios class A ordinary shares - refer to note 12.1 above;
- 93,390,705 class B Prelios shares - unlisted and without voting right - recorded at a fair value of 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 Prelios S.p.A. ordinary shares at April 14, 2014 [euro 0.62 per share].