

23. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

The following table sets forth the amounts owed to banks and other financial institutions

(in thousands of euro)

	12.31.2013			12.31.2012		
	Total	Non-current	Current	Total	Non-current	Current
Bonds	607,157	607,157	-	614,150	614,150	-
Borrowings from banks	1,659,221	1,401,490	257,731	1,735,226	1,352,850	382,376
Borrowings from other financial institutions	11,740	2,929	8,811	6,466	4,890	1,576
Finance lease payables	1,345	1,080	265	17,354	4,313	13,041
Financial accrued expenses and deferred income	43,395	97	43,298	47,565	4,413	43,152
Other financial payables	8,201	1,653	6,548	15,540	15,159	381
	2,331,059	2,014,406	316,653	2,436,301	1,995,775	440,526

The item **bonds** refers to:

- the unrated bond placed by Pirelli & C. S.p.A. on the Eurobond market for an aggregate nominal amount in February 2011 of euro 500 million, with a fixed coupon of 5.125% and maturity in February 2016;
- the private placement made by Pirelli International Ltd on the American market for an aggregate nominal amount of USD 150 million (equal to euro 108,767 thousand based on the exchange rate at December 31, 2013), with a duration of between 5 and 12 years and an average coupon of 5.05%.

The carrying amounts of the bonds were determined as follows

(in thousands of euro)

	12.31.2013	12.31.2012
Nominal value	608,767	613,688
Transaction costs	(6,136)	(6,149)
Amortisation of effective interest rate	2,942	1,816
Adjustment for fair value hedge	1,584	4,795
	607,157	614,150

Bank borrowings, amounting to euro 1,659,220 thousand, mainly consist of:

- loans granted by the European Investment Bank (EIB) to Pirelli & C. S.p.A. and Pirelli Tyre S.p.A. for research and development projects and to S.C. Pirelli Tyres Romania S.r.l. for local industrial investments. These loans total Euro 250,000 thousand (euro 275,000 thousand at December 31, 2012), were fully used, and are classified as non-current bank borrowings (at December 31, 2012 euro 25,000 thousand classified as current bank borrowings and euro 250,000 thousand classified as non-current bank borrowings);
- euro 575,000 thousand for utilisation of the syndicated facility (euro 575,000 thousand at December 31, 2012), granted to Pirelli & C. S.p.A., Pirelli Tyre S.p.A. and Pirelli International Limited for a total amount of euro 1,200,000 thousand, subscribed on November 30, 2010 and having a duration of five years. These utilisations were classified as non-current bank borrowings;
- euro 154,542 thousand for the Schuldschein, a syndicated loan by the lender on the basis of a German law debt security, granted to Pirelli International Ltd and guaranteed by Pirelli & C. S.p.A. and Pirelli Tyre S.p.A., disbursed on December 14, 2012 with a duration of between 3, 5 and 7 years, classified under non-current bank borrowings;
- euro 161,839 thousand classified as non-current bank borrowings, granted by Banco Bilbao Vizcaya Argentaria to the Mexican subsidiaries in December 2012 with a duration of 5 years and by Bancomex in 1H 2013 with a

duration of 7 years. Both of these loans are guaranteed by Pirelli Tyre S.p.A. The loan received from Bancomet is covered by a secured guarantee;

- euro 15,861 thousand, including euro 10,224 thousand classified as non-current bank borrowings, granted by Banco Nacion Argentina between October 2011 and June 2012 to Pirelli Neumaticos S.A.I.C. The duration of the loan is 5 years and is covered by a secured guarantee;
- use of credit lines at local level, in China, Brazil and Turkey, for euro 451,302 thousand.

Aside from cash and securities held for trading of euro 927,987 thousand, at December 31, 2013 the Group had unused committed credit facilities of euro 625,000 thousand (euro 625,000 thousand at December 31, 2012) expiring in 2015.

The decrease in **payables for finance lease** compared to previous year (euro 12,562 thousand) is entirely due to the redemption, in July 2013, of the land and building held under finance lease where the Tyre R&D offices in Italy and Prelios S.p.A. are located (euro 12,562 thousand).

Accrued financial expenses and deferred financial income (euro 43,396 thousand) mainly refer to the portion of interest accrued on bonds (euro 21,974 thousand, unchanged from December 31, 2012) and interest rate swaps (euro 17,717 thousand; euro 17,854 thousand at December 31, 2012).

Other current financial payables include euro 6,284 thousand for the fair value of the put option in favour of the Faria da Silva family for the remaining 20% of Campneus Lider de Pneumaticos Ltda, 60% acquired by Pirelli in 1H 2012, with the obligation to acquire the first, additional share of 20% by June 30, 2014 and with the option granted to the seller to sell the last 20% to Pirelli by June 30, 2017. The decrease in other financial payables from 2012 is attributable to the aforementioned purchase of the first additional 20%, which occurred in 1H 2013, in accordance with the provisions of the agreement.

Other non-current financial payables includes euro 1,650 thousand of security deposit towards Prelios S.p.A., related to the lease of the R&D building, for the entire duration of the lease (October 15, 2012 – October 14, 2018).

Current and non-current financial payables backed by secured guarantees (pledges and mortgages) totalled euro 74,503 thousand (euro 42,058 thousand at December 31, 2012).

Current financial payables include the portion of non-current financial payables, totalling euro 123,000 thousand (euro 297,000 thousand at December 31, 2012), that will be settled within one year.

The carrying amount of current payables is considered to approximate their fair value. The table below compares the fair value of non-current financial payables with their carrying amount

(in thousands of euro)

	12.31.2013		12.31.2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Bond Pirelli & C. S.p.A.	499,217	533,010	501,291	533,010
Private placement - Pirelli International Ltd	107,940	108,774	112,860	108,774
Borrowings from banks	1,401,490	987,367	1,352,850	1,364,677
Othr non-current financial payables	5,759	5,759	28,775	28,775
	2,014,406	1,634,910	1,995,776	2,035,236

The bond issued by Pirelli & C. S.p.A. is listed on an active market and its fair value was measured its prices at the end of the year. It is thus classified as level 1 in the hierarchy.

The fair value of the private placement in U.S. dollars issued by Pirelli International Ltd and the fair value of the bank borrowings were calculated by discounting each debtor cash flow at the market swap rate for the currency and at the reference maturity date, increased by the Group credit rating. They are classified as level 2 in the hierarchy.

At December 31, 2013, the breakdown of bank borrowings and other payables to lenders by interest rate and by currency of origin of the debt is as follows

(in thousands of euro)

	Fixed rate		Floating rate		Total
EUR	46,446		6,139		52,585
BRL (Brazilian Real)	125,732		-		125,732
CNY (Chinese Renminbi)	54,835		-		54,835
RON (Romanian Leu)	(205)		-		(205)
TRY (Turkish Lira)	53,608		-		53,608
Other currencies	30,078		20		30,098
Current payables	310,494	98%	6,159	2%	316,653
EUR	1,303,486		124,531		1,428,017
US Dollar	29,588		80,895		110,483
BRL (Brazilian Real)	104,008		93,049		197,057
CNY (Chinese Renminbi)	-		58,878		58,878
RON (Romanian Leu)	-		49,812		49,812
MXN (Mexican Pesos)	-		160,296		160,296
ARS (Argentinian Pesos)	9,763		-		9,763
Other currencies	100		-		100
Non current payables	1,446,945	72%	567,461	28%	2,014,406
	1,757,439	75%	573,620	25%	2,331,059

The breakdown at at December 31, 2012 was as follows

(in thousands of euro)

	Fixed rate		Floating rate		Total
EUR	54,460		18,799		73,259
BRL (Brazilian Real)	264,645		-		264,645
CNY (Chinese Renminbi)	40,894		-		40,894
RON (Romanian Leu)	25,873		-		25,873
TRY (Turkish Lira)	29,943		-		29,943
Other currencies	5,912		-		5,912
Current payables	421,727	96%	18,799	4%	440,526
EUR	1,316,519		121,793		1,438,312
US Dollar	37,998		81,195		119,193
BRL (Brazilian Real)	36,197		130,492		166,690
CNY (Chinese Renminbi)	-		71,696		71,696
RON (Romanian Leu)	-		49,996		49,996
MXN (Mexican Pesos)	-		116,592		116,592
ARS (Argentinian Pesos)	22,197		-		22,197
Other currencies	-		10,400		10,400
Non current payables	1,413,611	71%	582,164	29%	1,995,775
	1,835,338	75%	600,963	25%	2,436,301

The value of fixed-rate payables indicated above includes those established by contracts as fixed-rate payables and those established by contracts as variable-rate payables, for which hedging derivatives have been put in place.

The Group's exposure to fluctuations in interest rates on financial payables, both in terms of the type of rate and their resetting date, are summarised below

(in thousands of euro)

	12.31.2013			12.31.2012		
	Total	Fixed rate	Floating rate	Total	Fixed rate	Floating rate
Up to 6 months	872,224	298,604	573,620	889,636	419,430	470,206
From 6 to 12 months	6,589	6,589	-	12,701	12,701	-
From 1 to 5 years	1,424,426	1,424,426	-	1,506,501	1,375,744	130,757
More than 5 years	27,820	27,820	-	27,463	27,463	-
	2,331,059	1,757,439	573,620	2,436,301	1,835,338	600,963

The average cost of debt during 2013 was 6.23%.

With regard to the financial covenants and negative pledge clauses, it should be noted that:

- the revolving credit line granted to Pirelli & C. S.p.A., Pirelli Tyre S.p.A. and Pirelli International Limited for a total of euro 1,200,000 thousand, and withdrawn for euro 575,000 thousand, is subject to one financial covenant: a certain ratio between consolidated net indebtedness and gross operating profit must be maintained. This param-

eter was fully satisfied at December 31, 2013. With regard to the negative pledges, the credit facility provides for a commitment not to grant secured guarantees, above a threshold defined as the greater between euro 100,000 thousand and 3% of Total Assets (as per the consolidated financial statements of Pirelli & C. S.p.A.), with the exception of secured guarantees on the existing debt or debt to replace it, to be granted pursuant to law, relating to trade finance, project finance and subsidised finance or on loans provided by supranational entities;

- the private placement for a total of USD 150 million with due dates falling between December 5, 2017 and December 5, 2024 envisages, aside from the commitments indicated hereinabove:
 - the respect of the ratio between non-centralised indebtedness (referred to companies other than Pirelli International Limited, Pirelli & C. S.p.A. and Pirelli Tyre S.p.A.) and total assets as reported in the consolidated financial statements of Pirelli & C. S.p.A. set at 25% (and the ratio between secured debt and total assets not exceeding 15% in any event);
 - introduction of a financial covenant whereby the ratio between gross operating profit and financial expenses as reported in the consolidated financial statements of Pirelli & C. S.p.A. be greater than or equal to 3.5 when the ratio between net consolidated indebtedness and gross operating profit is greater than 2.5. Both of these parameters were satisfied at December 31, 2013;
- the *Schuldschein* obtained by Pirelli International Limited for a nominal total amount of euro 155,000 thousand, with due dates falling between June 14, 2016 and December 14, 2019 envisages, in the case of negative pledges, the undertaking not to grant secured guarantees beyond the threshold defined as being the higher between euro 100,000 thousand and 3% of Total Assets (as per the consolidated financial statements of Pirelli & C. S.p.A.), with the exception of secured guarantees on existing debt or debt to replace it, to be granted pursuant to law, relating to trade finance, project finance and subsidised finance, or on loans granted by supranational entities.

The other outstanding financial payables do not contain financial covenants.

24. TRADE PAYABLES

(in thousands of euro)

	12.31.2013			12.31.2012		
	Total	Non-current	Current	Total	Non-current	Current
Suppliers	1,233,162	-	1,233,162	1,251,404	-	1,251,404
Notes payable	11,304	-	11,304	17,279	-	17,279
	1,244,466	-	1,244,466	1,268,683	-	1,268,683

The carrying amount of trade payables is considered to approximate their fair value.