CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2022

(in thousands of euro)

	Note	12/31/2022		12/31/2021	
			of which related parties (note 43)		of which related parties (note 43)
Property, plant and equipment	**9**	3,399,628		3,288,914	
Intangible assets	**10**	5,382,837		5,485,665	
Investments in associates and joint ventures	**11**	80,227		80,886	
Other financial assets at fair value through other Comprehensive Income	**12**	48,419		56,907	
Deferred tax assets	**13**	176,969		137,643	
Other receivables	**15**	231,151	*6,926*	362,944	*6,664*
Tax receivables	**16**	9,055		27,564	
Other assets	**22**	120,481		153,205	
Derivative financial instruments	**27**	26,430		4,612	
Non-current assets		**9,475,197**		**9,598,340**	
Inventories	**17**	1,457,711		1,092,162	
Trade receivables	**14**	636,446	*11,029*	659,209	*19,474*
Other receivables	**15**	741,238	*111,272*	470,577	*105,942*
Other financial assets at fair value through Income Statement	**18**	246,884		113,901	
Cash and cash equivalents	**19**	1,289,744		1,884,649	
Tax receivables	**16**	27,649		17,773	
Derivative financial instruments	**27**	22,681		46,562	
Current assets		**4,422,353**		**4,284,833**	
Total Assets		**13,897,550**		**13,883,173**	
Equity attributable to the owners of the Parent Company:	**20.1**	**5,323,794**		**4,908,112**	
Share capital		1,904,375		1,904,375	
Reserves		3,001,659		2,700,941	
Net income / (loss)		417,760		302,796	
Equity attributable to non-controlling interests:	**20.2**	**130,034**		**134,527**	
Reserves		111,894		115,730	
Net income / (loss)		18,140		18,797	
Total Equity	**20**	**5,453,828**		**5,042,639**	
Borrowings from banks and other financial institutions	**23**	3,690,111	*10,444*	3,789,369	*13,210*
Other payables	**25**	74,574	*212*	76,485	*212*
Provisions for liabilities and charges	**21**	101,676	*21,843*	81,170	*22,028*
Deferred tax liabilities	**13**	1,041,848		1,033,892	
Provisions for employee benefit obligations	**22**	180,558	*6,735*	220,598	*7,157*
Tax payables	**26**	12,780		11,512	
Derivative financial instruments	**27**	-		3,519	
Non-current liabilities		**5,101,547**		**5,216,545**	
Borrowings from banks and other financial institutions	**23**	800,389	*2,979*	1,489,249	*2,751*
Trade payables	**24**	1,973,296	*166,372*	1,626,367	*144,122*
Other payables	**25**	405,578	*37,386*	314,203	*13,376*
Provisions for liabilities and charges	**21**	41,250		43,594	
Tax payables	**26**	102,104		134,388	
Derivative financial instruments	**27**	19,558		16,188	
Current liabilities		**3,342,175**		**3,623,989**	
Total Liabilities and Equity		**13,897,550**		**13,883,173**	

(in thousands of euro)

	Note	2022		2021	
			of which related parties (note 43)		of which related parties (note 43)
Revenues from sales and services	**29**	**6,615,727**	*44,972*	**5,331,450**	*23,659*
Other income	**30**	330,913	*63,602*	303,868	*56,294*
Changes in inventories of unfinished, semi-finished and finished products		212,222		157,813	
Raw materials and consumables used (net of change in inventories)		(2,419,274)	*(17,603)*	(1,820,615)	*(3,577)*
Personnel expenses	**31**	(1,178,609)	*(15,244)*	(1,101,913)	*(23,085)*
- of which non-recurring events		-		*(2,537)*	
Amortisation, depreciation and impairment	**32**	(566,689)		(517,192)	
Other costs	**33**	(2,208,788)	*(340,884)*	(1,770,518)	*(312,465)*
Net impairment of financial assets	**34**	4,075		(7,950)	
Increases in fixed assets due to internal works		1,905		2,111	
Operating income/(loss)		**791,482**		**577,054**	
Net income/(loss) from equity investments	**35**	5,848		3,978	
- share of net income/(loss) of associates and joint ventures		*2,920*	*2,920*	*1,697*	*1,697*
- gains on equity investments		-		*27*	
- losses on equity investments		*(123)*		*(20)*	
- dividends		*3,051*		*2,274*	
Financial income	**36**	101,987	*3,480*	35,000	*3,651*
Financial expenses	**37**	(303,683)	*(1,825)*	(179,281)	*(1,505)*
Net income / (loss) before taxes		**595,634**		**436,751**	
Taxes	**38**	(159,734)		(115,158)	
- of which non-recurring events		-		*23,223*	
Net income / (loss)		**435,900**		**321,593**	
Attributable to:					
Owners of the Parent Company		417,760		302,796	
Non-controlling interests		18,140		18,797	
Total earnings / (losses) per share (in euro per basic share)	**39**	**0.418**		**0.303**	

(in thousands of euro)

		Note	2022	2021
A	**Total Net income / (loss)**		**435,900**	**321,593**
	- Remeasurement of employee benefits	**22**	(27,546)	91,168
	- Tax effect		7,329	(30,173)
	- Fair value adjustment of other financial assets at fair value through Other Comprehensive Income	**12**	(8,477)	13,764
B	**Total items that may not be reclassified to Income Statement**		**(28,694)**	**74,759**
	Exchange rate differences from translation of foreign Financial Statements			
	- Gains / (losses)	**20**	58,713	119,201
	- (Gains) / losses reclassified to Income Statement	**35**	-	-
	- Tax effect		-	-
	Fair value adjustment of derivatives designated as cash flow hedges:			
	- Gains / (losses)	**27**	56,510	95,523
	- (Gains) / losses reclassified to Income Statement	**27**	951	(72,380)
	- Tax effect		(13,301)	(4,638)
	Cost of hedging			
	- Gains / (losses)	**27**	(119)	1,175
	- (Gains) / losses reclassified to Income Statement	**27**	(1,477)	(6,870)
	- Tax effect		136	878
	Share of other Comprehensive Income related to associates and joint ventures, net of taxes	**11**	(2,183)	6,694
C	**Total items reclassified / that may be reclassified to Income Statement**		**99,230**	**139,583**
D	**Total other Comprehensive Income (B+C)**		**70,536**	**214,342**
A+D	**Total Comprehensive Income / (loss)**		**506,436**	**535,935**
	Attributable to:			
	- Owners of the Parent Company		486,523	505,837
	- Non-controlling interests		19,913	30,098

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 12/31/2022

(in thousands of euro)

	Attributable to the Parent Company (note 20.1)					Non-controlling interests (note 20.2)	Total (note 20)
	Share Capital	Translation reserve	Other O.C.I. reserves *	Other reserves/ retained earnings	Total attributable to the Parent Company		
Total at 12/31/2021	**1,904,375**	**(565,143)**	**(1,408)**	**3,570,288**	**4,908,112**	**134,527**	**5,042,639**
Other components of Comprehensive Income	-	54,757	14,006	-	68,763	1,773	70,536
Net income / (loss)	-	-	-	417,760	417,760	18,140	435,900
Total comprehensive income / (loss)	**-**	**54,757**	**14,006**	**417,760**	**486,523**	**19,913**	**506,436**
Dividends approved	-	-	-	(161,000)	(161,000)	(24,396)	(185,396)
Effects of hyperinflation accounting in Turkey	-	-	-	16,868	16,868	-	16,868
Effects of hyperinflation accounting in Argentina	-	-	-	72,149	72,149	-	72,149
Other	-	-	170	972	1,142	(10)	1,132
Total at 12/31/2022	**1,904,375**	**(510,386)**	**12,768**	**3,917,037**	**5,323,794**	**130,034**	**5,453,828**

BREAKDOWN OF OTHER O.C.I. RESERVES*

(in thousands of euro)

	Reserve for fair value adjustment of financial assets at fair value through other Comprehensive Income	Reserve for cost of hedging	Reserve for cash flow hedge	Remeasurement of employee benefits	Tax effect	Other O.C.I. reserves
Total at 12/31/2021	**(2,597)**	**1,595**	**(3,085)**	**66,107**	**(63,428)**	**(1,408)**
Other components of Comprehensive Income	(8,477)	(1,595)	57,461	(27,546)	(5,837)	14,006
Other changes	-	-	-	142	28	170
Total at 12/31/2022	**(11,074)**	**-**	**54,376**	**38,703**	**(69,237)**	**12,768**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 12/31/2021

(in thousands of euro)

	Attributable to the Parent Company (note 20.1)					Non-controlling interests (note 20.2)	Total (note 20)
	Share Capital	Translation reserve	Other O.C.I. reserves *	Other reserves/ retained earnings	Total attributable to the Parent Company		
Total at 12/31/2020	**1,904,375**	**(679,737)**	**(89,893)**	**3,312,673**	**4,447,418**	**104,432**	**4,551,850**
Other components of Comprehensive Income	-	114,594	88,447	-	203,041	11,301	214,342
Net income / (loss)	-	-	-	302,796	302,796	18,797	321,593
Total comprehensive income / (loss)	**-**	**114,594**	**88,447**	**302,796**	**505,837**	**30,098**	**535,935**
Dividends approved	-	-	-	(80,000)	(80,000)	-	(80,000)
Effects of hyperinflation accounting in Argentina	-	-	-	33,647	33,647	-	33,647
Other	-	-	38	1,172	1,210	(3)	1,207
Total at 12/31/2021	**1,904,375**	**(565,143)**	**(1,408)**	**3,570,288**	**4,908,112**	**134,527**	**5,042,639**

BREAKDOWN OF OTHER O.C.I. RESERVES*

(in thousands of euro)

	Reserve for fair value adjustment of financial assets at fair value through Other Comprehensive Income	Reserve for cost of hedging	Reserve for cash flow hedge	Remeasurement of employee benefits	Tax effect	Other O.C.I. reserves
Total at 12/31/2020	**(16,357)**	**7,290**	**(26,228)**	**(25,104)**	**(29,494)**	**(89,893)**
Other components of Comprehensive Income	13,764	(5,695)	23,143	91,168	(33,933)	88,447
Other changes	(4)	-	-	43	(1)	38
Total at 12/31/2021	**(2,597)**	**1,595**	**(3,085)**	**66,107**	**(63,428)**	**(1,408)**

(in thousands of euro)

		Note	2022		2021	
				of which related parties (note 43)		of which related parties (note 43)
	Net income / (loss) before taxes		595,634		436,751	
	Reversal of amortisation, depreciation, impairment losses and restatement of property, plant and equipment and intangible assets	**32**	566,689		517,192	
	Reversal of Financial (income) / expenses	**36/37**	201,696		144,281	
	Reversal of Dividends	**35**	(3,051)		(2,274)	
	Reversal of gains / (losses) on equity investments	**35**	123		(7)	
	Reversal of share of net result from associates and joint ventures	**35**	(2,920)	*(2,920)*	(1,697)	*(1,697)*
	Reversal of accruals to provisions and other accruals		141,283		133,963	
	Net Taxes paid	**38**	(205,455)		(125,634)	
	Change in Inventories		(342,322)		(222,495)	
	Change in Trade receivables		37,376	*8,858*	(51,352)	*(6,359)*
	Change in Trade payables		272,842	*16,317*	214,512	*19,478*
	Change in Other receivables		(50,502)	*(7,391)*	23,745	*(1,197)*
	Change in Other payables		27,900	*(2,559)*	(59,096)	*(5,158)*
	Uses of Provisions for employee benefit obligations		(89,471)	-	(48,751)	*(3,017)*
	Uses of Provisions for liabilities and charges		(18,176)		(40,064)	
A	**Net cash flow provided by / (used in) operating activities**		**1,131,646**		**919,074**	
	Investments in owned tangible assets		(303,491)		(256,092)	
	Disposal of owned tangible assets		4,098		8,534	
	Investments in intangible assets		(31,912)		(30,579)	
	Disposal of intangible assets		277		243	
	(Investments) in other financial assets at fair value through Other Comprehensive Income		-		(450)	
	Loss of control in subsidiaries		-		4,407	
	Disposals of equity investments in associates and J.V.		1,330		-	
	Change in Financial receivables from associates and joint ventures		(150)	*(287)*	15,272	*15,272*
	Dividends received	**35**	3,230	*30*	2,274	
B	**Net cash flow provided by / (used in) investing activities**		**(326,618)**		**(256,391)**	
	Change in Borrowings from banks and other financial institutions due to draw downs	**23**	1,324,067		886,242	
	Change in Borrowings from banks and other financial institutions due to repayments and other	**23**	(2,113,830)		(1,649,448)	
	Change in Financial receivables / Other current financial assets at fair value through Income Statement		(141,761)		(21,079)	
	Financial income / (expenses)		(173,261)		(115,071)	
	Dividends paid		(185,395)		(79,935)	
	Repayment of principal and payment of interest for lease liabilities		(114,513)	*(948)*	(105,355)	*(3,830)*
C	**Net cash flow provided by / (used in) financing activities**		**(1,404,693)**		**(1,084,646)**	
D	**Total cash flow provided / (used) during the period (A+B+C)**		**(599,665)**		**(421,963)**	
E	**Cash and cash equivalents at the beginning of the financial year**		**1,883,544**		**2,269,683**	
F	**Exchange rate differences from translation of cash and cash equivalents**		(491)		35,824	
G	**Cash and cash equivalents at the end of the period (D+E+F) (°)**	**19**	**1,283,388**		**1,883,544**	
(°)	**of which:**					
	cash and cash equivalents		1,289,744		1,884,649	
	bank overdrafts		(6,356)		(1,105)	

EXPLANATORY NOTES

1. GENERAL INFORMATION

Pirelli & C. S.p.A. is a company whose legal status is governed by the laws of the Italian Republic.

Founded in 1872, Pirelli & C. S.p.A. is - also by way of its subsidiaries in Italy and abroad - a Pure Consumer Tyre Company (which includes tyres for automobiles, motorcycles and bicycles), with a particular focus on the High Value tyre market, that is, products created to reach the highest levels of performance, safety, quietness and road adherence.

The registered Head Office of the Company is located in Milan, Italy at *Viale Piero e Alberto Pirelli n. 25.*

These Consolidated Financial Statements have been prepared using the euro as the reporting currency, with all values rounded to the nearest thousand euro, unless otherwise indicated.

The audit of the Consolidated Financial Statements has been entrusted to PricewaterhouseCoopers S.p.A. pursuant to Legislative Decree No. 39 of January 27, 2010, and pursuant to the resolution of the Shareholders' Meeting of August 1, 2017, which conferred the mandate to the aforesaid company for each of the nine financial years with closings from December 31, 2017 to December 31, 2025.

Pirelli & C. S.p.A. is directly controlled by Marco Polo International Italy S.r.l., which in turn, through the China National Chemical Corporation ("*ChemChina*") and other subsidiaries of the latter, is indirectly controlled by Sinochem Holdings Corporation Ltd., a Chinese state-owned enterprise (SOE) controlled by the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) of the People's Republic of China.

As of the date of the commencement of trading on the stock exchange (October 4, 2017), there are no entities that exercise management and coordination activities over the Company.

The Board of Directors approved these Consolidated Financial Statements on April 5, 2023 and authorised their publication on April 12, 2023.

2. BASIS OF PRESENTATION

INFORMATION ON THE MACROECONOMIC ENVIRONMENT

The year 2022 was characterised by a highly volatile macroeconomic environment due to the difficult geo-political scenario (Russian-Ukrainian conflict), high inflation, difficulties along the supply chain and lockdowns in China. The restrictive interventions by the central banks, in an attempt to curb inflationary effects, led to a generalised increase in the cost of money with an impact on the Group's cost of debt.

The Group has worked to ensure business continuity and to guarantee its level of service to its customers, and has countered the increases in the costs of raw material and inflation in the costs of production factors resulting from the aforesaid macroeconomic environment, thanks to the internal levers: improvement in the price/mix and in the internal efficiency plan, in addition to measures to contain energy costs through price negotiations with the Group's suppliers.

With specific reference to the Chinese market, it should be noted that the effects of lockdowns in the country to counter COVID-19, led to a drop in volumes in China, particularly during the second and fourth quarters, as a result of a contraction in demand. With regard to activities in Russia, reference should be made to the section *"Activities in Russia"* in this document.

For further details on the performance in 2022, reference should be made to the section *"Group Performance and Results"* in the Directors' Report on Operations, while for information on the management of risks arising from the external environment, reference should be made to the section *"Risk Factors and Uncertainty"* in the same aforesaid document.

The macroeconomic scenario is expected to be uncertain and volatile in 2023 as well. The most updated forecasts available at the beginning of the year were taken into account in the formulation of the forecast results for 2023 presented to the market on February 22, 2023. The same results were taken into account in the estimations and assumptions, particularly when assessing the recoverability of goodwill and of other intangible assets with an indefinite useful life, and the recoverability of tangible assets in Russia.

These impacts are described in the Explanatory Notes to which reference should be made for further details.

FINANCIAL STATEMENTS

The Consolidated Financial Statements at December 31, 2022 consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Cash Flow Statement and the Explanatory Notes which are accompanied by the Directors' Report on Operations.

This document has not been prepared pursuant to the EU Delegated Regulation 2019/815 (ESEF Regulation), which was adopted with the implementation of the Transparency Directive. This document which has been prepared pursuant to the ESEF Regulation, is available (in Italian only) on the website of the authorised eMarket Storage mechanism (emarketstorage.com) and on the Company's website www.pirelli.com.

The format adopted for the Statement of Financial Position provides for the distinction of assets and liabilities according to whether they are current or non-current.

The Group has opted to present the components of gains/losses for the financial year in a separate Income Statement, rather than include these components directly in the Statement of Comprehensive Income. The Income Statement format adopted provides for the classification of costs by nature.

The Group has opted to present the tax effects and the reclassifications to the Income Statement of the gains/losses which had been recognised under Other Comprehensive Income in previous financial years, directly in the Statement of Comprehensive Income and not in the Explanatory Notes.

The Statement of Changes in Equity includes, in addition to the total gains/losses for the period, the amounts from transactions with equity holders and the movements which occurred in the reserves during the financial year.

In the Statement of Cash Flow, the financial flows from operating activities are reported using the indirect method, whereby the gains or losses for the financial year are adjusted for the effects of non-monetary transactions, any deferrals or accruals of past or future operating collections or payments and any income or expense items related to financial flows arising from investing or financing activities.

SCOPE OF CONSOLIDATION

The scope of consolidation includes the subsidiaries, associates and agreements for joint arrangements.

Subsidiaries are defined as all the companies over which the Group contemporarily holds:

- the power of decision making, or the capacity to direct the relevant activities of the subsidiary, that is activities that have a significant influence on the results of the subsidiary;
- exposure or the right to the variable (positive or negative) results from the investment in the entity;
- the capacity to utilise its decision making power to determine the amounts for results arising from the investment in the entity.

The Financial Statements of subsidiaries are included in the Consolidated Financial Statements as of the date when control is assumed until such time when control ceases to exist. The share of equity and of the results attributable to non-controlling interests, are separately reported in the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income and in Equity, respectively.

Associates are all companies over which the Group is able to exercise significant influence as defined by IAS 28 – Investments in Associates and Joint Ventures. This influence is legally presumed to exist when the Group holds a percentage of voting rights of between 20% and 50%, or when - even in the case of a lower share of voting rights – it has the power to participate in determining financial and operating policies by virtue of specific legal relationships, such as, for example, the participation in Shareholders' agreements together with other forms of significant exercise of governance rights.

Joint arrangements are agreements whereby two or more parties have joint control under a contract. Joint control is the shared control of a business activity, established by agreement which exists only when decisions relative to the activity require the unanimous consent of all parties who share control. These agreements may give rise to joint ventures or joint operations.

A joint venture is an agreement for the joint control of an entity whereby the parties that have joint control, have rights to the net assets of the said entity. Joint ventures are distinguished from joint operations which instead are configured as agreements which give the parties of the agreement, which have joint control of the initiative, the rights to the individual assets and the obligations of the individual liabilities relative to the agreement. The Group does not currently have any agreements in place for joint operations.

Changes which occurred in the scope of consolidation are summarised as follows:

- the exit from the Focus Investment S.p.A. shareholding structure on March 9, 2022;
- the disposal, approved by the Board of Directors on November 11, 2021, of the 20% stake held in the Joint Stock Company, the Kirov Tyre Plant which took place on May 23, 2022;
- incorporation on October 10, 2022 of Pirelli Tyre MEAI DMCC which is wholly owned by Pirelli Asia Pte Ltd.;
- incorporation on October 19, 2022 of E-VOLUTION Tyre South Africa (Pty) Ltd. which is wholly owned by Pirelli Tyre (Pty) Ltd.;
- incorporation on October 27, 2022 of NewCo Micromobility S.r.l., which is wholly owned by Pirelli Tyre S.p.A.;
- incorporation on December 15, 2022 of Latam Servicios Industriales S.A., which is 95% owned by Pirelli Neumaticos S.A.I.C., and 5% owned by Pirelli Pneus Ltda.

It should also be noted that effective as of December 17, 2022, the Dutch companies Pirelli Tyres Nederland B.V. and E-VOLUTION Tyre B.V. were merged by incorporation into Pirelli China Tyre N.V. Lastly, effective as of January 1, 2022, the Spanish company Tyre & Fleet S.L. was merged by incorporation into the company Pirelli Neumaticos S.A..

INFORMATION ON SUBSIDIARIES

The Consolidated Financial Statements include the assets and liabilities of 89 legal entities. The following is a list of the significant subsidiaries:

	Headquarters	12/31/2022		12/31/2021	
		% Group	"% non-controlling interests	% Group	"% non-controlling interests
Pirelli Tyre Co. Ltd.	Yanzhou (China)	90.00%	10.00%	90.00%	10.00%
Pirelli Deutschland GmbH	Breuberg/Odenwald (Germany)	100.00%		100.00%	
Pirelli Tyre S.p.A.	Milan (Italy)	100.00%		100.00%	
Pirelli Industrie Pneumatici S.r.l.	Settimo Torinese (Italy)	100.00%		100.00%	
Pirelli International Treasury S.p.A.	Milan (Italy)	100.00%		100.00%	
Pirelli Neumaticos S.A. de C.V.	Silao (Mexico)	100.00%		100.00%	
Pirelli Pneus Ltda.	Santo Andrè (Brazil)	100.00%		100.00%	
Pirelli Comercial de Pneus Brasil Ltda	Sao Paulo (Brazil)	100.00%		100.00%	
Pirelli UK Tyres Ltd.	Burton-on-Trent (United Kingdom)	100.00%		100.00%	
Pirelli Tire LLC	Rome (USA)	100.00%		100.00%	
Pirelli Neumaticos S.A.I.C.	Buenos Aires (Argentina)	100.00%		100.00%	
S.C. Pirelli Tyres Romania S.r.l.	Slatina (Romania)	100.00%		100.00%	
Limited Liability Company Pirelli Tyre Russia	Moscow (Russia)	65.00%	35.00%	65.00%	35.00%

The complete list of subsidiaries is contained in the attachment, *"Scope of Consolidation – Companies Consolidated on a Line-by-line Basis".*

Non-controlling interests in the subsidiaries of the Group are not relevant either individually or in aggregate form.

CONSOLIDATION PRINCIPLES

For consolidation purposes, the financial statements of the companies included in the Scope of Consolidation were used, which were prepared at the reporting date of the Financial Statements of the Parent Company and appropriately adjusted in order to render them compliant with the IAS/IFRS accounting standards applied by the Group.

The financial statements expressed in foreign currencies have been translated into euro by applying period-end exchange rates for the items in the Statement of Financial Position, and at average exchange rates for the items of the Income Statement, with the exception of the financial statements of companies operating in hyperinflationary countries, whose Income Statements have been translated at period-end exchange rates.

The differences arising from the conversion of the opening equity at period-end exchange rates are recorded in the translation reserve, together with the difference arising from the translation of the results for the period at period-end exchange rates, compared to the average exchange rate. The translation reserve is reversed to the Income Statement at the time of the disposal of the company which generated the reserve.

The criteria for consolidation can be summarised as follows:

- subsidiaries are consolidated using the line-by-line method on the basis of which:
  - the assets and liabilities, costs and revenues of the Financial Statements of subsidiaries are assumed in their entirety, regardless of the percentage of investment held;
  - the carrying amount of investments is de-recognised against the relative equity shares;
  - equity and income related transactions between fully consolidated companies, including dividends distributed within the Group, are eliminated;
  - non-controlling interests are reported under the appropriate equity item, and similarly, the share of gains

or losses attributable to non-controlling interests is reported separately in the Income Statement;
  - at the time of disposal of the subsidiary and the consequent loss of control, any goodwill allocable to the subsidiary in determining the capital gains or losses arising from the disposal, is taken into account;
  - in the case of an investment stake acquired after the assumption of control, any difference between the acquisition cost and the corresponding fraction of equity acquired, is recognised in equity. Similarly, the effects arising from the disposal of non-controlling interests without the loss of control, are also recognised in equity.

- investments in associates and joint ventures are evaluated using the equity method, whereby the carrying amount of the investments is adjusted to take into account:

  - the investor's share of the post-acquisition results of the associate or joint venture;
  - the pertinent share of gains and losses which are reported directly in the equity of the subsidiary, in accordance with the applicable accounting standards;
  - the dividends paid by the subsidiary;
  - when the Group's share in the losses, if any, of the associate/joint venture exceeds the carrying amount of the investment in the Financial Statements, and the carrying amount of the investment is reset to zero, and the Group's share of any further losses, if any, is then recognised under *"Provisions for liabilities and charges"*, to the extent to which the Group is contractually or implicitly obligated to cover the losses;
  - the margins resulting from sales carried out by subsidiaries to joint ventures or associates which are eliminated only to the extent of the ownership stake in the acquiring company.

3. ADOPTED ACCOUNTING STANDARDS

Pursuant to Regulation No. 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 International Financial Reporting Standards (*"IFRS"*) in force, as issued by the International Accounting Standards Board (*"IASB"*), and approved by the European Union at December 31, 2022, as well as the provisions emanated in the implementation of Article 9 of Legislative Decree no. 38/2005. The terms IFRS and IAS signifies the IFRS and IAS international accounting standards in force as issued by the International Accounting Standards Board (*"IASB"*), and approved by the European Union at December 31, 2022 and all the interpretations of the International Financial Reporting Interpretations Committee (*"IFRIC"*), formerly the Standing Interpretations Committee (*"SIC"*).

The Consolidated Financial Statements have been prepared using the historical costs method with the exception of the following items which have been measured at fair value:

- derivative financial instruments;
- pension fund assets;
- other financial assets at fair value through Other Comprehensive Income;
- other financial assets at fair value through the Income Statement.

BUSINESS COMBINATIONS

Corporate acquisitions are accounted for using the acquisition method.

When a controlling interest in a company is acquired, goodwill is calculated as the difference between:

- the fair value of the consideration plus any non-controlling interests in the acquired company, measured at fair value (if this option is chosen for the acquisition in question) or in proportion to the non-controlling interest's share of the net assets of the acquired company;
- the fair value of the assets acquired and the liabilities assumed.

In cases where the aforesaid difference is negative, the difference is immediately recognised in the Income Statement under income.

In the case of the acquisition of the control of a company in which a non-controlling interest is already held (acquisition in phases - step acquisition), the previously held investment is measured at fair value, and the effects of this adjustment is recognised the Income Statement.

The costs of business combination operations are recognised in the Income Statement.

Contingent considerations, that is, the acquirer's obligations to transfer additional assets or shares to the seller if certain future events occur, or specific conditions are fulfilled, are recognised at fair value at the acquisition date as part of the consideration transferred in exchange for the acquisition. Any subsequent changes in the fair value of these agreements are recognised in the Income Statement.

INTANGIBLE ASSETS

Intangible assets refer to assets without an identifiable physical form, which are controlled by the Group and are capable of producing future economic benefits.

Intangible assets with finite useful lives are measured at cost, net of amortisation and net of any accumulated impairment and include costs for services provided by third parties.

Amortisation is calculated on a straight-line basis and begins when the asset becomes available for use or is capable of operating in the manner intended by management, and ceases on the date when the asset is classified as held for sale or is de-recognised.

Capital gains and capital losses arising from the divestment or disposal of an intangible asset are determined as the difference between the net proceeds from disposal and the carrying amount of the asset.

GOODWILL
Goodwill is an intangible asset with an indefinite useful life and is therefore not subject to amortisation. Goodwill is subject to an evaluation aimed at identifying any impairment, at least annually or whenever there are indicators of impairment.

TRADEMARKS AND LICENSES
Trademarks and licenses for which the conditions for classification as intangible assets with an indefinite useful life have not been met, are measured at cost, net of amortisation and net of any accumulated impairment. This cost is amortised for whichever period is shorter between, the duration of the contract and the useful life of the asset. Instead, the trademarks for which the conditions for classification as intangible assets with an indefinite useful life have been met, are not systematically amortised, and are subjected to an impairment test at least once a year.

SOFTWARE
Software license costs, including incidental expenses, are capitalised and recorded in the Financial Statements net of amortisation and net of any accumulated impairment. Software is amortised on the basis of its useful life.

Software as a service (*"SaaS"*), for which the Group does not control the underlying software, but only holds the right to access the software on a third-party cloud infrastructure, is not capitalised.

CUSTOMER RELATIONSHIPS
Customer relationships mainly refer to intangible assets acquired in a business combination, and are recognised in the Financial Statements at their fair value at the purchase date, and amortised on the basis of their useful life.

TECHNOLOGY
The value of Technology refers mainly to product, process and product development technology acquired in a business combination. It is recognised in the Financial Statements at fair value at the date of acquisition, and is amortised on the basis of its useful life.

RESEARCH AND DEVELOPMENT COSTS
Research costs refer to product innovation, innovation in production processes and research into new materials. These are expensed as they are incurred. There were no development costs that satisfied the requisites for capitalisation as provided for by IAS 38.

OWNED TANGIBLE ASSETS
Property, plant and equipment are recognised at their purchase cost or production cost, including any directly attributable incidental expenses.

Any costs incurred subsequent to the acquisition the assets and any cost for replacing any parts or portions of the assets recognised in this category, are capitalised only if they increase the future financial benefits inherent to the respective asset. All other costs are recognised in the Income Statement as they are incurred. When the cost of replacing any parts or portions of the asset is capitalised, the residual value of the replaced parts is recognised in the Income Statement.

Property, plant and equipment are measured at cost, net of depreciation and net of any accumulated impairment, except for land which is not depreciated but is valued at cost net of any accumulated impairment.

Depreciation is accounted for starting from the month in which the asset is available for use, or is potentially capable of providing the financial benefits associated with it.

Depreciation is recognised on a monthly straight-line basis at rates that allow assets to be depreciated until the end of their useful life or, in the case of disposals, until the last month of use.

Depreciation rates were as follows:

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

The Group annually revises the expected useful life of property, plant and equipment.

Leasehold improvements are classified as tangible assets, consistent with the nature of the cost incurred. The depreciation period corresponds to whichever is shorter between the remaining useful life of the tangible asset and the remaining duration of the lease contract.

Spare parts of significant value are capitalised and depreciated on the basis of the useful life of the respective asset.

Any decommissioning costs are estimated and added to the cost of property, plant and equipment, as a counter-entry to the provisions for liabilities and charges, if the requirements for setting up a provision for liabilities and charges are met. They are then depreciated for the duration of the remaining useful life of the respective asset.

Property, plant and equipment are de-recognised from the Statement of Financial Position at the time of their disposal or their permanent retirement from use and, as a consequence, no future financial benefits can be expected to be derived from their disposal or use.

Any capital gains or capital losses arising from the divestment or disposal of property, plant and equipment are determined as the difference between the net proceeds from disposal, and the carrying amount of the asset.

Property, plant and equipment in progress are recognised at cost, net of any impairment. When property, plant and equipment in progress are ready for use, they are reclassified to the relevant category, and begin to be depreciated based on the basis of their useful Group lives.

RIGHT OF USE

As of the date on which the assets which are the subject of a lease contract become available for use by the Group, lease contracts are accounted for as a right of use under non-current assets with a counter-entry under financial liabilities.

The cost of lease payments is separated into its components as a financial expense which is recognised in the Income Statement for the period of the duration of the contract and as the repayment of the principal which is recorded as a reduction of the financial liability.

The right of use is depreciated on a monthly straight-line basis, for whichever period is shorter, between the useful life of the asset and the duration of the contract.

Right of use and financial liabilities are initially measured at the present value of future payments.

The present value of financial liabilities for lease contracts includes the following payments:

- fixed payments;
- variable payments based on an index or rate;
- the exercise price of a redemption option, in the event that the exercise of the option is considered reasonably certain;
- the payment of penalties for the termination of the contract, if the exercise of the option to terminate the contract is considered reasonably certain;
- optional payments subsequent to the non-cancellable period, if the extension of the contract beyond the non-cancellable period is considered reasonably certain.

Future payments are discounted using the incremental borrowing rate. This rate consists of the risk-free rate of the country in which the contract is negotiated and is based on the duration of the contract. It is then adjusted according to the Group's credit spread and the local credit spread.

The right is use is valuated at cost, and is composed of the following elements:

- initial amount of the financial liability;
- payments made before the start of the contract net of the leasing incentives received;
- directly attributable incidental expenses;
- estimated costs for decommissioning or restatement.

Lease payments associated with the following types of lease contracts are recorded in the Income Statement on a linear basis for the duration of the respective contracts:

- contracts with a duration of less than twelve months for all asset classes;
- lease contracts for which the underlying asset is configured as a low-value asset, that is, the unit value of the underlying assets is not greater than euro 8 thousand when new;
- contracts for which the payment for the right of use of the underlying asset varies, according to changes in the facts or circumstances (not based on an index or a rate), that were not foreseeable at the start date.

Low-value contracts are mainly relative to the following categories of goods:

- computers, telephones and tablets;
- office and multi-function printers;
- other electronic devices.

IMPAIRMENT OF ASSETS

PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND RIGHT OF USE In the presence of specific indicators of impairment, and at least on an annual basis, intangible assets with an indefinite useful life including goodwill, property, plant and equipment, intangible assets and right of use are subject to an impairment test.

The test consists of an estimate of the recoverable amount for the asset compared to its carrying amount.

The recoverable amount of an asset corresponds to the higher amount between the fair value less the costs of sale, and the value in use.

It is not necessary to estimate both amounts in order to verify the absence of any impairment, as it is sufficient that one of the two configured amounts is higher than the carrying amount.

The value in use for property plant and equipment and intangible assets, is the present value of the estimated future cash flows originating from the use of the asset, plus those deriving from its disposal at the end of its useful life, net of taxes and the application of a discount rate, which reflects the current market assessment of the time-value of money and the risks specific to the asset.

For the right of use, the value in use is the present value of the estimated future cash flows originating from the right of use for the period of duration of the lease contract, and of the outgoing right of use which is to be replaced in accordance with the terms of the lease contract (for example, the cost of acquiring an asset to replace the one that is leased).

If the recoverable amount of an asset is lower than the carrying amount, the latter is reduced and adjusted to the recoverable amount. This reduction in value constitutes an impairment which is then recorded in the Income Statement.

For the purpose of assessing any impairment, assets are aggregated at the lowest level at which their independent cash flows are separately identifiable (cash generating units).

With specific reference to goodwill, for the purpose of the impairment test, the allocation is made at *"Consumer Activities"* CGU Group level. The latter represents the minimum level at which goodwill is monitored for internal management control purposes.

In the presence of indications that any impairment recognised in previous financial years for property, plant and equipment or intangible assets other than goodwill or right of use, may no longer exist or may have been reduced, the recoverable amount for the activity is estimated again, and if it results as higher than the net carrying amount, then the net carrying amount is increased up to the recoverable amount.

The restatement of a value must not exceed the carrying amount that would have been determined (net of impairment, depreciation or amortisation) had no impairment been detected in previous financial years.

The restatement of the value of an asset other than goodwill is recognised in the Income Statement.

Any impairment which has been detected for goodwill cannot be restated in subsequent financial years.

Any loss due to the impairment of any goodwill recorded in the interim (half-yearly) Financial Statements cannot be restated in the Income Statement in subsequent financial years.

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Following the application of the equity method, in the presence of the indication of an impairment, the value of investments in associates and joint ventures must be compared with the recoverable amount (the so-called impairment test). The recoverable amount corresponds to the higher amount between the fair value less the costs of sale, 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 share market, is always equal to its market value. In the case of investments in unlisted companies, the fair value is determined by resorting to estimates based on the best available information.

The value in use of an associate or joint venture is determined by estimating the discounted future net operating cash flows, net of the net financial position of the company in question at the date of the estimate (the so-called Discounted Cash Flow - Asset Side method).

If there are indications that an impairment loss recognised in previous years may no longer exist or may have decreased, the recoverable amount of the investment is re-estimated and, if it is higher than the value of the investment, the latter is increased up to the recoverable amount.

The restatement of a value may not exceed the value of the investment that would have been determined (net of impairment) had no impairment been recognised in previous financial years.

The restatement of the value of investments in associates and joint ventures is recognised in the Income Statement.

OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

The equity instruments for which the Group - at the time of their initial detection - exercised the irrevocable option to present the gains and losses arising from the changes in their fair value in equity (FVOCI), fall under this evaluation category, as these are financial assets that do not belong to the Group's usual activity. They are classified as non-current assets under the item *"Other financial assets at fair value through Other Comprehensive Income"*.

They are initially recognised at fair value, including the transaction costs directly attributable to the acquisition.

They are subsequently measured at their fair value, and any gains and losses arising from any changes in their fair value were recognised in a specific equity reserve. These reserves were not reversed to the Income Statement. In the event of the disposal of the financial asset, the amount suspended in equity is reclassified to retained earnings.

Dividends deriving from these financial assets are recognised in the Income Statement when the right to collect is established.

OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT (FVPL)

The items which fall under this evaluation category are:

- equity instruments for which the Group - at the time of their initial detection - did not exercise the irrevocable option to present the gains and losses arising from the changes in their fair value in equity. They are classified as non-current assets under the item *"Other financial assets at Fair Value through the Income Statement";*
- debt instruments for which the Group's asset management business model provides, that the sale of the debt instruments and the cash flows associated with the financial asset, represent the payment of the outstanding principal. They are classified as current assets under item *"Other financial assets at Fair Value through the Income Statement"*;
- derivative instruments, with the exception of those designated as hedging instruments.

These are initially recognised at fair value. Transaction costs directly attributable to their acquisition are recognised in the Income Statement.

They are subsequently measured at fair value, and any gains or losses arising from any changes in their fair value are recognised in the Income Statement.

INVENTORIES

Inventories are valued either at cost or their estimated realisable value, whichever is lower.

Costs are determined as follows:

- raw materials: their purchase cost is calculated by using the FIFO method;
- finished and semi-finished products: are calculated on the basis of direct costs of materials, labour and indirect costs.

The cost of inventories includes the transfer, from Other Comprehensive Income, of gains and losses arising from qualified cash flow hedging transactions related to the purchase of raw materials, typically natural rubber.

The cost is increased by incremental expenses in the same way as described for property, plant and equipment.

Their realisable value represents the estimated selling price, net of all costs estimated for the completion of the asset and any sales and distribution costs that will be incurred.

Provisions for the impairment of inventories considered to be obsolete or slow-moving are calculated by taking their estimated future use and their realisable value into account.

RECEIVABLES

Receivables are initially recorded at their fair value, which normally corresponds to the agreed consideration or to the present value of the amount that will be collected. They are subsequently measured at amortised cost, which is reduced in the case of impairment. Amortised cost is calculated by using the effective interest rate method, which is equivalent to the discount rate which, when applied to future cash flows, renders the present carrying amount of such cash flows equal to the initial fair value. Receivables, in currencies other than the functional currency, of the individual companies, are adjusted to the period-end exchange rates with a counter-entry in the Income Statement.

Receivables are de-recognised when the right to receive cash flows is extinguished, when all the risks and benefits connected with holding the receivable have essentially been transferred, or in cases when the receivable is considered definitively irrecoverable after all the necessary recovery procedures have been completed.

IMPAIRMENT OF RECEIVABLES

For trade receivables, the Group applies a simplified approach, by calculating the expected losses over the life of receivables from the moment of initial recognition. The Group uses a matrix based on historical experience, linked to the ageing of the receivables themselves and the credit rating of the customers, adjusted to take into account forecast factors specific to certain creditors. Trade receivables are grouped on the basis of similar risk characteristics. This grouping is based on the original credit maturity date and on the customer's credit rating, as attributed by independent market assessors. For financial receivables, the calculation of the impairment is made with reference to expected losses for the next twelve months. These calculations are based on a matrix which includes the credit ratings of customers provided by independent assessors. In the event of any significant increase in credit risk subsequent to the original date of the receivable, the expected loss is calculated for the entire life of the receivable. The Group assumes that the credit risk of a financial instrument has not increased significantly after its initial recognition, if it is determined that the financial instrument has a low credit risk at the reporting date of the financial statements. The Group assesses whether there has been a significant increase in credit risk when the customer's credit rating, as attributed by independent assessors, undergoes a change that shows an increase in the probability of default. The Group considers that a financial asset is in default when internal or external information indicates that it is improbable that the Group will receive the full expired contractual amount (for example, when receivables have been referred to the legal department).

PAYABLES

Payables are initially recorded at their fair value, which normally corresponds to the agreed consideration or to the present value of the amount that will be paid. They are subsequently measured at the amortised cost. The amortised cost is calculated by using the effective interest rate method, which is equivalent to the discount rate which, when applied to future cash flows, renders the present value of such cash flows equal to their initial fair value. Payables, in currencies other than the functional currency, of the individual companies are adjusted to the period-end exchange rates with a counter-entry in the Income Statement.

Payables are de-recognised from Financial Statements when the specific contractual obligation is extinguished. In the event of a change in a financial liability that does not entail its de-recognition, the gain or loss resulting from the change is calculated by discounting the change in the contractual cash flows using the original effective interest rate, and is immediately recognised in the Income Statement.

The fair value of the debt component of a convertible bond is equal to the fair value of a liability issued on substantially equivalent market terms, without the right of conversion. This component is subsequently measured at the amortised cost until its extinguishment, at the time of conversion or until the maturity of the bonds. The residual portion, up to the value equal to the amount collected, is recognised as a component of equity. Issuance costs are allocated proportionally to the debt component and to the equity component.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include bank deposits, postal deposits, cash and cash equivalents and other forms of short-term investment with an original maturity of three months or less that are readily convertible into a given amount of money, and are subject to an insignificant risk of change in value.

Overdrafts are classified under financial payables as current liabilities.

The amounts included in cash and cash equivalents are measured at their fair value and any relative changes are recognised in the Income Statement.

For the purposes of the presentation in the Consolidated Cash Flow Statement, cash and cash equivalents are represented by the liquid equivalents as defined above, net of current account overdrafts.

CONTINGENT ASSETS

Any contingent assets, which arise as a result of past events and whose realisation depends on the occurrence or non-occurrence of unforeseeable future events, are not recognised in the financial statements unless the realisation of revenue is virtually certain.

CONTINGENT LIABILITIES

Contingent liabilities, that is, contingent or present obligations that are not probable or cannot be reliably measured, are not recognised in the Financial Statements but are disclosed, unless the possibility of an outflow of economic resources is remote.

PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges include the accruals for current obligations (legal or implicit) arising from a past event, the fulfilment of which will probably require the use of resources, whose amounts can be reliably estimated. Changes in estimates are recognised in the Income Statement for the financial year in which the change occurs. If the effect of discounting is significant, provisions are stated at their present value. An accrual to a provision for restructuring is recognised only if, in addition to meeting the requisite conditions for the provisions for liabilities and charges, there exists a detailed formal restructuring plan so that any concerned third parties can maintain a valid expectation that the restructuring will take place.

EMPLOYEE BENEFITS

Employee benefits paid after the termination of the employment relationship under defined benefit plans and other long-term benefits are subject to actuarial evaluations. The liability recognised in the Financial Statements is representative of the present value of the Group's obligation, net of the fair value of any plan assets. For defined benefit plans, the actuarial gains and losses arising from adjustments based on past experience and from any changes in the actuarial assumptions are fully recognised in Other Comprehensive Income. For other long-term benefits, the actuarial gains and losses are immediately recognised in the Income Statement.

The provision for employees' leaving indemnities (TFR) for Italian companies with at least 50 employees, is considered a defined benefit plan only for the amounts accrued prior to January 1, 2007 (and not yet paid at the reporting date), while amounts accrued after that date qualify as a defined benefit plan.

The net interest calculated on net liabilities is classified under financial expenses.

Costs relative to the defined contribution plans are recognised in the Income Statement as they are incurred.

In the event that the plan assets of defined benefits outweigh the liabilities, the asset is recognised to the extent that the financial benefit, in the form of a reimbursement or a reduction in future contributions, and is available to the Group in accordance with the regulations of the plan itself, and pursuant to the provisions in force in the jurisdiction in which the plan operates.

In the case of the purchase of qualifying insurance policies through the use of plan assets, any additional contributions requested by the insurance company are recognised in Other Comprehensive Income.

Insurance policies are recognised in the Financial Statements as plan assets, and are measured on the same basis as the liabilities to which they refer.

STRUMENTI FINANZIARI DERIVATI DESIGNATI COME STRUMENTI DI COPERTURA

In accordance with the provisions of IFRS 9, derivative financial instruments are accounted for in accordance with the methods established for hedge accounting only when:

- the hedged items and the hedging instruments meet the eligibility requirements;
- at the beginning of the hedging relationship, there is the formal designation and documentation of the hedging relationship of the Group's objectives for the management of risk, and of the strategy for implementing the hedge cover;
- the hedging relationship meets all the following efficiency requirements:
    - there is a financial relationship between the hedged item and the hedging instrument;
    - the effect of credit risk is not dominant compared to any changes associated with the hedged risk;
    - the hedge ratio defined in the hedging relationship is respected, also by way of rebalancing measures, and is coherent with the risk management strategy adopted by the Group.

These derivative instruments are measured at fair value.

The following accounting treatments are applied on the basis of the type of coverage:

- Fair value hedge – if a derivative financial instrument is designated as a hedge against exposure to any changes in the fair value of an asset or liability attributable to a specific risk, the gain or loss arising from any subsequent changes in the 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 amount of that asset or liability (basis adjustment), and it too is recognised in the Income Statement;
- Cash flow hedge – if a derivative financial instrument is designated as a hedge against exposure to the variability of the cash flows of an asset or liability recognised in the Financial Statements, or against a highly probable future transaction, the effective portion of the change in the fair value of the hedging instrument is recognised directly in Other Comprehensive Income, while the ineffective portion is immediately recognised in the Income Statement. The amounts recognised directly in Other Comprehensive Income are reclassified to the Income Statement for the financial year in which the hedged item produces an effect on the Income Statement. If the hedge of a highly probable future transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the amounts that are suspended in Other Comprehensive Income are included in the initial value of the non-financial asset or non-financial liability.

When future transactions are hedged by forward contracts, the Group may designate to hedge accounting;

- the full fair value (including forward points): the effective portion of the changes in the fair value of the entire derivative instrument is recognised under Other Comprehensive Income (cash flow hedge reserve);
- the single spot component (excluding forward points): the effective portion of the changes in the fair value of the single spot component, is recognised under Other Comprehensive Income in the cash flow hedge reserve, while change in the forward points relative to the hedged item is recorded in the cost of hedging reserve, always under Other Comprehensive Income.

When a hedging instrument matures or is sold, terminated early, exercised, or no longer meets the conditions to be designated as a hedge, hedge accounting is discontinued. The fair value adjustments accumulated under Other Comprehensive Income (either in the cash flow hedge reserve or in the cost of hedging reserve) remain suspended under Other Comprehensive Income until the hedged item manifests its effects in the Income Statement. They are subsequently reclassified to the Income Statement, for the financial years during which the acquired asset or the assumed liability manifests an effect on the Income Statement. If it is expected that the hedged item will not generate any effect on the Income Statement, the fair value adjustments accumulated under Other Comprehensive Income (both in the cash flow hedge reserve and in the cost of hedging reserve) are immediately recognised in the Income Statement. For the derivative instruments that do not satisfy the prerequisites provided for by IFRS 9 for the adoption of hedge accounting, reference should be made to the paragraph *"Financial assets at fair value through the Income Statement"*. The acquisitions and sales of derivative financial instruments are recorded at the settlement date.

The hedging of net investments in foreign assets (net investment hedges) is accounted for in a similar manner to cash flow hedges.

Gains or losses on the hedging instrument relative to the effective portion of the hedge are recognised in Other Comprehensive Income, while those relative to the ineffective portion are immediately recognised in the Income Statement.

Gains and losses accumulated in Other Comprehensive Income are reclassified to the Income Statement when the foreign operation is disposed of in whole or in part.

DETERMINING THE FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are classified on the basis of the hierarchy of levels as provided for by IFRS 13, which reflects the significance of the inputs used in determining their fair value. The levels are defined as follows:

- level 1 – unadjusted prices quoted on an active market for assets or liabilities subject to evaluation;
- level 2 – inputs other than the quoted prices referred to in the previous point, which 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 fair value of financial instruments that are traded on active markets is based on prices published at the reporting date. The market prices used for financial assets are the bid price, while for financial liabilities they are the ask price.

The fair value of financial instruments that are not traded on active markets is determined by using evaluation techniques that are widespread in the financial sector, and that maximise the use of available and observable market data:

- 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 of the Financial Statements;
- the fair value of cross currency interest rate swaps is calculated by discounting the estimated future cash flows based on observable yield curves and converting them into euro using the exchange rate at the reporting date of the Financial Statements;
- the fair value of natural rubber futures is determined by using the closing price of the contract at the reporting date of the Financial Statements.

INCOME TAXES

Current taxes are determined on the basis of a realistic forecast of the tax expenses payable in accordance with the applicable tax regulations of the country.

The Group periodically evaluates the choices it has made when determining taxes with reference to situations where the tax legislation in force lends itself to interpretation, and if deemed appropriate, adjusts its exposure to the tax authorities on the basis of the taxes it expects to pay. Any interest and penalties accrued on these taxes are recognised under Income tax in the Income Statement.

Deferred taxes are calculated according to the temporary differences which exist between the asset and liability amounts in the Financial Statements and their tax value (global allocation method), and are classified under non-current assets and liabilities.

Deferred tax assets on tax losses carried forward, 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 income taxes are applied by the same tax authority and when there is a legal right to offset. Deferred tax assets and liabilities are determined at the tax rates that are expected to be applicable to taxable income in the respective jurisdictions of the countries in which the Group operates, for the financial years during which the temporary differences will arise or be extinguished.

With regard to temporary taxable differences associated with investments in subsidiaries, associates and joint ventures, the relative deferred tax liabilities are not recognised in cases where the investing entity is able to control the reversal of the temporary differences and it is likely that it will not occur in the foreseeable future.

Deferred taxes are not discounted.

Deferred tax assets and liabilities are credited or debited to Other Comprehensive Income if they refer to items that were credited or debited directly to under Other Comprehensive Income during the financial year or during previous financial years.

INDIRECT TAXES

Costs, revenues, assets and liabilities are recognised net of indirect taxes, such as value added tax, with the following exceptions:

- the tax is non-deductible: in such cases, it is recognised as part of the purchase cost of the asset or part of the cost is recognised in the Income Statement;
- the trade receivables and trade payables, which include the applicable indirect tax.

The net amount of indirect taxes to be recovered or paid is recognised under other receivables or other payables, respectively.

EQUITY

TREASURY SHARES Treasury shares are classified as a reduction in equity.

If they are sold, reissued or cancelled, the resulting earnings or losses are recognised in equity.

COSTS OF CAPITAL TRANSACTIONS Costs that are directly attributable to the capital transactions of the Parent Company are accounted for as a reduction in equity.

SHARE BASED PAYMENTS (CASH SETTLED)

Additional cash settled benefits granted to some of the Group's executives are recognised under Provisions for employee benefit obligations as a counter-entry to *"Personnel expenses"*. This cost is estimated to be equal to the fair value and is accounted for over the duration of the plan in accordance with the vesting conditions at the reporting date. The estimate is revised at each reporting date up until the settlement date.

RECOGNITION OF REVENUES

Revenues are recognised in the amount that reflects the consideration to which the Group believes it is entitled to in exchange for the transfer of goods and/or services to its customers. The variable considerations that the Group considers to be payable to direct or indirect customers are recognised as a reduction to revenues.

The Group generally acts as the principal for most for most of the agreements that generate revenues. However, there are contracts with customers in which the Group acts as an agent and these revenues are recognised net of costs incurred under the commercial agreements.

PRODUCT SALES Revenues from product sales are recognised when the performance obligations towards customers have been satisfied. A performance obligation is deemed to have been fulfilled when the control of goods has been transferred to the customer, that is, generally when the goods are delivered to the customer.

If the products are ready to be delivered, but delivery is postponed to a future date, sales revenues are recognised only if control of the products has been transferred to the customer. Control is considered to have been transferred to the customer when the following conditions have been met:

- the reasons for delivering at a future date are real (for example; the customer has requested delivery at a future date in writing);
- the products in the warehouse are separately identified as being owned by the customer;
- the products are ready to be physically delivered to the customer;
- it is not possible for the Group to use the product or to deliver it to other customers.

Retrospective discounts are applied to product sales based on the achievement of the objectives defined within commercial agreements. Sales revenues are recognised net of these discounts, which are estimated on the basis of historical experience using the expected value method, and for amounts which are not expected to be reversed.

Sales do not include a financial component, in that the average terms of payment applied to customers fall within the standard commercial terms for the country in which the sales occur.

PROVISION OF SERVICES Revenues from services rendered are recognised when the rendered service has been completed, or based on the stage of completion of the service, at the reporting date.

ROYALTIES Royalties are recognised over time on an accrual basis, according to the provisions of the relevant agreement which provides for the transfer to the customer of the right of access to the intellectual property. The amounts for royalties are estimated using the output method. Royalties invoiced for each period directly correlate with the value transferred to the customer.

FINANCIAL INCOME AND EXPENSES

Financial income and expenses are recognised on an accrual basis.

DIVIDENDS

Dividends are recognised when the right to collect is established, which normally corresponds to a resolution approved by the Shareholders for the distribution of dividends.

GOVERNMENT GRANTS

Government grants are recognised on an accrual basis in relation to costs incurred when there is a formal resolution which approves the grant, and when the right to the grant is assured, as it is reasonably certain that the Group will comply with the conditions for obtaining the grant, and that the grant will be received.

Government capital grants are recognised as deferred income under *"other payables"*, and classified as current or non-current for the long-term and short-term portion of these grants, respectively. Deferred income is then recognised under *"other income"* in the Income Statement on a straight-line basis over the useful life of the asset to which the grant relates.

Government operating grants are recognised in the Income Statement under *"other income"*.

EARNINGS/(LOSSES) PER SHARE

Earnings/(losses) per share - basic: basic earnings/(losses) per share are calculated by dividing the net income/(loss) attributable to the Group by the weighted average number of ordinary shares outstanding during the financial year, excluding treasury shares.

Earnings/(losses) per share - diluted: diluted earnings/(losses) per share are calculated by dividing the net income/(loss) attributable to the Group by the weighted average number of ordinary shares outstanding during the financial year, excluding treasury shares. For the purposes of calculating diluted earnings/(losses) per share, the weighted average number of shares outstanding is adjusted by assuming the exercise by all assignees of the rights, which could potentially have a dilutive effect, while the Group's net income/(loss) is adjusted to take into account any effects, net of taxes, of the exercise of these rights.

OPERATING SEGMENTS

The operating segment is one part of the Group that engages in business activities that generate revenues and costs, the operating results of which are periodically reviewed by the Chief Executive Officer, in his role as Chief Operating Decision Maker (CODM), for the purposes of taking decisions on the resources to be allocated to the segment, and the evaluation of the results for which financial information is made available.

The activity carried out by the Group is identifiable as a single operating "Consumer Activities" segment.

TRANSACTIONS IN FOREIGN CURRENCY

Transactions in a foreign currency are recorded at the prevailing exchange rates on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the prevailing exchange rates at the reporting date. Exchange rate differences arising from the extinguishment of monetary items or their translation at exchange rates which are different than those of their initial recognition for the financial year, or different to those at the end of the previous financial year, are recognised in the Income Statement.

If the conditions for the designation of inter-company monetary items such as *"Net Investment in Foreign Operations"* are met, the translation differences from foreign exchange rates, starting from the date of the designation, are recognised directly in the Consolidated Statement of Comprehensive Income.

ACCOUNTING STANDARDS FOR HYPERINFLATIONARY COUNTRIES

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%.

Group companies operating in hyperinflationary countries, restate the values for the non-monetary assets and liabilities present in their respective original Financial Statements, in order to eliminate the distorting effects caused by the loss of purchasing power of the currency, with a counter-entry under Financial income/(expenses).

The inflation rate used to implement inflation accounting corresponds to the consumer price index.

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

The financial statements of companies prepared in currencies other than the euro which operate in hyperinflation countries, are translated into euro by applying the period-end exchange rates to the items of both the Statement of Financial Position and the Income Statement.

During the course of the third quarter of 2018, the inflation rate accumulated over the preceding three year period in Argentina exceeded 100%. This, together with other characteristics of the country's economy, prompted the Group to adopt, as of July 1, 2018, the accounting standard IAS 29 - Financial Reporting in Hyperinflationary Economies for the Argentine subsidiary Pirelli Neumaticos S.A.I.C. The same accounting principle has been applied, as of December 15, 2022, to the newly incorporated Argentine subsidiary Latam Servicios Industriales S.A.

During the course of the second quarter of 2022, the inflation rate accumulated over the preceding three year period in Turkey exceeded 100%. This, together with other characteristics of the country's economy, prompted the Group to adopt, as of June 30, 2022, the accounting standard IAS 29 - Financial Reporting in Hyperinflationary Economies for the Turkish subsidiaries Pirelli Otomobil Lastikleri A.S. and Pirelli Lastikleri Dis Ticaret A.S.

ENVIRONMENTAL CERTIFICATES AND CONTRACTS FOR THE SUPPLY OF ENERGY

In some European countries, the Group receives greenhouse gas emission allowances free of charge, consistent with the provisions of the European Emission Trading Schemes. These allowances are received on an annual basis and must be delivered to the relevant national authority on the basis of the actual emissions produced in the country.

If the allowances received free of charge are not sufficient to cover the actual emissions produced in the country, the Group purchases the shortfall in allowances which are recognised at cost among prepaid expenses.

Costs associated with greenhouse gas emissions are recognised on an accrual basis, in proportion to the emissions produced in the relevant country during the financial year, and are recognised under other costs with a balancing entry in a provision for risks and charges.

Prepaid expenses, corresponding to the purchase of certificates, are eliminated, as a contra-entry to the reduction of the provision for risks and charges, when the Group's certificates are delivered to the competent authority.

The Group also purchases renewable energy certificates of differing types depending on the regulations applicable in the country of consumption, (for example, Guarantees of Origin – GO in the European Union, Renewable Energy Certificates – REC in the United States, Renewable Energy Guarantee of Origin - REGO in the United Kingdom, International Renewable Energy Certificates - IREC in the remaining countries where Pirelli operates), which are instruments that certify the renewable origin of the electrical energy sources, to offset the electricity consumption of the Group's companies. The relative associated cost is recognised under other costs.

With reference to electrical energy supply contracts, the Group holds the option to fix the purchase price for predefined periods (monthly, quarterly, yearly). The purpose of these contracts is to meet the Group's own energy purchase needs, and therefore these contracts do not fall within the scope of IFRS 9. The purchase cost of energy is recognised in the Income Statement on an accrual basis, including the cost for the certificate of origin for the energy purchased.

3.1 APPROVED ACCOUNTING STANDARDS AND INTERPRETATIONS IN FORCE AS OF JANUARY 1, 2022

Pursuant to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, the IFRS standards which entered into force as of January 1, 2022 were as follows:

- Amendments to IFRS 3 - Business Combinations
  These amendments are designed to: (i) complete the update to the references to the Conceptual Framework for Financial Reporting contained in the accounting standard; (ii) provide clarification on the assumptions for the recognition, at the acquisition date, of the provisions, contingent liabilities and tax liabilities assumed as part of a Business Combination transaction; (iii) clarify that contingent assets cannot be recognised as part of a Business Combination transaction.
  There were no impacts on the Group's Financial Statements as a result of these amendments.

- Amendments to IAS 16 – Property, Plant and Equipment - Proceeds before Intended Use
  These amendments prohibit the deduction of amounts received from the sale of products from the cost of property, plant and equipment, while the asset is being prepared for its intended use. Revenue from the sale of products and the relative production cost must be recognised in the Income Statement.
  There were no impacts on the Group's Financial Statements as a result of these amendments.

- Amendments to IAS 37 - Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of Fulfilling a Contract
  These amendments specify that the costs to be taken into account when measuring onerous contracts are both the incremental costs for the performance of the contract (for example, direct labour and materials) and the portion of other costs that relate directly the performance of the contract (for example, an allocation of the portion of the depreciation of the assets used for the performance of the contract).
  There were no impacts on the Group's Financial Statements as a result of these amendments.

- Annual Improvements (2018 - 2020 cycle) issued in May 2020
  These amendments are limited to some standards (IFRS 1 – First-time Adoption of International Financial Reporting Standards, IFRS 9 - Financial Instruments, IAS 41 – Agriculture, and explanatory examples for IFRS 16 - Leases) which clarify the wording or correct omissions or conflicts between the requirements of the IFRS standards.
  There were no impacts on the Group's Financial Statements as a result of these amendments.

3.2 INTERNATIONAL ACCOUNTING STANDARDS AND/OR INTERPRETATIONS ISSUED BUT NOT YET IN FORCE IN 2022

Pursuant to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors - the new standards and interpretations that were issued but had not yet entered into force, or had not yet been approved by the European Union at December 31, 2022 and which therefore were not applicable, along with any expected impacts on the Consolidated Financial Statements.

None of these standards and interpretations were adopted in advance by the Group.

- Amendments to IAS 1 — Presentation of Financial Statements - Classification of Liabilities as Current or Non-current
  The amendments clarify the criteria to be applied in classifying liabilities as current or non-current and specify that the classification of a liability is not affected by the probability that settlement of the liability will be delayed for 12 months following the financial year in which it is incurred. The Group's intention to liquidate in the short-term had no impact on their classification. These amendments, which were expected to enter into force on January 1, 2023, have not yet been approved by the European Union. No impacts on the classification of financial liabilities are expected as a result of these amendments.

- Amendments to IAS 1 - Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies
  These amendments provide guidance on the application of materiality judgements to accounting standard disclosures in a way that is more useful; particularly:
  - the requirement to disclose *"significant"* accounting standards has been replaced with the requirement to disclose *"material"* accounting standards;
  - guidance has been added on how to apply the concept of materiality to accounting standard disclosures.

In assessing the materiality of accounting policy disclosures, an entity must also take into account, the size of the transactions, other events or conditions and their nature.
These amendments, approved by the European Union, entered into force on January 1, 2023. No impacts on the disclosures in the Group's Financial Statements are expected as a result of these amendments.

- Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors
  These amendments introduce a new definition for *"accounting estimates"*, by distinguishing them more clearly from accounting policies, and provide guidance for determining whether changes should be treated as

changes in estimates, changes in accounting standards or errors.
These amendments, approved by the European Union, entered into force on January 1, 2023. No impacts on the Group's Financial Statements are expected as a result of these amendments.

- Amendments to IAS 12 - Income Taxes Deferred Tax related to Assets and Liabilities arising from a Single Transaction
These amendments eliminate the possibility of not recognising deferred taxes at the time of the initial recognition of transactions that give rise to temporary taxable and deductible differences (e.g., lease contracts).
With reference to lease contracts, these amendments also clarify that, when lease payments are deductible for tax purposes, it is a matter of judgement (after considering the applicable tax law) whether such deductions are attributable for tax purposes to the lease liability recognised in the Financial Statements, or to the related right of use. If the tax deductions are allocated to the right of use, the tax values of the right of use and the lease liability are the same as their carrying amounts, and no temporary differences arise at initial recognition. However, if tax deductions are allocated to the lease liability, the tax values of the right of use and the lease liability are zero, giving rise to temporary taxable and deductible differences, respectively. Even if the gross temporary differences are equal, a deferred tax liability and a deferred tax asset must nevertheless be recognised.
These amendments, approved by the European Union, entered into force on January 1, 2023. No impacts on the Group's Financial Statements are expected as a result of these amendments.

- IFRS 17 - Insurance Contracts
The IFRS 17, which replaces IFRS 4 - Insurance Contracts, provides a definition of the accounting for insurance contracts issued and reinsurance contracts held.
The provisions of IFRS 17, approved by the European Union, entered into force on January 1, 2023. No impacts on the Group's Financial Statements are expected as a result of these amendments.

- Amendments to IFRS 17 - Initial Application of IFRS 17 and IFRS 9 Comparative Information
These amendments allow for the elimination of one-off classification differences in comparative information from the previous financial year, at the time of the initial application of the IFRS 17 and IFRS 9 financial instruments. The optional classification overlay introduced by this amendment allows the comparative information presented at the initial application of IFRS 17 and IFRS 9, to be more useful.
These amendments, approved by the European Union, entered into force on January 1, 2023. No impacts on the Group's Financial Statements are expected as a result of these amendments.

- Amendments to IAS 1 — Presentation of Financial Statements - Non-current Liabilities with Covenants
These amendments specify that the covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Instead, the amendments require the company to disclose information about such covenants in the Financial Statements.
These amendments, which will enter into force on January 1, 2024, have not yet been approved by the European Union. No impacts on the classification of financial liabilities and in terms of disclosure are expected as a result of these amendments.

- Amendments to FRS 16 Leases - Lease Liability in a Sale and Leaseback
These amendments specify the requirements for accounting for a sale and leaseback after the transaction date.
In particular, in the subsequent valuation of the liability arising from the leasing contract, the seller-lessee determines the *"lease payments"* and *"revised lease payments"* in such a way that no gain or loss is recognised that relates to the retained right of use
These amendments, which will enter into force on January 1, 2024, have not yet been approved by the European Union. No impacts on the Group's Financial Statements are expected as a result of these amendments.

4. FINANCIAL RISK MANAGEMENT POLICIES

The financial risks to which the Group is exposed are mainly related to foreign exchange rate fluctuations, interest rates fluctuations, the price of financial assets held in portfolio, the ability of its customers to meet their obligations to the Group (credit risk), and the procurement of financial resources on the market (liquidity risk).

Financial risk management is an integral part of the management of the Group's activities, and is performed centrally in accordance with the guidelines issued by the Finance Department, as part of the risk management strategies which more generally defined by the Risk Management Committee.

4.1 TYPES OF FINANCIAL RISKS

EXCHANGE RATE RISK

The different geographical distribution of the Group's production and commercial activities entails an exposure to exchange rate risk, both transactional and translational.

A) TRANSACTIONAL EXCHANGE RATE RISK This risk is generated by the commercial and financial transactions executed by the individual companies in currencies other than the functional currency of the company executing the transaction. Fluctuations in the exchange rate between the time when the commercial/financial relationship originates and the time when the transaction is finalised (collection/payment), can result in exchange rate gains or losses.

The Group aims to minimise the impact of transactional risk associated with volatility. In order to achieve this objective, the Group's procedures provide that the Operating Units are responsible for the collection of all information inherent to positions subject to transactional risk, for which hedging in the form of forward contracts is entered into with the Group Treasury.

The positions subject to managed exchange rate risk are mainly represented by receivables and payables in foreign currencies.

The Group Treasury is responsible for hedging the resulting net positions for each currency and, in accordance with the pre-established guidelines and restrictions, it in turn closes out all risk positions by negotiating hedging derivative contracts, typically forward contracts, on the market.

For these contracts, the Group did not consider it necessary to activate the hedge accounting option as provided for by IFRS 9, in that the recognition of the effects, on the Income Statement and on the Statement of Financial Position, of the hedging strategy for transactional exchange rate risk is in any case substantially guaranteed, even without the Group availing itself of the aforementioned option.

With reference to some loans denominated in foreign currencies, the Group has entered into derivative contracts (cross currency interest rate swaps), in order to hedge not only interest rate risk but also transactional exchange rate risk, for which hedge accounting has been activated pursuant to the requirements of IFRS 9.

It should also be noted that, as part of the annual and three-year planning process, the Group formulates exchange rate forecasts for these time periods based on the best information available on the market. Fluctuations in the exchange rate between the time when the forecast is made, and the time when the commercial or financial transaction originates, represents the transactional risk for future transactions.

From time to time the Group evaluates the opportunity to carry out hedging transactions on future transactions, for which it typically makes use of either forward buy or sell transactions or optional risk reversal transactions, (e.g., zero cost collars). If the requirements, as provided for by IFRS 9 are met, hedge accounting is activated.

The impacts on the Group's equity and Income Statement, arising from changes in the exchange rates calculated on outstanding hedging instruments at December 31, 2022, are described in Note 27, *"Derivative Financial Instruments"*.

B) TRANSLATIONAL EXCHANGE RATE RISK The Group holds controlling interests in companies that prepare their Financial Statements in currencies other than the euro, which is the currency used to prepare the Consolidated Financial Statements. This exposes the Group to translational exchange rate risk, which arises from the conversion into euro of the assets and liabilities of these subsidiaries. The main exposures to translational exchange rate risk are constantly monitored. At present, in order to mitigate the exposure to the risk generated by changes in the fair value of a net investment in a foreign operation (or rather, an equity investment in the Brazilian company, Pirelli Comercial de Pneus Brasil Ltda.), which is recognised in the Financial Statements at historical cost and denominated in Brazilian real (BRL), a portion of the Brazilian subsidiary's equity has been hedged.

At December 31, 2022 approximately 36.5% of the total consolidated equity was expressed in euro (approximately 36.3% at December 31, 2021). The most significant currencies for the Group other than the euro were the Brazilian real (10.6%; 8.5% at December 31, 2021), the Turkish lira (0.7%; 0.4%; at December 31, 2021), the Chinese renminbi (13.4%; 17.7% at December 31, 2021), the Romanian leu (11.8%; 12.5% at December 31, 2021), the Russian rouble (2.9%; 2.2% at December 31, 2021); the British pound sterling (3.4%; 4.0% at December 31, 2021), the Argentine peso (3.6%; 2.5% at December 31, 2021); the US dollar (5.0%; 4.4% at December 31, 2021) and the Mexican peso (10.8%; 10.1% at December 31, 2021).

The effects on consolidated equity which derive from a hypothetical appreciation / depreciation of the euro against the above listed currencies - all other conditions being equal, were as follows:

(in thousands of euro)

	Appreciation of 10%		Depreciation of 10%	
	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Brazilian Real	64,084	47,609	(52,432)	(38,953)
Turkish Lira	4,344	2,013	(3,554)	(1,647)
Chinese Renmimbi	81,367	98,871	(66,573)	(80,894)
Romanian Leu	71,367	70,086	(58,392)	(57,343)
Russian Rouble	17,385	12,061	(14,224)	(9,868)
British Pound Sterling	20,533	22,528	(16,800)	(18,432)
Argentinian Peso	21,569	13,767	(17,647)	(11,264)
US Dollar	30,158	24,675	(24,675)	(20,189)
Mexican Peso	65,604	56,501	(53,676)	(46,228)
Total on consolidated equity	**376,411**	**348,111**	**(307,973)**	**(284,818)**

It should be noted that, during the course of 2022, the Turkish lira and the Argentine peso suffered a depreciation of more than -10%. For information on the effect on equity, reference should be made to Note 20, *"Equity"*.

INTEREST RATE RISK

Interest rate risk is represented by the exposure to variability in the fair value or the future cash flows of financial assets or liabilities, due to changes in market interest rates. The Group evaluates, based on market conditions, whether to enter into derivative contracts in order to hedge interest rate risk, for which hedge accounting is activated when the conditions as provided for by IFRS 9 are met.

The table below shows the effects on the net income/(loss) resulting 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%	
	12/31/2022	12/31/2021	12/31/2022	12/31/2021
Impact on Net income/(loss)	(8,573)	(5,986)	8,573	5,986

The effects on the Group's equity resulting from changes in the EURIBOR rates, calculated on the hedging instruments for interest rates which were outstanding at December 31, 2022, are described in Note 27, *"Derivative Financial Instruments"*.

PRICE RISK ASSOCIATED WITH FINANCIAL ASSETS

The Group's exposure to price risk is limited to the volatility of financial assets such as listed equity securities and bonds or financial assets indirectly associated with listed equity securities, which amounted to approximately 1.47% of the total consolidated assets at December 31, 2022 (0.74% at December 31, 2021). These assets were classified as other financial assets at fair value through Other Comprehensive Income and other financial assets at fair value through the Income Statement.

No derivatives were put in place to limit the volatility risk for these assets.

Financial assets are subdivided as follows:

- financial assets at fair value through Other Comprehensive Income which consisted of listed equity securities which amounted to euro 16,570 thousand (euro 21,855 thousand at December 31, 2021), and securities indirectly associated with listed equity securities (Fin. Priv. S.r.l.), which amounted to euro 18,865 thousand (euro 21,171 thousand at December 31, 2021);
- financial assets at fair value through the Income Statement which amounted to euro 169,328 thousand and consisted of Argentine dollar-linked bonds (euro 85,912 thousand at December 31, 2021).

Financial assets at fair value through other Comprehensive Income constituted 12.0% of the total financial assets subject to price risk (25.2% at December 31, 2021). A change of +5% in the price of the aforesaid listed securities, all other conditions being equal, would result in a positive change to the Company's equity of euro 828 thousand (a positive change of euro 1,093 thousand at December 31, 2021 while a change of -5% in the price of the aforesaid listed equities, all other conditions being equal, would result in a negative change to the Company's equity of euro 828 thousand (a negative change of euro 1,093 thousand to the Group's equity at December 31, 2021).

Financial assets at fair value through the Income Statement constituted 59.0% of the total financial assets subject to price risk (50.3% at December 31, 2021). A change of +5% in the price of the aforesaid listed securities, all other conditions being equal, would result in a positive change to the Group's net income of euro 9,366 thousand (euro 4,041 thousand at December 31, 2021), while a change of -5% in the price of the aforesaid listed equities, all other conditions being equal, would result in a negative change to the Group's net income of euro 6,172 thousand (euro 3,882 thousand at December 31, 2021).

CREDIT RISK

Credit risk represents the Group's exposure to potential losses arising from the non-fulfilment of the commercial and financial obligations undertaken by counterparties. As regards these commercial counterparties, in order to limit this risk, Pirelli has put in place procedures to assess the potential and financial creditworthiness of customers, to monitor expected cash flows and to take any recovery action. The aim of these procedures is to define customer credit limits, whereby in the event that those limits are exceeded, the rule to withhold further supplies is activated. In some cases customers are asked to provide guarantees, mainly bank guarantees issued by parties of the highest credit or personal standing. Less frequently, mortgage guarantees may be requested.

Other instruments used for commercial credit risk management is the taking out of insurance policies. For over 10 years a master agreement has been in place, which was recently renewed for the 2023-2024 two-year period, with a leading insurance company with an AA credit rating according to Standard & Poors, for the worldwide coverage of credit risk mainly related to sales in the Replacement channel (the coverage ratio at December 31, 2022 exceeded 70%).

However, as regards the financial counterparties for the management of its temporary cash surpluses, or for trading in derivative instruments, the Group deals only with entities of the highest credit standing. Pirelli does not hold public debt instruments from any European country, and constantly monitors its net credit exposure to the banking system and, does not have any significant concentrations of credit risk.

Expected losses on trade receivables are calculated throughout the life of the receivables, starting from the moment of initial recognition, using a matrix linked to the customer's credit rating and credit ageing which is adjusted to take into account forecasting factors specific to certain creditors as well as the presence of any collateral and other credit enhancement instruments, such as the insurance policies mentioned above. The calculation of expected losses is based on (i) a matrix which includes the credit ratings of customers provided by independent market assessors, and on (ii) the value of receivables, which takes the collateral and related insurance coverage into account. The customer rating considers, among other things, the effects of exogenous risks that could include, should customers be exposed to them in the specific markets in which they operate, risks related to Covid 19 and climate change, determining the probability of default used in the calculation and impacting the ceiling levels granted by the insurance company to each counterparty.

The bad debt provision at December 31, 2022 was calculated according to the method described above, and was composed as follows:

(in thousands of euro)

	Current	Past due > 30 days	Past due > 90 days	Past due > 180 days	Total
Expected loss rate	2.3%	11.4%	11.9%	60.3%	10.7%
Exposure net of credit enhancements	514,616	35,547	18,454	85,649	654,267
Bad debt provision	(11,949)	(4,038)	(2,203)	(51,687)	(69,877)

The position at December 31, 2021 was as follows:

(in thousands of euro)

	Current	Past due > 30 days	Past due > 90 days	Past due > 180 days	Total
Expected loss rate	3.0%	6.2%	10.6%	64.2%	10.9%
Exposure net of credit enhancements	518,807	53,413	13,964	81,945	668,129
Bad debt provision	(15,621)	(3,302)	(1,477)	(52,580)	(72,979)

At December 31, 2022, the exposure gross of credit enhancements amounted to euro 998,424 thousand. The bad debt provision, which was calculated without taking into account the presence of any collateral securities and other credit enhancement instruments, amounted to euro 73,327 thousand.

The difference between the exposure gross of credit enhancements amounting to euro 998,424 thousand and the value of the trade receivables amounting to euro 706,323 thousand reported in Note 14, *"Trade Receivables"*, was mainly due to credit notes to be issued that were not taken into account in the calculation of the bad debt provision.

LIQUIDITY RISK

Liquidity risk represents the risk that the Company's available financial resources may be insufficient to meet its financial and commercial obligations pursuant to contractual terms and conditions and within the due time.

The main instruments used by the Group to manage liquidity risk are constituted by one-year and three-year financial plans as well as treasury plans, in order to allow for the complete and correct detection and measurement of cash inflows and outflows. The differences between the plans and the final data are subjected to constant analysis.

The Group has implemented a centralised system for the management of collection and payment flows in compliance with the various local currency and tax regulations. The negotiation and management of banking relationships is carried out centrally, in order to ensure hedging for short and medium-term financial needs at the lowest possible cost. Even the procurement of medium to long-term resources on the capital market is optimised through centralised management.

The prudent management of the aforementioned risk requires the maintenance of an adequate level of cash or cash equivalents and/or highly liquid short-term securities, and the availability of funds obtainable through an adequate amount of committed credit facilities and/or the possibility of resorting to the capital market and diversifying products and maturities to seize the best opportunities available.

Furthermore, the Group has adopted an extremely prudent approach to the maturities of its financial debt, refinancing them well in advance in order to minimise the risks associated with liquidity crises or market shut-downs.

At December 31, 2022 the Group had, a liquidity margin of euro 2,536,628 thousand, calculated as the sum of cash and cash equivalents and other financial assets at fair value through the Income Statement current, to the amount of euro 1,536,628 thousand (euro 1,998,550 thousand at December 31, 2021) and unused credit facilities to the amount of euro 1,000,000 thousand (euro 700,000 thousand at December 31, 2021). The above-mentioned liquidity margin is sufficient to cover financial debt maturities until the end of the first quarter of 2025.

Maturities for Financial Liabilities at December 31, 2022 were composed as follows:

(in thousands of euro)

	within 1 year	1 to 2 years	2 to 5 years	over 5 years	Total
Trade payables	1,973,296	-	-	-	1,973,296
Other payables	405,578	13,403	19,808	41,363	480,152
Derivative financial instruments	19,558	-	-	-	19,558
Borrowings from banks and other financial institutions	928,676	1,593,769	2,180,563	193,316	4,896,324
of which lease liabilities	*108,469*	*93,235*	*196,159*	*193,316*	*591,179*
	3,327,108	**1,607,172**	**2,200,371**	**234,679**	**7,369,330**

Maturities for Financial Liabilities at December 31, 2021 were composed as follows:

(in thousands of euro)

	within 1 year	1 to 2 years	2 to 5 years	over 5 years	Total
Trade payables	1,626,367	-	-	-	1,626,367
Other payables	314,203	11,509	26,310	38,666	390,688
Derivative financial instruments	18,936	1,769	148	-	20,853
Borrowings from banks and other financial institutions	1,543,592	1,220,559	2,535,452	226,980	5,526,585
of which lease liabilities	*98,638*	*86,353*	*193,246*	*226,980*	*605,218*
	3,503,098	**1,233,838**	**2,561,910**	**265,646**	**7,564,493**

5. INFORMATION ON FAIR VALUE

5.1 FAIR VALUE MEASUREMENT

The following table shows **assets and liabilities measured at fair value at December 31, 2022**, subdivided into three levels:

(in thousands of euro)

	Note	Carrying amount at 12/31/2022	Level 1	Level 2	Level 3
FINANCIAL ASSETS:					
Financial assets at fair value through Income Statement:					
Other current financial assets at fair value through Income Statement	18	246,884	169,328	77,556	-
Current derivative financial instruments	27	15,313	-	15,313	-
Derivative hedging instruments:					
Current derivative financial instruments	27	7,368	-	7,368	-
Non-current derivative financial instruments	27	26,430	-	26,430	-
Other financial assets at fair value through Other Comprehensive Income:					
Securities and shares		46,644	16,570	18,865	11,209
Investment funds		1,775	-	1,775	-
	12	48,419	16,570	20,640	11,209
TOTAL ASSETS		**344,414**	**185,898**	**147,307**	**11,209**
FINANCIAL LIABILITIES:					
Financial assets at fair value through Income Statement:					
Current derivative financial instruments	27	(19,558)	-	(19,558)	-
TOTAL LIABILITIES		**(19,558)**	**-**	**(19,558)**	**-**

The following table shows **assets and liabilities measured at fair value at December 31, 2021**, subdivided into the three levels defined above:

(in thousands of euro)

	Note	Carrying amount at 12/31/2021	Level 1	Level 2	Level 3
FINANCIAL ASSETS:					
Financial assets at fair value through Income Statement:					
Other current financial assets at fair value through Income Statement	18	113,901	85,912	27,989	-
Current derivative financial instruments	27	17,345	-	17,345	-
Derivative hedging instruments:					
Current derivative financial instruments	27	29,217	-	29,217	-
Non-current derivative financial instruments	27	4,612	-	4,612	-
Other financial assets at fair value through Other Comprehensive Income:					
Securities and shares		54,082	21,855	21,171	11,056
Investment funds		2,825	-	2,825	-
	12	56,907	21,855	23,996	11,056
TOTAL ASSETS		**221,982**	**107,767**	**103,159**	**11,056**
FINANCIAL LIABILITIES:					
Financial assets at fair value through Income Statement:					
Current derivative financial instruments	27	(15,209)	-	(15,209)	-
Derivative hedging instruments:					
Current derivative financial instruments	27	(979)	(77)	(902)	-
Non-current derivative financial instruments	27	(3,519)	-	(3,519)	-
TOTAL LIABILITIES		**(19,707)**	**(77)**	**(19,630)**	**-**

The following table shows **changes in the financial assets classified as level 3, that occurred during 2022**:

(in thousands of euro)

Opening balance 01/01/2022	**11,056**
Translation differences	(11)
Fair value adjustments through Other Comprehensive Income	164
Closing balance 12/31/2022	**11,209**

These financial assets are mainly represented by equity investments in the *Istituto Europeo di Oncologia* (European Institute of Oncology) (euro 8,139 thousand), Telco S.r.l (euro 450 thousand), Genextra (euro 629 thousand) and TIcom I LP (euro 186 thousand).

The **fair value adjustments through Other Comprehensive Income** equalled a positive amount of euro 164 thousand, and mainly refers to the fair value adjustment of the investment in the *Istituto Europeo di Oncologia* (European Institute of Oncology).

During the course of 2022 there were no transfers from level 1 to level 2 or vice versa, nor from level 3 to other levels and vice versa.

The financial instruments included in level 1, are mainly comprised of equity investments classified as financial assets at fair value through Other Comprehensive Income.

5.2 CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The table below shows the carrying amounts for each class of financial assets and liabilities as identified by IFRS 9:

(in thousands of euro)

	Note	Carrying amount at 12/31/2022	Carrying amount at 12/31/2021
FINANCIAL ASSETS			
Financial assets at fair value through Income Statement			
Other financial assets at fair value through Income Statement	18	246,884	113,901
Current derivative financial instruments	27	15,313	17,345
		262,197	*131,246*
Financial assets at amortised cost			
Other non-current receivables	15	276,645	362,944
Current trade receivables	14	636,446	659,209
Other current receivables	15	695,744	470,577
Cash and cash equivalents	19	1,289,744	1,884,649
		2,898,579	*3,377,379*
Financial assets at fair value through Other Comprehensive Income (FVOCI)			
Other financial assets at fair value through Other Comprehensive Income	12	48,419	56,907
Financial hedging derivative instruments			
Current derivative financial instruments	27	7,368	29,217
Non-current financial derivative instruments	27	26,430	4,612
TOTAL FINANCIAL ASSETS		**3,242,993**	**3,599,361**

(in thousands of euro)

	Note	Carrying amount at 12/31/2022	Carrying amount at 12/31/2021
FINANCIAL LIABILITIES			
Financial liabilities at fair value through Income Statement			
Current derivative financial instruments	27	19,558	15,209
Financial liabilities valuated at amortised cost			
Non-current borrowings from banks and other financial institutions (excl. lease liabilities)	23	3,293,614	3,376,573
Other non-current payables	25	74,574	76,485
Current borrowings from banks and other financial institutions (excl. lease liabilities)	23	711,401	1,397,638
Current trade payables	24	1,973,296	1,626,367
Other current payables	25	405,578	314,203
		6,458,463	*6,791,266*
Lease liabilities			
Non-current lease liabilities	23	396,497	412,796
Current lease liabilities	23	88,988	91,611
		485,485	*504,407*
Derivative financial hedging instruments			
Non-current derivative financial instruments	27	-	3,519
Current derivative financial instruments	27	-	979
		-	*4,498*
TOTAL FINANCIAL LIABILITIES		**6,963,506**	**7,315,380**

6. CAPITAL MANAGEMENT POLICY

The Group's objective is to maximise the return on net invested capital while maintaining the ability to operate over time, guaranteeing adequate returns for shareholders and benefits for other stakeholders, foreseeing a gradual deleverage of the Group's financial structure to be achieved over the short to medium-term period, as reported in the *"Outlook for 2023"* section of the *Directors' Report on Operations*.

The main indicator that the Group uses for capital management is the R.O.I.C., which is calculated as the ratio between the EBIT adjusted net of tax effects and the average net invested capital, which does not include "*Investments in associates and joint ventures", "Other financial assets at fair value through Other Comprehensive Income", "Other non-current financial assets at fair value through the Income Statement", "Other non-current assets",* the intangible assets relative to assets recognised as a consequence of Business Combinations, the deferred tax liabilities relative to the latter and the *"Provisions for employee benefit obligations current and non-current".*

R.O.I.C. for the 2022 financial year equalled 20.3%, compared to 17.6% for 2021, thanks to the improved operating performance.

7. ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated Financial Statements entails the necessity of *Management* in making estimates and assumptions which, under certain circumstances are based on difficult and subjective evaluations and estimates based on historical experience, as well as assumptions that are from time to time considered reasonable and realistic in light of the circumstances. It is possible that the actual results could therefore differ from these estimates. The estimates and assumptions are reviewed periodically and the effects of any changes made to them are reflected in the Income Statement for the period in which the estimate is revised. If such estimates and assumptions, based on the best valuation available at the time, should differ from actual circumstances, they are consequentially modified for the period in which the change of circumstances occurred. The estimates and assumptions refer mainly to assessments of the recoverability of goodwill and other intangible assets with an indefinite useful life, to the definition of the useful lives of property, plant and equipment and intangible assets, to the recoverability of receivables, to the determination of taxes (current and deferred), to the evaluation of pension plans and other post-employment benefits and to the recognition/valuation of the provisions for liabilities and charges.

GOODWILL

In accordance with the accounting standards adopted for the preparation of the Financial Statements, goodwill is tested annually in order to ascertain the existence of any impairment. Specifically, testing involves the allocation of goodwill to the groups of cash generating units (which for the Group coincide with the business sector or the Consumer Activities), and the subsequent determination of the relative recoverable amount, being the higher amount between the fair value and the value in use.

If the recoverable amount proves to be lower than the carrying amount of the group of cash generating units to which goodwill has been allocated, the goodwill allocated to them is impaired.

The value configuration used to determine the recoverable amount for Consumer Activities at December 31, 2022 is the value in use, which corresponds to the present value of the future financial cash flows which are expected to be generated by the group of CGUs, using a discount rate that reflects the specific risks of the group of CGUs at the valuation date.

The key assumptions used by management were the estimated future increases in sales, operating cash flows and growth rate of operating cash flows beyond the explicit forecast period for the purposes of estimating the terminal value and the weighted average cost of capital (discount rate).

PIRELLI BRAND (INTANGIBLE ASSET WITH AN INDEFINITE USEFUL LIFE)

The Pirelli Brand is an intangible asset with an indefinite useful life not subject to amortisation, but pursuant to IAS 36, is tested for impairment on an annual basis or more frequently, if specific events or circumstances arise that may indicate an impairment.

The configuration of the recoverable amount for impairment testing purposes at December 31, 2022, was the fair value calculated on the basis of the income approach (the so-called Level 3 of the IFRS 13 hierarchy – Fair Value Measurement).

The key assumptions used by management were the estimated future increases in sales and operating cash flows and the relative growth rates beyond the explicit forecast period for the purposes of estimating the terminal value and the discount rate, which is based on the weighted average cost of capital plus a premium determined according to the riskiness of the specific asset.

OWNED TANGIBLE ASSETS

In accordance with the relevant accounting fixed assets are tested, in order to ascertain whether there has been any impairment when there are indicators that signal that difficulties are to be expected for the recovery of their relative net carrying amount, through their use. The verification of the existence of the aforesaid impairment indicators requires that the Directors make subjective judgements based on the information available from both internal and external sources as well as on historical experience. Also if it is determined that a potential impairment may have been generated, the impairment is calculated using the suitable evaluation techniques. The correct identification of the indicators of a potential impairment, as well as the estimates used to determine the impairment, depend on a subjective evaluation as well as on factors that may change over time which influence the valuations and estimates made by Management.

RIGHT OF USE AND LEASE LIABILITIES

As regards the estimates and assumptions used for the determination of lease liabilities and the right of use, the application of IFRS 16 has introduced some elements of professional judgement as well as the use of assumptions and estimates in relation to the lease term and the definition of the incremental borrowing rate.

The main ones are summarised as follows:

- → contract renewal clauses are taken into account for the purposes of determining the duration of the contract, that is, when the Group has the option to exercise these clauses without the need to obtain the consent of the other party, and when their exercise is considered reasonably certain. In the case of clauses which provide for multiple renewals that can be exercised unilaterally by the Group, only the first extension period is considered;
- → automatic renewal clauses in contracts, in which both parties have the right to terminate the contract, are not taken into account for the purposes of determining the duration of the contract, as the ability to extend the duration is not under the unilateral control of the Group, and the penalty to which the lessor could be exposed to is not significant. However, in the event that the lessor is exposed to a significant penalty, the Group evaluates the

inclusion of the renewal option in the determination of the duration of the contract. This assessment is also made by taking into account the degree of customisation of the leased asset. If customisation is high, the lessor may incur a significant penalty if it opposes renewal;

- early termination clauses: such clauses are not taken into account when determining the duration of the contract, if they are exercisable only by the lessor and not by both parties. In cases where they can be unilaterally exercised by the Group, specific assessments are made on a contract by contract basis, (for example, the Group is already negotiating a new contract or has already given notice to the lessor);
- the incremental borrowing rate is the risk-free rate of the country in which the contract is traded, and is based on the duration of the contract itself. It is then adjusted according to the Group's credit spread and the local credit spread.

INCOME TAXES (CURRENT AND DEFERRED)

Income taxes (current and deferred) are determined in each country in which the Group operates according to a prudent interpretation of the tax regulations in force. This process sometimes involves complex estimates in determining taxable income and temporary deductible and taxable differences between carrying amounts and tax amounts. Specifically, deferred tax assets are recognised to the extent to which it is probable that future taxable income will be available against which they can be recovered. The assessment of the recoverability of deferred tax assets, recorded in relation both to tax losses that may be used in subsequent financial years and to temporary deductible differences, takes into account the estimate of future taxable income and is based on prudent tax planning. With regard to situations in which the applicable tax legislation in force lends itself to interpretation, if the Group considers it probable (greater than 50%), that the tax authority will accept the tax treatment adopted, the net income/(loss) before tax is determined in accordance with the tax treatment applied in the tax return. If this is not the case, the effect of any uncertainty is reflected in the determination of the net income/(loss) before tax. The probability refers to the likelihood that the tax authority will not accept the tax treatment adopted, and not to the likelihood of the assessment.

PENSION FUNDS

Some of the companies of the Group have put in place, pension plans, health insurance plans and other defined benefit plans for their employees, primarily in the United Kingdom and the United States. These funds were closed to new participants, and therefore the actuarial risk refers only to past obligations. Management, through the use of a leading actuarial services firm, utilises actuarial assumptions to calculate the liabilities and assets servicing these pension plans. The actuarial assumptions of a financial nature concern the discount rate, the rate of inflation and the trend in medical costs. The actuarial assumptions of a demographic nature are essentially concerned with mortality rates. The Group has identified discount rates which it has deemed are balanced, given their context.

PROVISIONS FOR LIABILITIES AND CHARGES

In view of the legal and tax risks relative to indirect taxes, provisions for the risk of unfavourable outcomes have been recognised. The value of provisions recognised in the Financial Statements for these risks represents the best estimate made by Management, for potential legal and tax disputes concerning a wide range of issues that are subject to the jurisdiction of various countries.

8. OPERATING SEGMENTS

IFRS 8 - Operating segments, defines an operating segment as a component:

- which involves entrepreneurial activities which generate revenues and costs;
- whose operating results are periodically reviewed by the Chief Executive Officer, in his role as Chief Operating Decision Maker (CODM);
- for which separate Income Statement, Statement of Financial Position and Financial Statements data is available.

For the purposes of IFRS 8, the activities performed by Consumer Activities are identifiable in a single operating sector.

Revenues from **sales and services according to geographical region** were as follows:

(in thousands of euro)

	2022	2021
Europe and Turkey	2,441,632	2,058,539
North America	1,592,083	1,145,656
APAC	1,093,058	1,018,817
South America	902,247	667,567
Russia, Nordics and MEAI	586,707	440,871
Total	**6,615,727**	**5,331,450**

Non-current assets by geographic region allocated on the basis of the country where the assets are located, were as follows:

(in thousands of euro)

	12/31/2022		12/31/2021	
Europe and Turkey	5,211,800	59.34%	5,352,217	61.00%
North America	510,105	5.81%	416,304	4.74%
APAC	515,141	5.87%	539,778	6.15%
South America	463,592	5.28%	384,362	4.38%
Russia, Nordics and MEAI	197,198	2.25%	198,153	2.26%
Non-current unallocated assets	1,884,629	21.45%	1,883,765	21.47%
Total	**8,782,465**	**100.00%**	**8,774,579**	**100.00%**

The **non-current allocated assets** reported in the preceding table consist of property, plant and equipment and intangible assets, excluding goodwill. The **non-current unallocated assets** are relative to goodwill.

9. PROPERTY, PLANT AND EQUIPMENT

Their composition was as follows:

(in thousands of euro)

	12/31/2022	12/31/2021
Total Net Value:	**3,399,628**	**3,288,914**
- Owned tangible assets	2,952,780	2,823,765
- Right of use	446,848	465,149

9.1 OWNED TANGIBLE ASSETS

Their composition and changes were as follows:

(in thousands of euro)

	12/31/2022			12/31/2021		
	Gross Value	Accumulated Depreciation	Net Value	Gross Value	Accumulated Depreciation	Net Value
Land	147,977	-	**147,977**	144,121	-	**144,121**
Buildings	909,178	(234,420)	**674,758**	848,138	(196,180)	**651,958**
Plants and machinery	2,979,444	(1,149,033)	**1,830,411**	2,704,531	(949,926)	**1,754,605**
Industrial and trade equipment	667,978	(438,739)	**229,239**	574,926	(361,250)	**213,676**
Other assets	141,941	(71,546)	**70,395**	124,286	(64,881)	**59,405**
Total	**4,846,518**	**(1,893,738)**	**2,952,780**	**4,396,002**	**(1,572,237)**	**2,823,765**

NET VALUE

(in thousands of euro)

	12/31/2021	Hyperinflation Argentina and Turkey	Currency translation differences	Increases	Decreases	Depreciation	Devaluation	Recl./Other	12/31/2022
Land	**144,121**	1,498	1,585	145	-	-	-	628	**147,977**
Buildings	**651,958**	6,156	18,566	34,907	(54)	(36,392)	(414)	31	**674,758**
Plants and machinery	**1,754,605**	25,685	33,634	230,810	(1,680)	(193,564)	(19,679)	600	**1,830,411**
Industrial and trade equipment	**213,676**	7,464	6,368	77,918	(1,124)	(74,876)	(582)	395	**229,239**
Other assets	**59,405**	3,711	(1,602)	22,033	(318)	(9,830)	(7)	(2,997)	**70,395**
Total	**2,823,765**	**44,514**	**58,551**	**365,813**	**(3,176)**	**(314,662)**	**(20,682)**	**(1,343)**	**2,952,780**

NET VALUE

(in thousands of euro)

	12/31/2020	Hyperinflation Argentina and Turkey	Currency translation differences	Increases	Decreases	Depreciation	Devaluation	Recl./Other	12/31/2021
Land	**147,406**	(831)	(2,412)	-	(39)	-	-	(3)	**144,121**
Buildings	**636,696**	3,777	20,956	26,456	(287)	(33,798)	(1,882)	40	**651,958**
Plants and machinery	**1,695,154**	7,023	45,514	188,405	(1,924)	(176,971)	(2,505)	(91)	**1,754,605**
Industrial and trade equipment	**197,246**	4,835	4,176	79,239	(1,789)	(70,229)	(1,278)	1,476	**213,676**
Other assets	**49,253**	2,410	131	20,875	(330)	(9,879)	(46)	(3,009)	**59,405**
Total	**2,725,755**	**17,214**	**68,365**	**314,975**	**(4,369)**	**(290,877)**	**(5,711)**	**(1,587)**	**2,823,765**

The item **Hyperinflation Argentina and Turkey** refers to the revaluation of the assets held by the Argentine and Turkish subsidiaries as a consequence of the application of the IAS 29 accounting standard - Financial Reporting in Hyperinflationary Economies, (euro 30,003 thousand for Argentina and euro 14,511 thousand for Turkey). This effect was partially offset by negative **currency translation differences** (euro 20,365 thousand for Argentina and euro 2,915 thousand for Turkey).

Increases, totalling euro 365,813 thousand, were primarily aimed at the High Value segment, at the continuous improvement in the mix and quality in all manufacturing plants, and at increasing production capacity in Mexico, and Romania.

The ratio of investments to depreciation for 2022 was equal to 1.16, (1.08 for the financial year 2021).

The item **devaluation** refers mainly to plants and machinery in operation in the subsidiary in Russia. It should also be noted that the protracted direct effects of the Russia-Ukraine crisis on the operating activities located in Russia, represented an impairment indicator, and therefore the relative tangible fixed assets belonging to the Kirov and Voronezh factories, which represent two separate cash generating units, were subjected to an impairment test. The value configuration used to determine the recoverable amount at December 31, 2022 was the value in use, which corresponds to the present value of the future cash flows which are expected to be associated with the two CGUs, using a rate, equal to 25%, that reflects the risks specific to the assets at the valuation date.

The recoverable amount for the Kirov CGU was found to be euro 14 million lower than the carrying amount, and therefore the impairment was recognised in the Income Statement.

Property, plant and equipment in progress at December 31, 2022 included in the individual fixed asset categories amounted to euro 240,255 thousand, (euro 183,468 thousand at December 31, 2021). The main projects included under property, plant and equipment in progress were the initiation of new projects to increase production capacity, the constant technological upgrading of the manufacturing plants and machinery, which is also aimed at increasing their safety from an EHS (Environmental, Health and Safety) perspective, and the investments in machinery for the development of new product lines and the improvement of existing products. These investments were concentrated in Mexico, Romania, China and Italy.

It should be noted that the companies of the Group did not pledge any property, plant and equipment as collateral.

9.2 RIGHT OF USE

The net value of the assets for which the Group has entered into lease contracts, is detailed as follows:

(in thousands of euro)

	12/31/2022	12/31/2021
Right of use land	17,992	17,312
Right of use buildings	349,257	366,512
Right of use plants and machinery	23,179	27,382
Right of use other assets	56,420	53,943
Total net right of use	**446,848**	**465,149**

The item **right of use buildings** mainly refers to contracts relative to offices, warehouses and points of sale.

The item **right of use other assets** mainly refers to contracts relative to motor vehicles and transport equipment. These contracts also include the service component (non-lease component).

Lease contracts are negotiated on an individual basis and include a wide variety of terms and conditions.

Increases in the right of use for the 2022 financial year, also including remeasurements, amounted to euro 79,746 thousand (euro 122,416 thousand for 2021). These increases refer mainly to new contracts for logistics warehouses in the USA and Australia and to industrial equipment in Mexico and Romania.

In reference to remeasurements, the following impacts are indicated for 2022:

- contracts for the lease of several sales outlets in Germany were extended and the relative rental fees were revised, with a corresponding increase in the right of use of euro 4,265 thousand;
- contracts for the lease of offices and warehouses in Germany were extended for 5 and 1.5 years respectively, with a corresponding increase in the right of use of euro 2,981 thousand;
- rental rates for an office building in Italy were adjusted for inflation, with a corresponding increase in the right of use of euro 2,301 thousand.

Depreciation of the right of use recognised in the Income Statement and included under the item *"Depreciation, Amortisation and Impairments"* (Note 32), was composed as follows:

(in thousands of euro)

	2022	2021
Land	1,320	1,154
Buildings	67,955	61,014
Plants and machinery	6,789	7,374
Other assets	19,748	18,866
Total depreciation of right of use	**95,812**	**88,408**

For interest on lease liabilities, reference should be made to Note 37, *"Financial Expenses"*.

Information on costs relative to lease contracts with a duration of less than twelve months, lease contracts for assets with a low unit value and lease contracts with variable lease payments, is included in Note 33, *"Other Costs"*.

10. INTANGIBLE ASSETS

Their composition and changes were as follows:

NET VALUE

(in thousands of euro)

	12/31/2021	Currency translation differences	Increase	Decrease	Amortisation	Impairment	Recl./Other	12/31/2022
Concessions, licenses and trademarks - finite useful life	**72,588**	(66)	880	-	(3,689)	-	(2)	**69,711**
Pirelli Brand - indefinite useful life	**2,270,000**	-	-	-	-	-	-	**2,270,000**
Goodwill	**1,883,765**	864	-	-	-	-	-	**1,884,629**
Customer relationships	**239,639**	(773)	-	-	(34,577)	-	-	**204,289**
Technology	**968,617**	-	-	-	(76,850)	-	-	**891,767**
Software applications	**39,568**	239	27,311	(132)	(16,946)	(697)	277	**49,620**
Patents and design patent rights	**10,194**	-	3,676	-	(1,413)	-	-	**12,457**
Other intangible assets	**1,294**	34	45	(145)	(318)	(462)	(84)	**364**
Total	**5,485,665**	**298**	**31,912**	**(277)**	**(133,793)**	**(1,159)**	**191**	**5,382,837**

NET VALUE

(in thousands of euro)

	12/31/2020	Currency translation differences	Increase	Decrease	Amortisation	Recl./Other	12/31/2021
Concessions, licenses and trademarks - finite useful life	**73,694**	2,375	303	-	(3,872)	88	**72,588**
Pirelli Brand - indefinite useful life	**2,270,000**	-	-	-	-	-	**2,270,000**
Goodwill	**1,883,945**	57	-	(237)	-	-	**1,883,765**
Customer relationships	**273,870**	189	180	-	(34,607)	7	**239,639**
Technology	**1,045,467**	-	-	-	(76,850)	-	**968,617**
Software applications	**26,181**	(9)	26,548	-	(12,669)	(483)	**39,568**
Patents and design patent rights	**7,689**	-	3,548	-	(1,043)	-	**10,194**
Other intangible assets	**1,187**	(11)	-	(5)	(352)	475	**1,294**
Total	**5,582,033**	**2,601**	**30,579**	**(242)**	**(129,393)**	**87**	**5,485,665**

Intangible assets were composed as follows:

- the Pirelli Brand (indefinite useful life) to the amount of euro 2,270,000 thousand. It should be noted that the evaluation of the useful life of brands is based on a series of factors including the competitive environment, market share, history of the Brand, life cycles of the underlying product, operating plans and the macroeconomic environment of the countries in which the related products are sold. Specifically, the useful life of the Pirelli Brand was assessed as indefinite on the basis of its history of over one hundred and fifty years of success (established in 1872), and on the intention and ability of the Group to continue investing in order to support and maintain the Brand;
- the Metzeler Brand (useful life of 20 years) to the amount of euro 44,220 thousand included under the item *"Concessions, licenses and trademarks – finite useful life";*
- Customer relationships (useful life of 10-20 years) which mainly includes the value of commercial relationships for both the Original Equipment and Replacement channel;
- Technology which includes the value of both product and process technologies as well the value of the *In-Process R&D* (being formed at the time of the acquisition of the Group in 2015 by Marco Polo Industrial Holding

S.p.A.) amounted to euro 846,767 thousand and euro 45,000 thousand respectively. The useful life of product and process Technology was determined to be 20 years, while the useful life for In-Process R&D was 10 years;

- Goodwill to the amount of euro 1,884,629 thousand, of which euro 1,877,363 thousand was recorded at the time of acquisition of the Group in September 2015. The remainder refers to the goodwill determined as part of the acquisition of the company JMC Pneus Comercio Importação e Exportação Ltda. which occurred in 2018.

During the course of 2022, investments were also made in application software (a total increase of euro 27,311 thousand) as part of the Digitalisation Programme to transform the Group's key processes. For more information on the Programme, reference should be made to the section Group Performance and Results in the Directors' Report on Operations.

IMPAIRMENT TESTING OF GOODWILL Pursuant to IAS 36, goodwill is not subject to amortisation, but is tested for impairment annually, or more frequently if specific events or circumstances arise that may suggest an impairment.

Goodwill, which amounted to euro 1,884,629 thousand was allocated to the *"Consumer Activities"* CGU group, which represents the sole business segment in which the Group operates and considers to be the minimum level at which goodwill is monitored, for internal management control purposes.

The impairment test consists of comparing the recoverable amount for Consumer Assets with their carrying amount, including its operating assets and goodwill.

The value configuration used to determine the recoverable amount for Consumer Activities at December 31, 2022 is the value in use, which corresponds to the present value of the future financial flows which are expected to be generated by the group of CGUs, using a discount rate that reflects the risks specific to the group of CGUs at the valuation date.

The forecasts are based on the flows of the EBITDA adjusted of the 2023 Management Plan approved on February 22, 2023 by the Board of Directors of Pirelli & C. S.p.A. which was prepared on the basis of the new market environment and, in particular, including the indirect effects of the Russia-Ukraine conflict (mainly attributable to inflation in sales prices and in the costs of production factors). The figures for 2023 have been adjusted downwards to take into account, the consensus estimates of analysts, which were updated following the presentation of the Plan, as externally sourced evidence, and for the years 2024 – 2025, the consensus estimates of analysts were used.

With reference to the impact on flows attributable to climate-change issues, it should be noted that:

- thanks to its technological leadership, the Group expects positive results in the short-term from the marketing of tyres that include technological solutions capable of minimising the environmental impact. Instead, with reference to the risks deriving from climate change (physical and transitional), no material impact is expected in the short and medium-term, while there are elements of uncertainty in the long-term (>2030). For more information, reference should be made to the *"Information on Climate Change"* section of this document;
- the estimates of equity analysts, on which the flows used in the impairment test are based, do not forecast long-term negative effects from climate change and include a positive growth rate beyond the explicit forecast period;
- in estimating the terminal value, a higher level of investments than that forecast by analysts was prudently used to take into account any acceleration in investments related to energy efficiency, consistent with the decarbonisation strategy adopted by the Group;
- the capitalisation rate (WACC - g) is consistent with the consensus estimates of analysts, and therefore captures consensus market expectations with regard to risks of a systematic nature and not related to flows projected beyond the explicit forecast period.

Pursuant to IAS 36.44, the flows used are sterilised of cash flows relative to expansion investments, restructuring expenses and correlated benefits, which at December 31, 2022, the Company had not yet done so.

The flows used for the purpose of determining the recoverable amount, which are based on the consensus estimates of analysts, assume, for the explicit forecast period, an average compound annual growth rate (CAGR) for revenues of 2.1%, which is calculated against the revenues recorded for 2022, and an average EBITDA margin adjusted of 21.3%, with a CAGR for the EBITDA adjusted of 3%, compared to the absolute value recorded for 2022.

The impairment test at December 31, 2022 was performed using the assistance of an independent third-party professional.

The discount rates, defined as the weighted average cost of capital (WACC) net of taxes, which were applied to the prospective cash flows equalled 8.34%, while the growth rate of operating cash flows, for the purpose of estimating the terminal value (g) was equal to 0.50%. The capitalisation rate for operating cash flows (WACC - g) was therefore equal to 7.84%, consistent with the long-term projections of analysts.

Based on the results of the impairments tests carried out, no impairment emerged.

The recoverable amount is greater than the carrying amount for Consumer Activities (12%), while, in order for the value in use to be equal to the carrying amount, a downward change in the key parameters is necessary, specifically:

- an increase in the discount rate of 92 basis points for the explicit forecast period and in the terminal value;
- a negative annual growth rate beyond the explicit *"g"* forecast period of -111 basis points;

- a decrease in the average EBITDA margin adjusted of 152 basis points for the explicit forecast period and in the terminal value.

IMPAIRMENT TESTING OF THE PIRELLI BRAND (INTANGIBLE ASSET WITH AN INDEFINITE USEFUL LIFE): The Pirelli Brand, valued at euro 2,270,000 thousand is an intangible asset with an indefinite useful life, and as such is not subject to amortisation, but pursuant to IAS 36, is tested for impairment annually or more frequently, if specific events or circumstances arise that may suggest an impairment.

The impairment test at December 31, 2022 was performed using the assistance of an independent third-party professional.

The configuration of the recoverable amount for impairment testing purposes at December 31, 2022 was the fair value, calculated on the basis of the income approach (the so-called Level 3 of the IFRS 13 hierarchy – Fair Value measurement). The fair value estimate is therefore based on:

- the same flows used for goodwill impairment testing purposes, that is, the forecasts made by management, which with reference to 2023 are based on the 2023 Management Plan, adjusted downwards to take into account, the consensus estimates of analysts as externally sourced evidence, and for the years 2024 - 2025, the consensus estimates of analysts were used, but without the sterilisation of the effects of expansion investments. The average compound annual growth rate (CAGR), for revenues for the explicit forecast period, used in the determination of the recoverable amount, which is calculated against the revenues recorded for 2022, was equal to 3% while the average EBITDA margin adjusted for the period used in the determination of the recoverable amount was equal to 21.4%, with a CAGR for the EBITDA adjusted of 4.2%, compared to the absolute value recorded for 2022;
- a sum-of-parts valuation criterion which also takes into account the contribution of royalties from the Prometeon Tyre Group for the use of the Pirelli trademark in relation to the Industrial segment (as in the existing contracts);
- the excess earnings attributable to the Pirelli Brand which are derived by deducting the notional rent or royalty rate of the Group's operating assets other than the Brand, expressed at fair value, from the prospective operating income;
- a discount rate of 10.30%, which includes a premium compared to the WACC, which is determined according to the riskiness of the specific asset and the growth rate *"g"* in the terminal value which is equal to 0.5%;
- the TAB (Tax Amortisation Benefit) that is, the tax benefit that could potentially benefit the market participant which acquired the asset separately, as a result of the possibility of amortising the asset for tax purposes.

For the purposes of impairment testing, the recoverable amount of the Pirelli Brand *cum* TAB was compared with the carrying amount (*cum* TAB) and no impairment emerged.

The recoverable amount is greater than the carrying amount of the Brand (17%), while, in order for the fair value to be equal to the carrying amount, a downward change in the key parameters is necessary, in particular:
- a decrease in revenues of 410 basis points for the explicit forecast period and in the terminal value;
- a decrease in the EBITDA margin adjusted of 67 basis points for the explicit forecast period and in the terminal value;
- an increase in the discount rate of 142 basis points in the explicit forecast period and in the terminal value;
- a decrease in the growth rate *"g"* of 203 basis points for beyond the explicit forecast period.

11. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The changes in investments in associates and joint ventures were as follows:

(in thousands of euro)

	12/31/2022			12/31/2021		
	Associates	**JV**	**Total**	**Associates**	**JV**	**Total**
Opening balance	**9,018**	**71,868**	**80,886**	**8,395**	**64,193**	**72,588**
Decrease	(1,451)	-	(1,451)	-	-	-
Distribution of dividends	(178)	-	(178)	(186)	-	(186)
Share of net income / (loss)	190	2,730	2,920	716	981	1,697
Share of other components recognised in Equity	-	(2,183)	(2,183)	-	6,694	6,694
Other	233	-	233	93	-	93
Closing balance	**7,812**	**72,415**	**80,227**	**9,018**	**71,868**	**80,886**

11.1 INVESTMENTS IN ASSOCIATES

The details were as follows:

(in thousands of euro)

	12/31/2021	Decrease	Distribution of dividends	Share of net income / (loss)	Other	12/31/2022
Eurostazioni S.p.A.	**6,575**	-	-	46	-	**6,621**
Joint Stock Company Kirov Tyre Plant	**1,339**	(1,451)	-	(124)	236	**-**
Investments in other associates	**1,104**	-	(178)	268	(3)	**1,191**
Total	**9,018**	**(1,451)**	**(178)**	**190**	**233**	**7,812**

The investments in associated companies evaluated using the equity method, were not relevant in terms of the impact on total consolidated assets, either individually or in aggregate form.

11.2 INVESTMENTS IN JOINT VENTURES

The details were as follows:

(in thousands of euro)

	12/31/2021	Share of net income / (loss)	Share of other components recognised in Equity	12/31/2022
Xushen Tyre (Shanghai) Co., Ltd.	**57,676**	2,308	(1,717)	**58,267**
PT Evoluzione Tyres	**14,192**	422	(466)	**14,148**
Total	**71,868**	**2,730**	**(2,183)**	**72,415**

The Group holds:

- a 49% stake in the company Xushen Tyre (Shangai) Co., Ltd. a joint venture which, through the company Jining Shenzhou Tyre Co., Ltd. owns a Consumer tyre manufacturing plant in China. The plant provides the necessary production flexibility for the High Value segment, given the evolution of the Chinese market, the expected developments in the electric car segment and the increasing share of homologations obtained for the Original Equipment channel in China, Japan and Korea. As announced on August 1, 2018, the joint venture agreement relative to Xushen Tyre (Shanghai) Co., Ltd. provides for a for a Call Option in favour of Pirelli Tyre S.p.A., exercisable from January 1, 2021 until March 31, 2026, which - if exercised - would allow Pirelli Tyre S.p.A. to increase its stake in the company to up to 70%. Pirelli Tyre S.p.A. has notified the shareholders of Xushen Tyre (Shanghai) Co., Ltd. of its intention to not exercise the option until December 31, 2023, without prejudice to the right to exercise the option thereafter, and in any case, by March 31, 2026;

→ an investment of 63.04% in PT Evoluzione Tyres, an entity which operates in Indonesia and is active in the production of tyres for motorcycles. Even though the company is 63.04% owned as a result of the contractual agreements between Shareholders, it falls under the definition of a joint venture in that the governance regulations explicitly provide for the unanimous approval of significant business decisions.

The investments in joint ventures were not relevant in terms of their impact on the total consolidated assets.

12. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The movements in other financial assets at fair value through Other Comprehensive Income amounted to euro 48,419 thousand at December 31, 2022 (euro 56,907 thousand at December 31, 2021, and were as follows:

(in thousands of euro)

Opening balance at 01/01/2022	**56,907**
Translation differences	(11)
Fair Value adjustment through Other Comprehensive income	(8,477)
Closing balance 12/31/2022	**48,419**

The composition of the item by individual security is as follows:

(in thousands of euro)

	12/31/2022	12/31/2021
Listed securities		
RCS MediaGroup S.p.A.	16,570	21,855
Total	**16,570**	**21,855**
Unlisted securities		
Fin. Priv. S.r.l.	18,865	21,171
Fondo Anastasia	1,775	2,825
Istituto Europeo di Oncologia S.r.l.	8,139	8,006
Tlcom I LP	186	193
Telco S.r.l.	450	450
Other companies	2,434	2,407
Total	**31,849**	**35,052**
Total other financial assets at Fair Value through Other Comprehensive Income	**48,419**	**56,907**

The **fair value adjustments through Other Comprehensive Income** amounted to a net loss of euro 8,477 thousand, and mainly refers to the RCS MediaGroup S.p.A. (negative to the amount of euro 5,285 thousand), to Fin. Priv. S.r.l. (negative to the amount of euro 2,306 thousand) and to Fondo Comune di Investimento Anastasia (negative to the amount of euro 1,050 thousand). For listed securities, the fair value corresponds to the stock market price at December 31, 2022. For unlisted securities, the fair value was determined by using estimates based on the best available information.

13. DEFERRED TAX ASSETS AND LIABILITIES

Their composition is as follows:

(in thousands of euro)

	12/31/2022	12/31/2021
Deferred tax assets	176,969	137,643
Deferred tax liabilities	(1,041,848)	(1,033,892)
Total	**(864,879)**	**(896,249)**

Deferred tax assets and deferred tax liabilities are offset when the deferred taxes refer to the same legal entity and the same taxation authority.

The item **deferred tax liabilities** mainly refers to the difference between the tax value and the carrying amount of assets identified at the date of acquisition of the Pirelli Group by Marco Polo Industrial Holding S.p.A., recorded in the Consolidated Financial Statements following the merger by incorporation of the Parent company, Marco Polo Industrial Holding S.p.A. into Pirelli, which took place during the course of 2016.

Their composition, gross of the offsets carried out, was as follows:

(in thousands of euro)

	12/31/2022	12/31/2021
Deferred tax assets	**343,197**	**330,936**
- of which within 12 months	208,657	210,568
- of which beyond 12 months	134,540	120,368
Deferred tax liabilities	**(1,208,076)**	**(1,227,185)**
- of which within 12 months	(187,805)	(111,378)
- of which beyond 12 months	(1,020,271)	(1,115,807)
Total	**(864,879)**	**(896,249)**

The composition of deferred taxes, relative to temporary differences and tax losses carried forward, is shown in the following table:

(in thousands of euro)

	12/31/2022	12/31/2021
Deferred tax assets		
Provisions for liabilities and charges	80,189	54,262
Property, plant and equipment	15,018	9,825
Leases	-	2,129
Provision for employee benefit obligations	38,281	43,869
Inventories	44,236	37,902
Tax losses carried forward	85,085	53,647
Trade receivables and other receivables	43,725	38,866
Trade payables and other payables	3,949	5,071
Other	32,714	85,365
Total	**343,197**	**330,936**
Deferred tax liabilities		
Intangible assets	(939,366)	(975,326)
Property, plant and equipment	(159,001)	(157,851)
Leases	(717)	-
Provision for employee benefit obligations	(32,371)	(37,605)
Derivatives	(12,343)	-
Other	(64,278)	(56,403)
Total	**(1,208,076)**	**(1,227,185)**

The item “***Other***” relative to **deferred tax assets,** mainly includes deferred tax assets recognised on surplus non-deducted interest expenses (euro 5,417 thousand) and on the ACE benefit, (Allowance for Corporate Equity) (euro 23,237 thousand).

The item “***Other”*** relative to **deferred tax liabilities**, mainly includes deferred tax liabilities recognised on the undistributed gains of the subsidiaries for which distribution in future financial years is probable (euro 48,515 thousand).

The tax effect of gains and losses recognised directly in equity was negative to the amount of euro 5,836 thousand (negative to the amount of euro 33,933 thousand for 2021), and is reported in the Statement of Comprehensive Income. These changes were mainly due to tax effects connected to actuarial gains/losses on employee benefits, and to the fair value adjustment of cash flow hedge derivatives.

At December 31, 2022 the value of deferred tax assets not recognised on tax losses amounted to euro 81,908 thousand, while those related to temporary differences amounted to euro 31,126 thousand. This latter item mainly includes deferred tax assets not recognised on interest payables. Deferred tax assets were not recognised, in that no taxable income is expected to justify their recovery.

The amounts for tax losses according to their expiry date, against which deferred tax assets have not been not recognised, is shown below:

(in thousands of euro)

Year of expiry	12/31/2022	12/31/2021
2022	-	2,295
2023	5,121	5,121
2024	1,280	1,280
2025	2,540	2,563
2026	5,073	5,073
2027	3,736	3,731
2028	809	779
2029	28	26
2030	5	5
With no expiry date	292,587	276,211
Total	**311,179**	**297,084**

Of the total tax losses with no expiry date, euro 287,293 thousand refers to losses attributable to subsidiaries in the UK, Spain and Brazil.

14. TRADE RECEIVABLES

Trade receivables were analysed as follows:

(in thousands of euro)

	12/31/2022			12/31/2021		
	Total	Non-current	Current	Total	Non-current	Current
Trade receivables	706,323	-	706,323	732,188	-	732,188
Bad debt provision	(69,877)	-	(69,877)	(72,979)	-	(72,979)
Total	**636,446**	**-**	**636,446**	**659,209**	**-**	**659,209**

The gross value of trade receivables amounted to euro 706,323 thousand (euro 732,188 thousand at December 31, 2021). At the reporting date, receivables which were past due by more than 30 days gross of credit notes to be issued and net of credit enhancement instruments, amounted to 21% of the total exposure (22% at December 31, 2021).

Receivables which were past due and not yet due were evaluated in accordance to the Group's policy described in the section on the adopted accounting standards.

The item impaired receivables includes both significant individual positions subject to individual impairment and positions with similar credit risk characteristics which were grouped together and impaired on a collective basis. The calculation of the impairment is based on (i) a matrix which includes the credit ratings of customers, provided by independent market assessors and on (ii) the value of receivables, which takes the collateral and related insurance coverage into account. The customer rating considers, among other things, the effects of exogenous risks that include, should customers be exposed to them in the specific markets in which they operate, risks related to Covid 19 and climate change, determining the probability of default used in the calculation and impacting the ceiling levels granted by the insurance company to each counterparty.

The **changes in the bad debt provision** were as follows:

(in thousands of euro)

	12/31/2022	12/31/2021
Opening balance	**72,979**	**66,345**
Translation differences	3,889	917
Accruals	8,982	14,089
Decreases	(1,806)	(1,212)
Releases	(14,167)	(7,160)
Closing balance	**69,877**	**72,979**

Accruals to the bad debt provision are recognised net of releases, in the Income Statement under *"Net Impairment of Financial Assets" (Note 34).*

The carrying amount for trade receivables is considered to approximate their fair value.

Of the fully impaired trade receivables which were subject to legal action, it is estimated that an amount not exceeding 10% of their gross value might be recovered.

15. OTHER RECEIVABLES

Other receivables were analysed as follows:

(in thousands of euro)

	12/31/2022			12/31/2021		
	Total	Non-current	Current	Total	Non-current	Current
Financial receivables	386,229	114,000	272,229	352,658	269,658	83,000
Trade accruals and deferrals	42,303	7,195	35,108	39,633	6,709	32,924
Receivables from employees	4,994	436	4,558	3,977	708	3,269
Receivables from social security and welfare institutions	689	-	689	781	-	781
Receivables from tax authorities not related to income taxes	436,647	83,278	353,369	356,936	64,851	292,085
Other receivables	113,367	35,475	77,892	89,366	29,152	60,214
	984,229	**240,384**	**743,845**	**843,351**	**371,078**	**472,273**
Bad debt provision for other receivables and financial receivables	(11,840)	(9,233)	(2,607)	(9,830)	(8,134)	(1,696)
Total	**972,389**	**231,151**	**741,238**	**833,521**	**362,944**	**470,577**

Financial receivables non-current (euro 114,000 thousand) refers mainly to euro 63,087 thousand, the sum as guarantees for tax and legal disputes in relation to the subsidiary Pirelli Pneus Ltda. (Brazil) and remunerated at market rates, to euro 13,228 thousand, the sum deposited into escrow accounts in favour of the pension funds of Pirelli UK Ltd., to euro 14,464 thousand in contributions paid in cash at the time of signing an association in participation contract and to euro 6,926 thousand in loans, disbursed in favour of the Indonesian joint venture PT Evoluzione Tyres.

Financial receivables current (euro 272,229 thousand) refers mainly to euro 170,826 thousand the sum deposited in escrow accounts in favour of the pension funds of Pirelli UK Ltd. and Pirelli UK Tyres Ltd., and to euro 79,024 thousand for the short-term portion of loans granted to the Jining Shenzhou Tyre Co., Ltd. joint venture, for which there was no significant increase in credit risk compared to the date of disbursement.

The item **bad debt provision for other receivables and financial receivables** (euro 11,840 thousand) mainly includes euro 10,545 thousand relative to the impairment of financial receivables.

The item **receivables from tax authorities not related to income taxes** (euro 436.647 thousand compared to euro 356,936 thousand for 2021) is mainly comprised of receivables for IVA (value added tax) and other indirect taxes whose recovery is expected in future financial years.

Other receivables non-current (euro 35,475 thousand) refers mainly to amounts deposited as guarantees for legal and tax disputes for the Brazilian companies (euro 32,048 thousand).

Other receivables current (euro 77.892 thousand) includes:

- advances to suppliers amounting to euro 28,824 thousand;
- receivables from associates and joint ventures to the amount of euro 7,930 thousand, mainly for royalties and the sale of materials and moulds;
- receivables from the Prometeon Group to the amount of euro 19,023 thousand mainly for royalties;
- receivables to the amount of euro 4,875 thousand in yet to be collected state grants.

For other receivables - current and non-current the carrying amount is considered to approximate their fair value.

16. TAX RECEIVABLES

Tax receivables refers to income taxes which amounted to euro 36,704 thousand (of which euro 9,055 thousand was non-current) compared to euro 45,337 thousand at December 31, 2021 (of which euro 27,564 thousand was non-current). In more detail, it mainly refers to receivables for advances paid on taxes for the financial year and to income tax receivables from previous financial years recorded by the Brazilian companies.

For the previous financial year, **non-current tax receivables** included tax credits for Pirelli Pneus Ltda., which had amounted to euro 23,223 thousand for income taxes unduly incurred in previous years by the Brazilian affiliate, and recognised following the 2021 decision of the Federal Supreme Court (*"STF"*). Specifically, this decision established the unconstitutionality of including the monetary adjustments - calculated on the basis of the SELIC system (Special System for Settlement and Custody) – applied to tax credits for taxes paid but not owed, when calculating income tax (*"IRPJ"*) and social security contributions on net income (*"CSSL"*).

The change in non-current tax receivables compared to the previous financial year, is essentially due to the adjustment carried out in 2022 of the tax returns of previous years, which led to the restatement of other tax receivables from the tax authorities for indirect taxes ("*PIS COFIN"*) which had originally been used to offset the unduly incurred income taxes as specified above. As a result of this adjustment, the previously recognised receivable was reclassified to tax receivables not related to income taxes.

17. INVENTORIES

The following is an inventories analysis:

(in thousands of euro)

	12/31/2022	12/31/2021
Raw and auxiliary materials and consumables	302,609	176,795
Sundry materials	10,854	6,354
Unfinished and semi-finished products	85,542	69,413
Finished products	1,056,359	838,186
Advances to suppliers	2,347	1,414
Total	**1,457,711**	**1,092,162**

The restatement of the value of inventories, which was recognised net of impairments, amounted to euro 788 thousand (a restatement of euro 1,549 thousand for 2021).

The increase in the value of inventories compared to December 31, 2021 was attributable to an increase in both finished products, whose percentage of sales remained stable compared to the previous financial year, and in raw materials which were impacted by the effects of inflation and the measures implemented during the first nine months of the year, to mitigate supply chain risks.

Inventories were not subject to any guarantee restrictions.

18. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT - CURRENT

Other financial assets at fair value through the Income Statement - current amounted to euro 246,884 thousand at December 31, 2022 compared to euro 113,901 thousand at December 31, 2021.

The amount at December 31, 2022 included euro 169,328 thousand relative to investments made by the Argentine affiliate in listed dollar-linked bond instruments, to mitigate the effects of the devaluation of the local currency. For unlisted securities, the fair value was determined by using estimates based on the best available information.

This increase, compared to the previous financial year, mainly refers to the combined effect of higher cash investments in bond instruments made by the Argentine subsidiary, and the positive change in the market value of the same securities, during the course of 2022.

Changes in fair value for the period were recognised in the Income Statement as "*Financial Income*", Note 36.

19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents went from euro 1,884,649 thousand at December 31, 2021 to euro 1,289,744 thousand at December 31, 2022, and refer to bank current account balances and short-term bank deposits.

Details of the change in the balance are provided in the Consolidated Cash Flow Statement.

These were concentrated in the treasury centres of the Group, and in companies that generate liquidity and use it locally. They are mainly deployed, in accordance with risk diversification principles and minimum rating levels, in the market for short-term deposits, with banking counterparties at interest rates that are consistent with the prevailing market conditions. The credit risk associated with cash and cash equivalents is considered to be limited as the counterparties are leading national and international banks.

For the Statement of Cash Flow, the balance of cash and cash equivalents was recorded net of bank overdrafts, to the amount of euro 6,356 thousand at December 31, 2022 (euro 1,105 thousand at December 31, 2021).

20. EQUITY

20.1 ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY

Equity attributable to the Owners of the Parent Company went from euro 4,908,112 thousand at December 31, 2021 to euro 5,323,794 thousand at December 31, 2022.

The subscribed and paid up **share capital** at December 31, 2022 amounted to euro 1,904,375 thousand and was represented by 1,000,000,000 registered ordinary shares without indication of their nominal value.

The **translation reserve**, generated by the conversion into euro of the financial statements of subsidiaries that use a currency other than the euro as their functional currency, was negative to the amount of euro 510,386 thousand at December 31, 2022. Movements for the financial year included a positive change of euro 54,757 thousand mainly, related to the subsidiaries in Mexico, Brazil and the USA, which was partly offset by a negative change in China, the UK and Argentina.

Changes in other reserves through Other Comprehensive Income went from a negative euro 1,408 thousand at December 31, 2021 to a positive euro 12,768 thousand at December 31, 2022, mainly due to the positive effect of the cash flow hedge reserve (euro 57,461 thousand), which was partially offset by actuarial losses on pension funds (negative to the amount of euro 27,404 thousand), by financial assets at fair value through Other Comprehensive Income (negative to the amount of euro 8,477 thousand) and by the tax effect, (negative to the amount of euro 5,809 thousand).

Other reserves/retained earnings went from euro 3,570,288 thousand at December 31, 2021 to euro 3,917,037 thousand at December 31, 2022, essentially due to the net result for the financial year (positive to the amount of euro 417,760 thousand), to hyperinflation in Argentina and Turkey (positive to the amount of euro 72,149 thousand and euro 16,868 thousand, respectively, partially offset by a negative translation reserve of euro 47,531 thousand and euro 5,365 thousand, respectively) and to approved dividends (negative to the amount of euro 161,000 thousand).

20.2 ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Equity attributable to Non-Controlling Interests went from euro 134,527 thousand at December 31, 2021 to euro 130,034 thousand at December 31, 2022, a slight decrease in that dividends paid out to minority shareholders (euro 24,396 thousand) exceeded the positive change mainly due to the results for the financial year which amounted to euro 18,140 thousand, and to exchange rate gains to the amount of euro 1,773 thousand.

21. PROVISIONS FOR LIABILITIES AND CHARGES

Movements in the non-current portion of provisions that occurred during the period are shown below:

PROVISION FOR LIABILITIES AND CHARGES - NON-CURRENT PORTION

(in thousands of euro)

	12/31/2021	Currency translation differences	Increases	Uses	Releases	Reclass.	12/31/2022
Provision for labour disputes	12,858	1,071	7,221	(3,042)	(1,193)	-	16,915
Provision for tax risks not related to income taxes	4,137	130	570	26	-	-	4,863
Provision for environmental risks	9,672	64	21,716	(183)	(289)	583	31,563
Provision for restructuring and reorganisation	1,359	-	10	(1,336)	(33)	-	-
Provision for other risks and expenses	53,144	(199)	10,749	(1,373)	(135)	(13,851)	48,335
Total	**81,170**	**1,066**	**40,266**	**(5,908)**	**(1,650)**	**(13,268)**	**101,676**

Increases mainly refers to accruals to the provisions for labour disputes particularly for the Brazilian subsidiaries to the amount of euro 6,039 thousand, and to accruals to the provisions for expenses relative to the environmental remediation of disused areas in Italy and Brazil. With regard to other risks, the increase for the financial year mainly refers to the STI (Short Term Incentive) and LTI (2021-2023 and 2022-2024 Long Term Incentive) Plans for Directors, and reflects the improved performances in the underlying parameters of the plans.

Uses were mainly attributable to labour disputes, rationalisation measures in Italy and occupational diseases.

Reclassifications refers mainly to the reclassification from non-current provisions to other payables, of the portion of the 2020-2022 LTI Plan accrued in previous years, which will be paid out during the first half-year of 2023, and the reclassification to the current portion of provisions related to insurance risks.

Movements in the current portion of provisions that occurred during the period, are shown below:

PROVISION FOR LIABILITIES AND CHARGES - CURRENT PORTION

(in thousands of euro)

	12/31/2021	Currency translation differences	Increases	Uses	Releases	Reclass.	12/31/2022
Provision for labour disputes	223	(35)	100	-	(79)	-	209
Provision for tax risks not related to income taxes	3,490	444	599	-	(1,711)	-	2,822
Provision for environmental risks	3,110	-	-	(144)	(600)	-	2,366
Provision for restructuring and reorganisation	3,531	513	-	(2,268)	(20)	-	1,756
Provisions for product claims and warranties	11,594	820	967	(227)	(411)	-	12,743
Provision for other risks and expenses	21,646	(112)	10,985	(12,485)	(2,057)	3,377	21,354
Total	**43,594**	**1,630**	**12,651**	**(15,124)**	**(4,878)**	**3,377**	**41,250**

Increases relative to the provisions for other risks were mainly attributable to the purchase of greenhouse gas emission allowances, consistent with the provisions of the European Emission Trading Schemes to the amount of euro 5,813 thousand, and to commercial risks.

Uses refers to greenhouse gas emission allowances, consistent with the provisions of the European Emission Trading Schemes to the amount of euro 5,547 thousand, to insurance risks and to rationalisation measures in Brazil.

22. PROVISIONS FOR EMPLOYEE BENEFIT OBLIGATIONS AND OTHER ASSETS

PROVISIONS FOR EMPLOYEE BENEFIT OBLIGATIONS AND OTHER ASSETS – NON-CURRENT PORTION

The item is composed as follows:

(in thousands of euro)

	12/31/2022	12/31/2021
Pension funds in surplus	120,481	153,205
Total other assets	**120,481**	**153,205**
Pension funds in deficit	70,171	85,493
Employees' leaving indemnities (TFR - Italian companies)	20,064	26,123
Healthcare plans	13,075	15,597
Other benefits	77,248	93,385
Total provisions for employee benefit obligations	**180,558**	**220,598**

PENSION FUNDS

The following table shows the **composition of pension funds at December 31, 2022:**

(in thousands of euro)

	12/31/2022							
	Germany	Sweden	Total unfunded pension funds	USA	UK	Switzerland	Total funded pension funds	Total
Present value of liabilities	63,611	2,108	**65,719**	86,967	722,365	32,191	**841,523**	**907,242**
Fair value of plan assets				(83,436)	(842,846)	(31,270)	**(957,552)**	**(957,552)**
Total Assets in surplus					**(120,481)**		**(120,481)**	**(120,481)**
Total Liabilities in deficit	**63,611**	**2,108**	**65,719**	**3,531**		**921**	**4,452**	**70,171**
Total pension funds								**(50,310)**

The following table shows the **composition of pension funds at December 31, 2021**:

(in thousands of euro)

	12/31/2021							
	Germany	Sweden	Total unfunded pension funds	USA	UK	Switzerland	Total funded pension funds	Total
Present value of liabilities	75,005	2,957	**77,962**	105,578	1,203,187	34,203	**1,342,968**	**1,420,930**
Fair value of plan assets				(100,942)	(1,356,392)	(31,308)	**(1,488,642)**	**(1,488,642)**
Total Assets in surplus					**(153,205)**		**(153,205)**	**(153,205)**
Total Liabilities in deficit	**75,005**	**2,957**	**77,962**	**4,636**		**2,895**	**7,531**	**85,493**
Total pension funds								**(67,712)**

The characteristics of the main pension funds in place at December 31, 2022 were as follows:

- **Germany**: this is an unfunded defined benefits plan based on final salary. This fund guaranteed a pension in addition to the state pension. The plan was closed in October 1982. Consequently the participants to this plan are employees whose employment had begun prior to that date;
- **USA**: this is a funded defined benefits plan based on final salary, and is administered through a Trust. This fund guaranteed a pension in addition to the state pension. The plan was closed in 2001 and frozen in 2003 for employees who then transferred to a defined contribution scheme. All participants to this plan have since retired;
- **UK**: these are funded defined benefits plans based on salary trends. This fund guarantees a pension in addition to the state pension and is administered through a Trust. These plans, managed by the subsidiary Pirelli Tyres Ltd. were closed in 2001 to new participants and frozen during the course of 2010 for employees hired prior to 2001, who were then offered a transfer to a defined contribution plan. The plan was operated by the subsidiary Pirelli UK Ltd., and included the employees in the Cables and Systems sector which was sold in 2005, and was already frozen in 2005 at the date of the disposal. The surplus recognised at December 31, 2022 relative to provisions still outstanding was equal to the recoverable amount, assuming the gradual extinguishment of the plan liabilities over time. All the participants of the plan are non-active;
- **Sweden**: this a defined benefits plan (ITP2), which is closed to new participants. The only participants are retired employees and the recipients of deferred pensions. It is based on percentages applied to different wage and salary ranges. All the participants of the plan are non-active;
- **Switzerland**: these are funded defined benefit plans that guarantee a pension in addition to the state pension and are open to new employees. They are based on final salary reduced by a fixed amount.

Movements for 2022 in the defined benefits pension funds (refers to funded and unfunded pension funds), were as follows:

(in thousands of euro)

	Present value of gross liabilities	Fair value of plan assets	Impact of minimum funding requirement/ asset ceiling	Total
Opening balance at January 1, 2022	1,420,930	(1,488,642)		(67,712)
Currency translation differences	(38,305)	45,564	4	7,263
Movements through Income Statement:				
- current service costs	1,244	-		1,244
- past service costs	94	-		94
- interest expense / (income)	24,549	(26,529)		(1,980)
	25,887	**(26,529)**	**-**	**(642)**
Remeasurements recognised in equity:				
- actuarial (gains) / losses from change in demographic assumptions	(2,933)	-		(2,933)
- actuarial (gains) / losses from change in financial assumptions	(484,721)	-		(484,721)
- experience adjustment (gains) / losses	50,329	-		50,329
- return on plan assets, net of interest income	-	469,181		469,181
- change in asset ceiling			224	224
	(437,325)	**469,181**	**224**	**32,080**
Employer contributions	-	(20,196)		(20,196)
Employee contributions	567	(567)		-
Benefits paid	(64,824)	59,415		(5,409)
Employer settlement payment	-	-		-
Other	84	4,222		4,306
Closing balance at December 31, 2022	**907,014**	**(957,552)**	**228**	**(50,310)**

Movements for 2021 in the defined benefits pension funds (refers to funded and unfunded pension funds), were as follows:

(in thousands of euro)

	Present value of gross liabilities	Fair value of plan assets	Total
Opening balance at January 1, 2021	1,440,546	(1,372,310)	68,236
Currency translation differences	92,720	(97,026)	(4,306)
Movements through Income Statement:			
- current service costs	1,421	-	1,421
- past service costs	1,417	-	1,417
- interest expense / (income)	19,674	(19,543)	131
	22,512	**(19,543)**	**2,969**
Remeasurements recognised in equity:			
- actuarial (gains) / losses from change in demographic assumptions	41,117	-	41,117
- actuarial (gains) / losses from change in financial assumptions	(4,894)	-	(4,894)
- experience adjustment (gains) / losses	(10,760)	-	(10,760)
- return on plan assets, net of interest income	-	(114,269)	(114,269)
	25,463	**(114,269)**	**(88,806)**
Employer contributions	-	(43,533)	(43,533)
Employee contributions	525	(525)	-
Benefits paid	(74,912)	69,424	(5,488)
Employer settlement payment	(86,048)	86,048	-
Other	124	3,092	3,216
Closing balance at December 31, 2021	**1,420,930**	**(1,488,642)**	**(67,712)**

Current and past service costs are included under *“Personnel Expenses”* (Note 31), and net interest payables are included under *“Financial Expenses”* (Note 37).

The following table shows the **composition of funded pension fund assets:**

(in thousands of euro)

	12/31/2022				12/31/2021			
	listed	unlisted	total	%	listed	unlisted	total	%
Shares	36,903	138,495	175,398	18.3%	50,045	320,610	370,655	24.9%
Bonds	388,683	45,547	434,230	45.3%	426,173	101,428	527,601	35.4%
Insurance policies	2,190	2,967	5,157	0.5%	3,101	4,914	8,015	0.5%
Deposits	194,809	54,340	249,149	26.0%	275,109	34,433	309.542	20.8%
Balanced funds	10,063	43,140	53,203	5.6%	489	192,147	192,636	12.9%
Real Estate	6,498	51,374	57,872	6.0%	-	53,199	53,199	3.6%
Derivatives	(6,990)	(10,468)	(17,458)	-1.7%	(9,640)	32,246	22.606	1.6%
Other	-	-	-	0.0%	4,388	-	4,388	0.3%
Total	**632,156**	**325,395**	**957,551**	**100.0%**	**749,665**	**738,977**	**1,488,642**	**100.0%**

The main risks to which the Group is exposed in relation to the pension funds are detailed as follows:

- volatility of plan assets: in order to be able to balance liabilities, the investment strategy cannot limit its horizons exclusively to risk free assets. This implies that some investments, such as listed securities represent high volatility in the short-term, and this exposes the plans to the risk of short-term declines in asset values and consequently increased imbalances. However, this risk is mitigated by diversifying investments into numerous investment classes, through different investment managers, through different investment styles and with exposures to multiple factors which are not perfectly correlated to each other. Moreover, the investments are continuously revised in response to market conditions, and adjusted in order to maintain the overall risk at acceptable levels;
- changes in bond yields and expected inflation: expectations of falling bond yields and/or rising inflation which leads to an increase in the value of liabilities. The plans reduce this risk through investments in liability hedging assets. In the United Kingdom, the protection guaranteed by a portfolio of this type has been built up over the years, and as of the second quarter of 2014 it had reached a coverage of between 100% and 115% of the value of the liabilities covered by the assets;
- life expectancies: an increase in life expectancies leads to an increase in the value of the plan liabilities. The UK plans completed a process during the course of 2016 that allowed them, through longevity swaps entered into with a pool of insurers, to cover approximately 50% of this risk. However, prudent assumptions are used to assess residual risks and the adequacy of these assumptions is reviewed periodically.

In the UK the management of the plan assets has been delegated, under the supervision and within a precise mandate attributed by the Trustees, to a Fiduciary Manager who operates in accordance with a Liability Driven Investment (LDI) model, that is, using the liability benchmark so as to minimise the volatility (and therefore the risk) of the deficit, which has in fact been reduced to more than one third of the levels which existed prior to its introduction (at the beginning of 2011).

The key parameters of this mandate were as follows:

- an asset mix managed dynamically over time, rather than the allocation of a fixed strategy;
- hedged coverage of approximately 100%-115% of the interest rate and inflation risk - expressed as the percentage of the value of the assets - through the use of debt instruments (government bonds) and derivatives;
- the management of exchange rate risk, with the objective of hedging at least 70% of the exposure to the foreign currencies in the portfolio, through the use of forward contracts.

In the UK, the funding arrangements and funding policies are revised every three years. The next funding evaluation is expected in 2023. In the United States funding evaluations are carried out on an annual basis.

The contributions which are expected to be paid into unfunded pension funds during the 2023 financial year amount to euro 5,345 thousand, while for funded pension funds the amount expected is euro 21,511 thousand.

EMPLOYEES' LEAVING INDEMNITIES (TFR)

Movements for the year in the provision for employees' leaving indemnities were as follows:

(in thousands of euro)

	12/31/2022	12/31/2021
Opening balance	**26,123**	**31,486**
Movements through Income Statement:		
- current service cost	53	52
- interest expense	279	204
Remeasurements recognised in equity:		
- actuarial (gains) / losses arising from changes in financial assumptions	(5,179)	336
- effect of experience adjustments	-	(1,365)
Liquidation/advances	(619)	(4,248)
Other	(593)	(342)
Closing balance	**20,064**	**26,123**

The current service cost, for services rendered by employees, is included in the item *"Personnel Expenses"* (Note 31) and interest payables are included in the item *"Financial Expenses"* (Note 37).

HEALTHCARE PLANS

This item refers exclusively to the healthcare plan in place in the United States.

(in thousands of euro)

	USA
Liabilities recognised in the Financial Statements at 12/31/2022	13,075
Liabilities recognised in the Financial Statements at 12/31/2021	15,597

Movements for the period were as follows:

(in thousands of euro)

	12/31/2022	12/31/2021
Opening balance	**15,597**	**16,026**
Translation differences	1,010	1,262
Movements through Income Statement:		
- current service cost	1	1
- interest expense	405	340
Remeasurements recognised in equity:		
- actuarial / (gains) losses arising from changes in financial assumptions	(2,299)	(415)
- actuarial / (gains) losses arising from changes in demographic assumptions	-	57
- effect of experience adjustments	(680)	(735)
Benefits paid	(959)	(939)
Closing balance	**13,075**	**15,597**

The service cost is included under *"Personnel Expenses"* (Note 31), and interest payables are included under *"Financial Expenses"* (Note 37).

The contributions which are expected to be paid into the healthcare plan during the 2023 financial year amount to euro 1,429 thousand.

ADDITIONAL INFORMATION ON POST-EMPLOYMENT BENEFITS

Net actuarial losses accrued during 2022 and recorded directly in Other Comprehensive Income amounted to euro 27,546 thousand, (net actuarial gains at December 31, 2021 had amounted to euro 91,168 thousand).

The main actuarial assumptions used at **December 31, 2022** were the following:

	Italy	Germany	Sweden	UK	USA	Switzerland
Discount rate	4.05%	4.10%	3.90%	4.95%	5.20%	2.30%
Inflation rate	2.50%	2.25%	1.90%	3.39%	N/A	1.75%

The main actuarial assumptions used at **December 31, 2021** were the following:

	Italy	Germany	Sweden	UK	USA	Switzerland
Discount rate	0.90%	1.00%	1.55%	1.80%	2.55%	0.40%
Inflation rate	1.70%	1.50%	2.25%	3.56%	N/A	0.50%

The following table presents an analysis of the payment deadlines relative to post-employment benefits:

(in thousands of euro)

	within 1 year	1 to 2 years	3 to 5 years	6 to 10 years	Total
Pension funds	61,496	62,139	187,420	319,354	630,409
Employees' leaving indemnities (TFR)	2,067	1,937	5,943	8,594	18,541
Healthcare plans	1,429	1,394	3,935	5,366	12,124
Total	**64,992**	**65,470**	**197,298**	**333,314**	**661,074**

The weighted average duration of post-employment benefit obligations equalled 11.30 years for pension funds (15.23 years at December 31, 2021), 7.38 years for employees' leaving indemnities (8.44 years at December 31, 2021) and 6.84 years for medical assistance plans (8.22 years at December 31, 2021).

The following table shows a sensitivity analysis for the actuarial assumptions of significance at the end of the financial year:

(in %)

	Impact on post employment benefits				
	Change in assumptions	**Increase in assumptions**		**Decrease in assumptions**	
Discount rate	0.25%	decrease of	2.72%	increase of	2.86%
Inflation rate (only UK plans)	0.25%	increase of	2.17%	decrease of	2.19%

At the end of 2021 the situation was as follows:

(in %)

	Impact on post employment benefits				
	Change in assumptions	**Incremento dell'ipotesi**		**Decrease in assumptions**	
Discount rate	0.25%	decrease of	3.72%	increase of	3.87%
Inflation rate (only UK plans)	0.25%	increase of	2.97%	decrease of	2.91%

The sole purpose of the above analysis is to estimate the change in the liability, as the discount rate and the UK inflation rate change in respect of the central assumption for the rates themselves, instead of referring to an alternative set of assumptions.

This sensitivity analysis on the liability for post-employment benefits is based on the same methodology used to calculate the liability recognised in the Financial Statements.

OTHER LONG TERM BENEFITS

The composition of other benefits was as follows:

(in thousands of euro)

	12/31/2022	12/31/2021
Long Term Incentive plans	27,976	52,571
Jubilee awards	16,495	18,650
Leaving indemnities	14,075	9,513
Other long-term benefits	18,702	12,651
Total	**77,248**	**93,385**

The item ***"Long-Term Incentive Plans"*** refers to the amount earmarked for the 2021-2023 and 2022-2024 three-year monetary Long-Term Incentive Plans intended for the Group's management. This decrease in the Long Term Incentive Plans compared to the previous year, was mainly due to the reclassification of the provisions for employee benefit obligations to payables to employees under *"Other payables"* (Note 24) for the portion related to the LTI 2020 - 2022 which will be paid out during the first half-year of 2023.

23. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Borrowings from banks and other financial institutions were as follows:

(in thousands of euro)

	12/31/2022			12/31/2021		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Bonds	713,097	490,452	222,645	1,453,762	1,453,762	-
Borrowings from banks	3,239,972	2,803,122	436,850	3,269,732	1,922,771	1,346,961
Borrowings from other financial institutions	41,382	-	41,382	34,390	-	34,390
Lease liabilities	485,485	396,497	88,988	504,407	412,796	91,611
Accrued financial expenses and deferred financial income	9,384	-	9,384	13,787	-	13,787
Other financial payables	1,180	40	1,140	2,540	40	2,500
Total	**4,490,500**	**3,690,111**	**800,389**	**5,278,618**	**3,789,369**	**1,489,249**

The item **bonds** refers to:

→ the senior unsecured guaranteed equity-linked non-interest-bearing bond loan (*"convertible bond loan"*) with a nominal value of euro 500 million maturing on December 22, 2025. This bond loan, reserved for institutional investors, was issued by Pirelli & C. S.p.A. on December 22, 2020, guaranteed by Pirelli Tyre S.p.A., and admitted for trading on the Vienna MTF, a multilateral trading facility operated by the Vienna Stock Exchange. The bond loan is convertible, at the discretion of the bondholders, into new ordinary shares of the Company at the price of euro 6.1395 per share (originally euro 6.235 per share), subject to further anti-dilutive adjustments as provided for in the loan regulations. At December 31, 2022, the component recorded under financial payables non-current amounted to euro 470.5 million. The difference in the nominal value refers to the fair value of the option held by the subscribers of the loan and their option to convert the bond loan into new ordinary shares of the Company at a predefined price. This value was recognised at inception under equity reserves to the amount of euro 41.2 million;

→ the *"Schuldschein"* loan with a floating interest rate (EURIBOR + spread) for a total nominal amount of euro 243 million, classified in the amount of euro 20 million as non-current financial payables (maturing July

2025), and in the amount of euro 223 million as current financial payables (maturing July 2023). The loan, signed by leading market players, was composed of a euro 423 million tranche with a five-year maturity and a euro 20 million tranche with a seven year maturity. Of the euro 423 million tranche, a portion to the amount of euro 200 million was repaid in advance in January 2022. In December 2022, the Company sent out a notice to the subscribers of Schuldschein loan for the early redemption of the remaining euro 223 million of the five-year tranche, which was fully repaid in January 2023. For the purpose of providing complete information, it should be noted that the loan, placed on July 26, 2018, also included a tranche of euro 82 million with an original maturity date of July 31, 2021, that was repaid in advance in January 2021.

On October 25, 2022, the unrated bond loan for the nominal amount of euro 553 million was repaid in advance at par, as contractually provided for by the Issuer Call Option regulations. This bond loan (originally for euro 600 million which was partially repurchased for the total amount of euro 47 million during the last quarter of 2018), with original maturity in January 2023, was placed on January 22, 2018 with a fixed coupon of 1.375% and a maturity of five years. The loan, placed with international institutional investors, had been issued as part of the EMTN (Euro Medium Term Note) programme approved by the Board of Directors at the end of 2017, signed on January 10, 2018 and updated on December 19, 2018.

The **carrying amount for the item bonds** was determined as follows:

(in thousands of euro)

	12/31/2022	12/31/2021
Nominal value	743,000	1,496,000
Equity component of the convertible bond loan	(41,791)	(41,791)
Transaction costs	(14,957)	(14,957)
Bond loan discount	(2,988)	(2,988)
Amortisation of the effective interest rate	13,433	9,282
Non-monetary interest on convertible bond loan	16,400	8,216
Total	**713,097**	**1,453,762**

The item **borrowings from banks**, which amounted to euro 3,239,972 thousand, is subdivided as follows:

(in thousands of euro)

	12/31/2022					
	Due Date	Interest rate	Notional	Balance	Non- current	Current
Club Deal EUR 1.6bn ESG 2022 5y	02/22/2027	Euribor + spread	600,000	597,635	597,635	-
Club Deal EUR 800m ESG 2020 5y	04/02/2025	Euribor + spread	800,000	797,212	797,212	-
Club Deal EUR 400m ESG 2022 19m	01/29/2024	Euribor + spread	400,000	399,696	399,696	-
Bilateral 600m 2019 5y facility	02/14/2024	Euribor + spread	600,000	598,893	598,893	-
Bilateral 125m 2019 4y facility	08/07/2023	Euribor + spread	125,000	124,925	-	124,925
Bilateral ESG 400m 2021 3y facility	12/27/2024	Euribor + spread	400,000	399,205	399,205	-
Payables to local banks				322,406	10,481	311,925
Total				**3,239,972**	**2,803,122**	**436,850**

It mainly refers to:

→ the use of the unsecured *"Club Deal EUR 1.6bn ESG 2022 5y"* financing by Pirelli & C. S.p.A. to the amount

of euro 597,635 thousand, classified under non-current financial payables. This financing facility, with a floating interest rate (EURIBOR + spread), signed on February 21, 2022, with a pool of leading Italian and international banks and maturing in five years, is composed of three tranches, for a total of euro 1.6 billion distributed as follows:
- a Pirelli & C. S.p.A. term loan with a nominal value of euro 600,000 thousand which was fully drawn, and a revolving cash credit facility for euro 100,000 thousand, which was unused at December 31, 2022;
- a Pirelli International Treasury S.p.A. revolving cash credit facility to the amount of euro 900,000 thousand, which was unused at December 31, 2022.

The financing is guaranteed by Pirelli Tyre S.p.A. This facility, which is geared to the Group's ESG objectives, contributed to the early repayment of the debt, in February 2022 relative to the unsecured financing ("*Facilities*"), to the amount of euro 949,182 thousand as of December 31, 2021 (USD 1,079 million), which had a contractual maturity date of June 2022. The new financing also increased the revolving credit capacity from euro 700,000 thousand for the previous facility, to euro 1 billion for the new revolving credit facility;

- the *"Club Deal EUR 800m ESG 2020 5y"* financing for euro 797,212 thousand relative to the euro 800 million credit facility with a floating interest rate (EURIBOR + spread), guaranteed by Pirelli Tyre S.p:A., signed on March 31, 2020 with a pool of leading Italian and international banks, with a 5 year maturity (classified under non-current financial payables). This bank credit facility consists of a so-called *"sustainable"* tranche of euro 600 million, which is geared towards the Group's financial and environmental sustainability objectives (sustainable KPIs), as well as a so-called *"circular economy"* tranche, which is geared to the Group's circular economy objectives. It should be noted that following the first reporting of the sustainable KPIs, and having achieved the objectives for the year, the Group is benefiting from the relative incentives to reduce the cost of the credit facility for the *"sustainable"* tranche. Accounting for the circular economy tranche is instead expected to occur only in 2023;
- euro 399,696 thousand relative to the euro 400 million *"Club Deal EUR 400m ESG 2022 19m*" financing at a floating rate (EURIBOR + spread), signed on June 27, 2022 with a pool of leading international banks and maturing in 19 months (classified under non-current financial payables). The facility is geared to the objective of reducing absolute greenhouse gas emissions from purchased raw materials (Scope 3) which was validated by the Science Based Target initiative (SBTi) and contained in the first *"Sustainability Linked Financing Framework"* published by Pirelli in May 2022;
- euro 723,818 thousand relative to two bilateral loans granted to Pirelli & C. S.p.A. by leading banks, of which a nominal euro 600 million (the *"Bilateral 600m 2019 5y facility"* financing maturing in February 2024 with a floating rate (EURIBOR + spread), was guaranteed by Pirelli Tyre S.p.A. (classified under non-current financial payables), and euro 125 million (the *"Bilateral 125m 2019 4y facility"* financing) maturing in August 2023 at a floating rate (EURIBOR + spread) was classified under current financial payables. It should be noted that the euro 100 million bilateral loan with original maturity in December 2022, was repaid on December 29, 2022;
- euro 399,205 thousand related to the bilateral financing for a nominal amount of euro 400 million granted in December 2021 to Pirelli & C. S.p.A. by a leading bank (the *"Bilateral ESG 400m 2021 3y facility"* financing), maturing in three years and guaranteed by Pirelli Tyre S.p.A. The loan, which bears a floating rate (EURIBOR + spread), is geared to certain Group sustainability targets and is classified among non-current financial payables;
- euro 219,765 thousand (euro 180,362 thousand at December 31, 2021) relative to loans disbursed in Brazil by local and international banking institutions and entirely classified under borrowings from banks current;
- borrowings from banks and the use of credit facilities in local currency at local level in Russia, (equivalent to euro 42,204 thousand, of which euro 10,481 thousand was classified under borrowings from banks non-current), in China (equivalent to euro 42,505 thousand classified under borrowings from banks current) and in Turkey, (equivalent to euro 7,038 thousand and classified under borrowings from banks current).

At December 31, 2022 the Group had a liquidity margin equal to euro 2,536,628 thousand, composed of euro 1,000,000 thousand in the form of non-utilised committed credit facilities and of euro 1,289,744 thousand in cash and cash equivalents, in addition to financial assets at fair value through the Income Statement to the amount of euro 246,884 thousand. The liquidity margin guarantees coverage for maturities for borrowings from banks and other financial institutions, until the end of the first quarter of 2025.

The item **lease liabilities** represents the financial liabilities relative to leasing contracts. This change compared to the previous financial year, refers to increases in the right of use during the financial year arising from the signing of new contracts and from the remeasurement of existing contracts, which were more than compensated by lease payments.

Non-discounted future payments for lease contracts, for which the exercise of extension options is not considered to be reasonably certain, and which were therefore not included in the item lease liabilities, amounted to euro 126,170 thousand at December 31, 2022 (euro 115,473 thousand at December 31, 2021).

Accrued financial expenses and deferred financial income (euro 9,384 thousand) mainly refers to the accrual of interest matured on bond loans to the amount of euro 2,002 thousand (euro 8,510 thousand at December 31, 2021), and to accrued interest on borrowings from banks to the amount of euro 6,640 thousand (euro 3,618 thousand at December 31, 2021).

The **change in total borrowings from banks and other financial institutions for 2022** is composed as follows:

(in thousands of euro)

Borrowings from banks and other financial institutions at December 31, 2021	**5,278,618**
Bond repayment "EMTN program"	(553,000)
Bond repayment "Schuldschein"	(200,000)
Repayment of unsecured financing (Facilities)	(960,280)
Repayment of bilateral facilities	(100,000)
Transaction cost	(4,477)
Issuance of unsecured "Club Deal EUR 1.6bn ESG 2022 5y" financing.	600,000
Issuance of “Club Deal EUR 400m ESG 2022 19m” financing	400,000
Financial inflows for the local credit facilties of Group companies	327,369
Financial outflows for the local credit facilties of Group companies	(296,052)
Repayment of lease liabilities	(114,513)
Cash changes	**(900,953)**
Amortised cost for the period	16,350
Translation differences and other changes for the period	2,250
Increases in lease liabilities	75,953
Remeasurement and early termination	18,282
Non-cash changes	**112,835**
Borrowings from banks and other financial institutions at December 31, 2022	**4,490,500**

The **change in total borrowings from banks and other financial institutions for 2021** is shown below:

(in thousands of euro)

Borrowings from banks and other financial institutions at December 31, 2020	**5,854,553**
Bond repayment "EMTN program"	(82,000)
Drawdowns of unsecured financing (Facilities)	368,549
Repayments of unsecured financing (Facilities)	(1,337,656)
Issuance of bilateral facilities	500,000
Financial inflows for the local credit facilties of Group companies	30,501
Financial outflows for the local credit facilties of Group companies	(229,791)
Repayment of lease liabilities	(105,355)
Cash changes	**(855,752)**
Amortised cost for the period	26,289
Translation differences and other changes for the period	112,728
Increases in lease liabilities	108,702
Remeasurement and early termination	32,098
Non-cash changes	**279,817**
Borrowings from banks and other financial institutions at December 31, 2021	**5,278,618**

At December 31, 2022 there were no financial payables secured by collateral guarantees (pledges and mortgages).

For current financial payables, it is considered that their carrying amount approximates their relative fair value.

For non-current financial payables, their fair value is shown below, compared with their carrying amount:

(in thousands of euro)

	12/31/2022		**12/31/2021**	
	Carrying amount	***Fair value***	**Carrying amount**	***Fair value***
Bonds	490,452	462,098	1,453,762	1,469,529
Borrowings from banks	2,803,122	2,817,306	1,922,771	1,926,002
Other financial payables	396,537	396,537	412,836	412,836
Total non-current financial payables	**3,690,111**	**3,675,941**	**3,789,369**	**3,808,367**

The fair value of the debt component of the convertible bond of the “*Schuldschein”* loan and of current borrowings from banks, was calculated by discounting each expected debt cash flow at the market swap-rate for the currency and the relevant maturity date, increased by the Group’s credit rating for other debt instruments similar by nature and technical characteristics, which therefore placed it at level 2 of the hierarchy as provided for by IFRS 13 - Fair Value Measurement.

The **apportionment of borrowings from banks and other financial institutions according to the currency of origin for the debt**, was as follows:

(in thousands of euro)

	12/31/2022	12/31/2021
EUR	4,020,618	3,884,307
USD (US Dollar)	256,445	1,159,808
CNY (Chinese Renmimbi)	63,167	75,408
RUR (Russian Rouble)	45,305	68,354
RON (Romanian Leu)	3,112	929
BRL (Brasilian Real)	34,554	31,690
SEK (Swedish Krona)	25,467	23,823
GBP (British Pound Sterling)	21,879	25,091
TRY (Turkish Lira)	8,533	950
JPY (Japanese Yen)	640	1,168
MXN (Mexican Peso)	3,067	465
Other Currencies	7,713	6,625
Total	**4,490,500**	**5,278,618**

At December 31, 2022 interest rate derivatives were outstanding for floating rate debt.

Considering the effects of hedging derivatives, the Group's exposure to changes in interest rates on financial payables, both in terms of the type of interest rate and in terms of the date of the renegotiation of the same (resetting), was subdivided between:

- floating rate payables to the amount of euro 2,941,800 thousand, whose interest rate is subject to a reset during the course of 2023;
- fixed rate payables to the amount of euro 1,487,243 thousand, whose interest rate is not subject to any reset until the natural maturity of the debt to which it refers (euro 589,813 thousand with maturity in the next twelve months and euro 897,430 thousand euro with maturity beyond twelve months).

At December 31, 2022, the cost of year-on-year debt (calculated as the average over the last twelve months) stood at 4.04%, compared to 2.38% at December 31, 2021. This increase reflected in particular the rise in interest rates and costs, which reflected the scarceness of liquidity in the financial markets, for hedging risk in Brazil and Russia. Net of this effect, the average cost of debt would have stood at 3.49%. This increase was partially offset by the reduction in the Parent Company's financial expenses, thanks to the improvement of the contractually provided financial conditions in order to reduce the Group's financial leverage.

In reference to the existence of financial covenants, it should be noted that

(i) the *"Schuldschein"* loan,
(ii) the bilateral euro 600 million credit facility granted to Pirelli & C. S.p.A. during the course of the first quarter of 2019, (the *"Bilateral 600m 2019 5y facility"*),
(iii) the bilateral euro 125 million facility granted to Pirelli & C. S.p.A. during the course of the third quarter of 2019, (the "*Bilateral 125m 2019 4y facility"*) and,
(iv) the *"Club Deal EUR 800m ESG 2020 5y"* financing signed on March 31, 2020,

require the compliance with a maximum ratio between net indebtedness and the gross operating margin (*"Total Net Leverage"*), as reported in the Consolidated Financial Statements of Pirelli & C. S.p.A. The obligation to comply with these financial covenants will cease upon reaching the specified levels of Total Net Leverage identified in the relevant contracts.

For the sake of completeness, it should be noted that the obligation to comply with the financial covenants imposed for the *"Club Deal EUR 1.6bn ESG 2022 5y"* financing and the *"Bilateral ESG 400m 2021 3y facility"* financing, was ceased due to Pirelli & C. being awarded a BBB- credit rating by S&P Global Ratings and Fitch Ratings.

For all of the loans indicated above, any failure to comply with the financial covenant is identified as a default or non-fulfilment event.

Specifically, any such default or non-fulfilment event will have the following consequences, if the lending banks exercise their remedies: (i) for the *"Schuldschein"* loan, individually and independently if requested by each lending bank for its own portion, in the early repayment of the loan only for such portion; (ii) for both the *"Bilateral 600m 2019 5y facility"* financing and the *"Bilateral 125m 2019 4y facility"* financing, if requested by the sole lending bank that granted the financing, the termination of the agreement and early repayment for the full amount disbursed; and (iii) for the *"Club Deal EUR 800m ESG 2020 5y"* financing, only if requested by a number of the lending banks representing at least 50% of the total commitment (or at least 60% if an additional lending bank is added to the current four), the termination of the contract and early repayment of the loan.

It should be noted that at December 31, 2022 no default or non-fulfilment event had occurred.

The *"Club Deal EUR 1.6 bn ESG 2022 5y"* financing, the *"Schuldschein"* loan, the *"Bilateral 600m 2019 5y facility"* financing, the *"Bilateral 125m 2019 4 facility"* financing, the *"Club Deal EUR 800m ESG 2020 5y"* financing and the *"Bilateral ESG 400m 2021 3y facility"* also provide for Negative Pledge clauses and/or other customary provisions whose terms are consistent with market standards for each of the above mentioned types of credit facility.

The other outstanding financial payables at December 31, 2022 were not subject to financial covenants.

24. TRADE PAYABLES

Trade payables were composed as follows:

(in thousands of euro)

	12/31/2022			12/31/2021		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Trade payables	1,867,567	-	1,867,567	1,516,488	-	1,516,488
Bill and notes payable	105,729	-	105,729	109,879	-	109,879
Total	**1,973,296**	**-**	**1,973,296**	**1,626,367**	**-**	**1,626,367**

For trade payables, it is considered that their carrying amount approximates their relative fair value.

The increase in trade payables, compared to the previous financial year, was consistent with the growth of the business. Trade payables represented 29.8% of sales, a slight decrease compared to the previous financial year, due to the combined effect of the high level of investments during the fourth quarter of 2022, and the reduction in raw material inventories during the same period.

25. OTHER PAYABLES

Other payables were as follows:

(in thousands of euro)

	12/31/2022			12/31/2021		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Accrued expenses and deferred income	67,870	42,125	25,745	75,142	45,877	29,265
Tax payables not related to income taxes	93,431	6,539	86,892	82,449	5,410	77,039
Payables to employees	191,312	3,588	187,724	128,810	3,927	124,883
Payables to social security and welfare intitutions	68,203	21,276	46,927	61,345	20,368	40,977
Dividends approved	147	-	147	152	-	152
Contract liabilities	7,977	12	7,965	4,434	12	4,422
Other payables	51,212	1,034	50,178	38,356	891	37,465
Total Other payables	**480,152**	**74,574**	**405,578**	**390,688**	**76,485**	**314,203**

Accrued expenses and deferred income non-current refers to euro 39,566 thousand in capital contributions received for investments made mainly in Romania, whose benefits are recognised in the Income Statement in proportion to the costs for which the contribution was disbursed.

Accrued expenses and deferred income current includes euro 5,812 thousand for various trade initiatives realised in Germany and Brazil, euro 11,614 thousand in government grants and tax incentives received mainly in Italy and Romania and euro 1,116 thousand for insurance costs coverage in some European countries.

The item **tax payables not related to income taxes** is mainly comprised of IVA payables (value added tax) and other indirect taxes, withholding taxes for employees and other taxes not related to income.

The item **payables to employees** mainly includes amounts matured during the period but not yet paid. The increase compared to the previous financial year mainly refers to the STI (Short Term Incentive) and LTI (2020–2022 Long Term Incentive) Plans.

The item **liabilities from contracts with customers** refers to advanced payments received from customers for which the performance obligation has not yet been completed, pursuant to the provisions of IFRS 15.

The item **other payables** (euro 51,212 thousand) mainly includes:

- euro 24,723 thousand in payables to Directors, Auditors and supervisory bodies;
- euro 6,343 thousand for payables for customs duties, import and transport costs;
- euro 5,171 thousand in payables to representatives, agents, professionals and consultants.

26. TAX PAYABLES

Tax payables were for the most part for national and regional income taxes in different countries and amounted to euro 114,884 thousand, (of which euro 12,780 thousand was for non-current payables), compared to euro 145,900 thousand at December 31, 2021, (of which euro 11,512 thousand was for non-current payables). Income tax payables included the assessments made by Management with respect to the possible effects of uncertainty regarding the treatment of income taxes.

27. DERIVATIVE FINANCIAL INSTRUMENTS

The item includes the fair value measurement of derivative instruments. The **details** are as follows:

(in thousands of euro)

	12/31/2022				12/31/2021			
	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Non-current assets	Current assets	Non-current liabilities	Current liabilities
Derivative Financial Instruments not in Hedge Accounting								
Foreign exchange derivatives - commercial positions	-	4,390	-	(4,512)	-	7,713	-	(5,856)
Foreign exchange derivatives - included in net financial position	-	10,923	-	(15,046)	-	9,633	-	(9,353)
Derivative Financial Instruments in Hedge Accounting								
- cash flow hedge:								
Interest rate derivatives - included in net financial position	26,430	3,300	-	-	4,612	-	(3,519)	(979)
Other derivatives - included in net financial position	-	-	-	-	-	29,216	-	-
- net investment hedge								
Foreign exchange derivatives - investment in a foreing operation	-	4,068	-	-	-	-	-	-
	26,430	**22,681**	**-**	**(19,558)**	**4,612**	**46,562**	**(3,519)**	**(16,188)**
Total derivatives included in net financial position	26,430	14,223	-	(15,046)	4,612	38,849	(3,519)	(10,332)

The **composition of the items according to the type of derivative instrument** is as follows:

(in thousands of euro)

	12/31/2022	12/31/2021
Current assets		
Forward foreign exchange contracts - fair value recognised in the Income Statement	15,312	17,346
Interest rate swaps - cash flow hedge	3,300	-
Cross currency interest rate swaps - cash flow hedge	-	29,216
Forward foreign exchange contracts - net investment hedge	4,068	-
Total current assets	**22,681**	**46,562**
Non-current assets		
Interest rate swaps - cash flow hedge	26,430	4,612
Total non-current assets	**26,430**	**4,612**
Current liabilities		
Forward foreign exchange contracts - fair value recognised in the Income Statement	(19,558)	(15,209)
Interest rate swaps - cash flow hedge	-	(979)
Total current liabilities	**(19,558)**	**(16,188)**
Non-current liabilities		
Interest rate swaps - cash flow hedge	-	(3,519)
Total non-current liabilities	**-**	**(3,519)**

DERIVATIVE FINANCIAL INSTRUMENTS NOT IN HEDGE ACCOUNTING The value of **exchange rate derivatives** included in current assets and liabilities corresponds to the fair value measurement of forward currency buy/sell contracts outstanding at the closing date for the period. These are transactions which mirror the commercial and financial transactions of the Group, and for which the hedge accounting option has not been adopted. Their fair value was determined by using the forward exchange rate at the reporting date.

DERIVATIVE FINANCIAL INSTRUMENTS IN HEDGE ACCOUNTING The value of **interest rate derivatives** recognised under non-current assets to the amount of euro 26,430 thousand and under current assets to the amount of euro 3,300 thousand, refers to the fair value of 11 interest rate swaps:

Derivative	Hedged element	Notional amount (Euro million)	Start date	Maturity	
IRS	Term loan in EUR	62.5	August 2019	August 2023	receive floating / pay fixed
IRS	Schuldschein	180.0	July 2020	July 2023	receive floating / pay fixed
IRS	Schuldschein	20.0	July 2020	July 2025	receive floating / pay fixed
IRS fwd start	Term loan in EUR	500.0	February 2023	February 2026	receive floating / pay fixed
Total		**762.5**			

For these derivatives, cash flow hedge accounting was adopted. Hedged items are:

- future interest flows on floating rate liabilities in EUR;
- future interest flows for the *"Schuldschein"* loan (refer to Note 23).

During the first quarter of 2022, the IRS forward start pre-hedge receive floating EURIBOR / pay fixed EURIBOR were closed early. The accumulated positive reserve at the date, amounting to euro 22,079 thousand was not reversed to the Income Statement, in that the hedged future transaction was considered highly probable.
It should be noted that in January 2023, the future transaction took the form of a sustainability-linked bond for a total nominal amount of euro 600 million (reference should be made to the section *"Significant Events Subsequent to the End of the Financial Year"*).

The change in the fair value for the period was positive to the amount of euro 49,827 thousand (euro 17,732 thousand relative to the Interest Rate Swaps in pre-hedge and euro 32,095 thousand relative to other Interest Rate Swaps). This change was entirely suspended in Other Comprehensive Income, while net interest expenses to the amount of euro 2,084 thousand were reversed to the Income Statement under *"Financial Expenses"* (Note 37), correcting the financial expenses recognised on the hedged liability.

A change of +0.5% in the EURIBOR curve, all other conditions being equal, would result in a positive change of euro 5,662 thousand in the equity of the Group, while a change of -0.5% in the same EURIBOR curve, all other conditions being equal, would result in a negative change of euro 5,689 thousand in the equity of the Group. Both amounts are reported net of the tax effect.

Hedging relationships relative to any IRS are considered prospectively effective when the following conditions are met:

- → there exists a financial relationship between the hedging instrument and the hedged item, in that the characteristics of the hedging instrument (the nominal interest rate, the reset of the interest rate and the frequency of interest liquidation), are substantially aligned with those of the hedged item. As a consequence, any changes in the fair value of the hedging instrument regularly offsets that of the hedged item;
- → the effect of credit risk is not predominant within the hedging relationship. Based on the Group's operating policy, derivatives are traded only with financial counterparties with an elevated credit standing, and the credit quality of the outstanding derivatives portfolio is constantly monitored;
- → the designated hedge ratio is aligned with that used for financial risk management purposes and is equal to 100% (1:1).

The ineffectiveness of the hedging relationship is calculated at each reporting date using the Dollar Offset method, which involves comparing any changes in the risk-adjusted fair value of the hedging instrument with changes in the risk-free fair value of the hedged item, by identifying a hypothetical derivative with the same characteristics as the underlying financial liability.

The possible causes of ineffectiveness are as follows:

- → the application of credit risk adjustments only to the hedging instrument but not to the hedged item;
- → the hedged item incorporates a floor that is not reflected in the hedging instrument;
- → the misalignment between the effective contractual conditions of the future transaction and those of the hedging instrument.

With reference to other derivatives in hedge accounting, following the early repayment of the unsecured loan (*"Facilities"*) for USD 1,079 million (refer to Note 23), the pay floating EURIBOR / receive floating LIBOR CCIRS were in part extinguished early, and in part discontinued (current assets to the amount of euro 29,216 thousand at December 31, 2021).

The positive fair value reserve which amounted to euro 4,178 thousand (positive cash flow hedge reserve of euro 2,702 thousand and positive cost of hedging reserve of euro 1,477 thousand) was entirely reversed to the Income Statement:

- → gains of euro 7,302 thousand which offset the net losses on exchange rates recognised on the hedged liability;
- → net interest income to the amount of euro 82 thousand to correct financial expenses recognised on the hedged liability;
- → costs due to ineffectiveness to the amount of euro 3,206 thousand.

For the CCIRS held in the portfolio until their natural maturity (June 2022), hedge accounting was discontinued at the same time as the financing was repaid, and the positive change in their fair value of euro 48,130 million was entirely reversed to the Income Statement. This positive change was offset by a negative change in the fair value of the FX contracts entered into to hedge the CCIRS, for which hedge accounting was not adopted. These effects are included in *"Fair value measurement of exchange rate derivatives"* under *"Financial Expenses.*

For further details reference should be made to Note 37, *"Financial Expenses"*.

The value of **exchange rate derivatives** included under current assets in the amount of euro 4,068 thousand includes the fair value measurement of forward currency sells outstanding at the closing date of the period, entered into in order to mitigate the exposure to risk generated by changes in the fair value of a net investment in a foreign operation (i.e., an equity investment in a Brazilian company, Pirelli Comercial de Pneus Brasil Ltda.) recognised at historical cost and denominated in Brazilian real (BRL). The hedged item is represented by a portion of the equity of the Brazilian subsidiary to the amount of reais 372,556 thousand. The hedging instrument is represented by four FX forward contracts, designated in their entirety as hedging instruments.

The amount recognised in Other Comprehensive Income for the period was a positive euro 4,068 thousand.

The hedging relationship is considered perfectly effective, in that the exposure arising from the foreign currency investment (hedged item) is greater than the notional amount for the derivative instruments (hedging instruments).

28. COMMITMENTS AND RISKS

COMMITMENTS FOR THE PURCHASE OF TANGIBLE AND INTANGIBLE ASSETS

The commitments to purchase property, plant and equipment and intangible assets amounted to euro 166,992 thousand and euro 5,842 thousand respectively and refer mainly to subsidiaries in Romania, Mexico, Italy, Germany, Brazil and China.

COMMITMENTS FOR LEASE CONTRACTS

At December 31, 2022, the total amount for non-discounted future payments for lease contracts not yet in force and against which no financial debt was recognised, equalled euro 9,954 thousand, and mainly refers to a rental contract for a warehouse in Germany.

COMMITMENTS FOR THE PURCHASE OF EQUITY INVESTMENTS/FUND SHARES

These refer to commitments to purchase shares in Equinox Two S.C.A., a private equity company, for a countervalue of up to euro 2,158 thousand maximum.

OTHER RISKS

LITIGATION AGAINST THE COMPANIES OF THE PRYSMIAN GROUP BEFORE THE COURT OF MILAN A case is currently pending before the Court of Milan (resulting from the joining of two separate proceedings - see below) as a result of the decision issued on April 2, 2014 by the European Commission (as confirmed in the final instance by the Court of Justice of the European Union on October 28, 2020), at the conclusion of the antitrust investigation commenced in relation to alleged conduct of restricting competition in the European high voltage electric cables market. The decision had imposed a sanction on Prysmian Cavi e Sistemi S.r.l (*"Prysmian CS"*) as it was directly involved in the cartel, a portion of which (euro 67 million) Pirelli, despite not having been found to be directly involved in the activities of the cartel, had been held to be jointly and severally liable with Prysmian CS, based solely on the application of the so-called parental liability principle, since during part of the period of the infraction, the share capital of Prysmian CS was held, either directly or indirectly by Pirelli.

On December 31, 2020, Pirelli proceeded to pay its share of the aforementioned sanction to the European Commission (corresponding to 50% of the sanction, plus interest), for which it had previously made appropriate provisions.

Pending the outcome of the aforementioned EU Court proceedings, in November 2014, Pirelli brought an action before the Court of Milan in order to obtain an assessment and declaratory judgement of the obligation of Prysmian CS to hold Pirelli harmless and indemnified against any claim relating to the alleged anti-competitive cartel in the energy cables sector, including the sanction imposed by the European Commission.

Prysmian CS filed an appearance in the aforementioned proceedings requesting the dismissal of Pirelli's claims, as well as, by way of a counterclaim, as well as to be held indemnified by Pirelli in relation to the consequences arising from or in any way connected to the Decision of the European Commission. The proceedings had been suspended pending the final ruling of the EU Courts and were resumed by Pirelli on November 30, 2020 following the ruling of the Court of Justice.

In October 2019, Pirelli brought a further action before the Court of Milan against Prysmian CS and Prysmian S.p.A. requesting the assessment and declaratory judgement of Prysmian CS's obligation to indemnify and also hold Pirelli harmless from any charges, expenses, costs and/or damages resulting from claims by private and/or public third parties (including authorities other than the European Commission) relative to, connected with and/or consequential to the facts that were subject to the decision of the European Commission, as well as the consequent order that Prysmian CS reimburse any charges, expenses, costs or damages incurred or suffered by Pirelli.

In these proceedings, Pirelli also requested that Prysmian CS and Prysmian S.p.A. be held liable for certain unlawful conduct connected with the abovementioned anti-competitive cartel and accordingly, that they be ordered to pay compensation for all damages suffered and to be suffered by Pirelli.

Lastly, Pirelli requested the assessment and declaratory judgement on the joint and several liability of Prysmian S.p.A. with Prysmian CS in relation to the amounts that will be paid in this new action and in the action commenced in November 2014, if they should not be satisfied by the latter.

Prysmian CS and Prysmian S.p.A. entered an appearance in the above proceedings in November 2020, seeking the dismissal of Pirelli's claims and, by way of a counter-claim, to be held harmless and indemnified by Pirelli in relation to any consequences arising from claims by private and/or public third parties relating to, connected with and/or consequential to the facts which are the subject of the decision of the European Commission.

In April 2021, the two judgments were joined.

Based on careful analyses supported by authoritative external legal opinions, the assessment of the risk related to the disputes described above is such as to not require the allocation of any specific provision in the Consolidated Financial Statements at December 31, 2022.

OTHER DISPUTES SUBSEQUENT TO THE EUROPEAN COMMISSION DECISION In November, 2015, a number of companies of Prysmian Group served Pirelli with a summons in the action for the compensation of damages brought before the London High Court of Justice against them and other defendants of the Decision of the European Commission of April 2, 2014, by National Grid and Scottish Power, the companies who claim to have been harmed by the cartel. Specifically, the companies of the Prysmian Group have requested that Goldman Sachs and Pirelli, the latter due to its role as Parent Company for part of the period of the cartel, hold them harmless with respect to any obligations to pay damages (as yet unquantifiable) to the National Grid and Scottish Power. As the aforementioned action, brought before the Court of Milan in November 2014, is still pending, Pirelli has challenged the lack of jurisdiction of the London High Court of Justice claiming that, that any decision on the merits must be referred to the Court that had previously heard the case. In April 2016, the High Court of Justice, at the request of Pirelli and the companies in the Prysmian Group, suspended the proceedings until a final judgment was passed that would settle the Italian proceedings already pending.

In April 2019, before the Court of Milan, Terna S.p.A. - Rete Elettrica Nazionale ("Terna") jointly and severally sued Pirelli, three Prysmian Group companies and another company of the aforementioned European Commission decision, in order to obtain compensation for the damage allegedly suffered as a consequence of the anti-competitive conduct, currently quantified by the plaintiff as euro 199.9 million. Pirelli appeared in court contesting Terna's claims, and like the other defendants and against them, filed a counterclaim for damages in the unlikely event that it is held jointly and severally liable for the anti-competitive cartel.

In October 2021, the Judge dismissed from the proceedings, the portion of the litigation consisting of the indemnity cross-claims between Pirelli, on one side, and Prysmian CS and Prysmian S.p.A., on the other, ordering their joinder with the proceedings pending between the two parties before the Court of Milan (see above).

Lastly, also in April 2019, the Electricity & Water Authority of Bahrain, GCC Interconnection Authority, Kuwait Ministry of Electricity and Water and Oman Electricity Transmission Company, served a writ of summons against Pirelli, some of the Prysmian Group companies and other defendants of the aforementioned decision of the European Commission, suing them jointly and severally to obtain compensation for the damages allegedly suffered as a result of the alleged anti-competitive conduct. These proceedings were brought before the Court of Amsterdam, who with its ruling dated November 25, 2020, upheld the objection raised by Pirelli and excluded its own jurisdiction over Pirelli. In February 2021, the plaintiffs appealed against this ruling before the Amsterdam Court of Appeal and the related proceedings are ongoing.

Based on careful analyses supported by authoritative external legal opinions, the assessment of the risk related to the disputes described above is such as to not require the allocation of any specific provision in the Consolidated Financial Statements at December 31, 2022.

TAX DISPUTES

BRAZIL

The subsidiaries Pirelli Pneus Ltda. and Pirelli Comercial de Pneus Brasil Ltda. are involved in certain disputes and tax proceedings. The most significant are described below:

LITIGATION CONCERNING THE IPI TAX RATE APPLICABLE TO SPECIFIC TYPES OF TYRES The subsidiary Pirelli Pneus Ltda. is party to a tax dispute with the Brazilian tax authorities concerning the IPI tax rate (*Imposto sobre Produtos Industrializados* or tax on industrialised products) particularly with reference to the tax rate applicable to the production and importation of tyres for the Sports Utility Vehicle (SUV), vans and other industrial transportation vehicles (such as, for example, trucks). According to statements by the Brazilian tax authorities in the tax assessment notices issued during the course of 2015, 2017 and 2021 the aforementioned tyres should have been subjected to the IPI tax rate for the production and importation of tyres for cars – with an applicable rate of 15% - instead of the 2% rate applied by Pirelli Pneus Ltda., as is required for the production and importation of tyres destined for heavy industrial use vehicles. To date, the dispute is pending before the competent tax commissions. The Group maintains that it has a good chance of winning. This position is also supported by an appraisal prepared by a Brazilian government institution (the INT - *National Institute of Technology*) specifically commissioned by Pirelli Pneus Ltda., who concluded their analysis by comparing the tyres discussed, in light of their similar characteristics, with those used for heavy industrial vehicles.

The risk is estimated at approximately euro 38 million, inclusive of tax, interests and penalties.

The risk of losing the case has not been assessed as probable and, therefore, as a result no liability has been accrued in the Financial Statements for this dispute.

LITIGATION CONCERNING TRANSFER PRICING APPLIED TO SOME INTRA-GROUP TRANSACTIONS Pirelli Pneus Ltda. is involved in a dispute with the Brazilian tax authorities for income tax purposes (*IRPJ - Imposto sobre a renda das pessoas jurídicas*) and social security contributions (*CSLL - Contribuição Social sobre o Lucro Líquido*) due from the company for the 2008, 2011 and 2012 tax periods, deriving from the application of transfer pricing regulations to import transactions with related parties. Based on the notices of the assessment served on the company during the course of 2013, 2015 and 2016, the Brazilian tax authorities are mainly contesting the incorrect application by the company, of the methodology provided for by the administrative practice in force at the time (*IN - Instrução Normativa 243*), for the assessment of transfer prices applied to the importation of goods from related parties. To date, the dispute filed by the company is pending before the competent administrative-judicial courts. The Group maintains that it has a good chance of winning and, in this regard, Pirelli Pneus Ltda. has already obtained a favourable ruling from the administrative court, which has recognised the company's arguments by reducing the amount originally contested by the Brazilian tax authorities.

In light of the above, the risk is estimated at approximately euro 16 million inclusive of taxes, sanctions and interest.

The risk of losing the case has not been assessed as probable and, therefore, as a result no liability has been accrued in the Financial Statements for this dispute.

LITIGATION CONCERNING THE IPI TAX WITH RESPECT TO THE SALE OF TYRES TO THE AUTOMOTIVE SECTOR

Pirelli Pneus Ltda. is also party to a dispute concerning the IPI tax rate, (Imposto sobre Produtos Industrializados or tax on industrialised products), concerning the sale of components to companies operating in the automotive sector. According to the Brazilian tax authorities in a notice of assessment issued in 2013, Pirelli Pneus Ltda. was not entitled to benefit, with reference to its secondary office located in the city of Ibiritè in the Federal State of Minas Gerais, from the IPI exemption provided for by law in the case of sales of particular components to companies operating in the automotive sector. The dispute is under discussion before the competent administrative-judicial courts, however the Group maintains that it has well founded reasons to object to the tax administration's claim.

The risk is estimated at approximately euro 19 million, inclusive of tax, interests and penalties.

The risk of losing the case has not been assessed as probable and, therefore, as a result no liability has been accrued in the Financial Statements for this dispute.

LITIGATION CONCERNING THE TAX IMPACT DERIVING FROM THE SO CALLED "PLANO VERÃO"

Pirelli Pneus Ltda. is involved in a dispute over taxes with the Brazilian tax authorities, which, in the company's opinion, levied more tax than was actually due - for the period from 1989 to 1994 - following the so called *"Plano Verão",* an economic measure introduced by the then Brazilian government, in order to control the hyperinflation that was affecting the country, by freezing prices. However, the difference between the actual and the indexed inflation had the effect of creating significant distortions in the financial statements of companies and ultimately, the amount of taxes paid by them. Pirelli Pneus Ltda. used the actual inflation rate for its financial statement assessments, and, at the same time, initiated legal proceedings to assert its arguments regarding the correct amount of taxes due. During the course of the aforementioned proceedings, Pirelli Pneus Ltda. first adhered to an amnesty for tax disputes in order to settle the dispute in question and, only subsequently, on the basis of a ruling with binding effect *erga omnes* by the Brazilian Supreme Court, did it request the annulment of the effects of the amnesty, to which it had previously adhered.

Proceedings are underway before the competent judicial courts and the risk is estimated to be up to a maximum euro 30 million, inclusive of taxes, interest and sanctions.

The risk of losing the case has not been assessed as probable and, therefore, as a result no liability has been accrued in the Financial Statements for this dispute.

LITIGATION REGARDING THE PIS AND COFINS TAX BASE

Pirelli Pneus Ltda. is party to an important tax dispute regarding federal taxes, namely the PIS - *Programa de Integração Social,* the COFINS tax - *Contribução para Financiamento de Seguridade Social* and the ICMS state value added tax. Specifically, Pirelli Pneus Ltda. is a party to a dispute concerning the methods for calculating the tax base for PIS and COFINS taxes and the right to deduct the ICMS reported on invoices, based on the tax authorities' interpretation provided in the Solução - COSIT Internal Consultation Solution No. 13.

Proceedings are underway before the competent jurisdictions with the risk estimated as being up to a maximum euro 17 million, inclusive of taxes, interest and sanctions.

The risk of losing the case has not been assessed as probable and, therefore, as a result no liability has been accrued in the Financial Statements for this dispute.

LITIGATION CONCERNING "ICMS SUBSTITUICÃO TRIBUTÁRIA" (TAX SUBSTITUTION)

Pirelli Comercial de Pneus Brasil Ltda. has become involved in a new dispute concerning ICMS (*Imposto sobre Circulaçao de Mercadorias e Serviços*) tax credits. According to the claims made in a notice of assessment issued during 2022 by the Brazilian tax authorities for the 2018 and 2019 tax periods, Pirelli Comercial de Pneus Brasil Ltda. used ICMS credits without prior formal approval from the Brazilian tax authorities.

Proceedings are under way before the competent administrative bodies and the risk is estimated at approximately euro 24 million, inclusive of tax, interest and sanctions.

The risk of losing the case has not been assessed as probable and, therefore, as a result no liability has been accrued in the Financial Statements for this dispute.

29. REVENUES FROM SALES AND SERVICES

Revenues from sales and services were as follows:

(in thousands of euro)

	2022	2021
Revenues from the sales of goods	6,426,636	5,192,948
Revenues from services	189,091	138,502
Total	**6,615,727**	**5,331,450**

These revenues refer to contracts with customers.

For further information on the performance of revenues from sales and services, refer to the section *"Group Performance and Results"* in the Directors' Report on Operations which is an integral part of this document.

30. OTHER INCOME

The item is composed as follows:

(in thousands of euro)

	2022	2021
Sales of Industrial products	151,373	145,247
Other income from the Prometeon Group	42,259	40,836
Recoveries and reimbursements	22,488	21,557
Government grants	15,554	13,578
Gains on disposal of property, plant and equipment	2,892	1,794
Rent income	3,501	3,307
Income from subleases of right of use assets	1,042	867
Other income	91,804	76,682
Total	**330,913**	**303,868**

The item **sales of industrial products** mainly refers to revenues generated by the sale of tyres for trucks and agricultural vehicles, purchased mainly from the Prometeon Group, and which are sold by the distribution network controlled by the Pirelli Group.

The item **other income from the Prometeon Group** includes:

- euro 24,023 thousand for the license agreement for the use of the Pirelli trademark;
- euro 10,406 thousand for the license agreement for know-how;
- euro 7,139 thousand for services rendered;
- euro 692 thousand for the sales of raw materials, semi-finished and finished products.

The item **recoveries and reimbursements** includes, in particular:

- tax refunds and customs duty refunds totalling euro 2,381 thousand, received mainly by the Brazilian subsidiary;
- tax refunds totalling euro 6,321 thousand arising from tax concessions obtained in Germany on excise duties on electricity and gas, to the amount of euro 3,003 thousand and customs duty refunds obtained in the

United States, to the amount of euro 2,314 thousand;
- income from the sale of tyres and scrap materials carried out in the United Kingdom for a total of euro 1,246 thousand;
- income from the sale of tyres for testing and the recovery of transport expenses in Germany to the amount of euro 1,744 thousand.

The item **other** includes income related to the sale of goods and services in connection with sports events linked to sponsorship agreements, to the amount of euro 35,382 thousand and royalties from third parties, excluding the Prometeon Group, to the amount of euro 17,539 thousand.

31. PERSONNEL EXPENSES

The item is composed as follows:

(in thousands of euro)

	2022	2021
Wages and salaries	918,164	861,638
Social security and welfare contributions	177,112	165,302
Costs for employee leaving indemnities and similar	11,709	8,627
Costs for defined contribution pension funds	24,602	23,461
Costs for defined benefit pension funds	1,187	2,299
Costs for jubilee awards	10,285	10,495
Costs for defined contribution healthcare plans	2,838	2,847
Other costs	32,712	27,244
Total	**1,178,609**	**1,101,913**

32. DEPRECIATION, AMORTISATION AND IMPAIRMENTS

The item is composed as follows:

(in thousands of euro)

	2022	2021
Amortisation	133,793	129,393
Depreciation (excl. right of use)	314,662	290,877
Depreciation of right of use	95,812	88,408
Impairment of property, plant and equipment and intang.assets (excl. right of use)	21,841	5,711
Impairment of right of use	581	2,803
Total	**566,689**	**517,192**

For the composition of the depreciation of the right of use, reference should be made to Note 9.2, *"Right of Use".*

33. OTHER COSTS

The item is subdivided as follows:

(in thousands of euro)

	2022	2021
Selling costs	485,619	323,545
Purchases of goods for resale	455,936	395,301
Advertising	225,032	207,794
Fluids and energy	278,485	180,815
Warehouse operating costs	72,592	69,281
IT expenses	61,112	55,752
Consultants	57,884	49,076
Maintenance	66,067	57,278
Insurance	34,604	32,471
Leases and rentals	37,271	31,073
Outsourcing	38,148	41,495
Stamp duties, levies and local taxes	40,475	28,944
Other provisions accruals for liabilities and charges	47,103	40,675
Travel expenses	30,857	20,721
Remuneration for Key Managers	29,068	28,194
Cleaning expenses	18,009	16,174
Canteen	20,994	18,228
Security expenses	11,837	10,950
Waste disposal	11,263	9,887
Telephone expenses	5,397	5,232
Other	181,035	147,632
Total	**2,208,788**	**1,770,518**

The total increase in this item is broadly consistent with that of revenues, as well as with the general increase in prices, and is mainly reflected in the items *"selling costs"*, *"purchases of goods for resale"* and *"fluids and energy"*.

The item **fluids and energy** includes the cost of purchasing greenhouse gas emission allowances and renewable energy certificates.

The item **leases and rentals** is composed as follows:

- euro 17,357 thousand for lease contracts with a duration of less than twelve months (euro 13,935 thousand for 2021);
- euro 12,911 thousand for lease contracts with variable payments not based on an index or a rate (euro 10,411 thousand at December 31, 2021);
- euro 7,003 thousand for lease contracts for assets with a low unit value (euro 6,727 thousand at December 31, 2021).

The item **other** also includes, labour provided by third parties to the amount of euro 28,453 thousand, (euro 25,648 thousand for 2021), expenses for the testing of technology to the amount of euro 18,039 thousand (euro 17,780 thousand for 2021), and transport costs for materials to the amount of euro 19,623 thousand (euro 16,816 thousand in 2021).

34. NET IMPAIRMENT OF FINANCIAL ASSETS

This item which was positive to the amount of euro 4,075 thousand, compared to a loss of euro 7,950 thousand for 2021, mainly includes the restatement, net of impairment for the year, of impairment losses recognised in previous financial years for trade receivables to the amount of euro 5,185 thousand (a net impairment of euro 7,906 thousand for 2021).

35. RESULT FROM INVESTMENTS

35.1 NET INCOME/(LOSS) FROM EQUITY INVESTMENTS

The share of the net income/(loss) from equity investments in associates and joint ventures, which is evaluated using the equity method, was positive to the amount of euro 2,920 thousand and mainly refers to the investment in the joint venture Xushen Tyre (Shanghai) Co., Ltd. which was positive to the amount of euro 2,308 thousand (a loss of euro 68 thousand for 2021), and in the joint venture PT Evoluzione Tyres in Indonesia, which was positive to the amount of euro 422 thousand (a net income of euro 1,049 thousand for 2021).

35.2 DIVIDENDS

For 2022, dividends amounted to euro 3,051 thousand, and mainly included dividends received from the RCS MediaGroup S.p.A. (euro 1,482 thousand) and from Fin. Priv. S.r.l. (euro 1,471 thousand). For 2021, dividends had amounted to euro 2,274 thousand.

36. FINANCIAL INCOME

The item is composed as follows:

(in thousands of euro)

	2022	2021
Interest income	38,686	21,453
Other financial income	3,725	1,767
Net interest on provision for employee benefit obligations	848	-
Fair value measurement of other financial assets	58,728	11,499
Fair value measurement of other derivatives	-	281
Total	**101,987**	**35,000**

Interest income which totalled euro 38,686 thousand, mainly included:

- euro 17,400 thousand in interest receivables from financial institutions, associates and joint ventures;
- euro 9,334 thousand in interest on fixed-income securities;
- euro 3,496 thousand in interest on other types of securities;
- euro 4,659 thousand in interest on CCIRS for which hedge accounting was discontinued;
- euro 2,926 thousand in interest accrued on security deposits provided by the Brazilian subsidiaries as a guarantee for legal and tax disputes.

The item **other financial income** amounted to euro 3,725 thousand and includes interest matured on tax credits by the Brazilian subsidiaries.

The **fair value measurement of other financial assets** was positive to the amount of euro 58,728 thousand and refers to the fair value measurement of dollar-linked bond instruments in which the Argentine subsidiary has invested in order to mitigate the effects of depreciation on the local currency. The exchange rate component of the fair value valuation of dollar-linked bond instruments amounted to euro 43,472 thousand, and partially offset the combined effect of euro 47,179 thousand comprised on the one hand, of the Argentine net monetary loss of euro 24,819 thousand and on the other hand, of the effect of the Argentine subsidiary's net losses on exchange rates which amounted to euro 22,360 thousand. Reference should be made to Note 37, *"Financial Expenses"* for further details.

37. FINANCIAL EXPENSES

The item is composed as follows:

(in thousands of euro)

	2022	2021
Interest expenses	103,671	102,764
Commissions	18,304	12,601
Net monetary loss	22,250	15,024
Other financial expenses	12,202	6,297
Interest expenses on lease liabilities	21,461	19,529
Net losses on exchange rates	15,834	2,339
Net interest on provisions for employee benefit obligations	-	1,241
Fair value measurement of exchange rate derivatives	109,515	19,486
Fair value measurements of other derivatives	446	-
Total	**303,683**	**179,281**

Interest expenses which totalled euro 103,671 thousand included:

- euro 36,662 thousand for bank credit facilities held by Pirelli & C. S.p.A.;
- euro 21,707 thousand in financial expenses relative to bond loans, of which euro 8,381 thousand is relative to non-monetary interest on the convertible bond loan, euro 9,510 thousand is relative to the unrated bond loan, and euro 3,816 thousand is relative to the "Schuldschein" loans, all of which were issued by Pirelli & C. S.p.A.;
- euro 2,002 thousand in net interest payables which includes interest on Cross Currency Interest Rate Swaps and Interest Rate Swaps, for which hedge accounting has been adopted, to rectify the flow of financial expenses for the bank credit facilities and bond loans mentioned in the preceding points. For further details reference should be made to Note 27, "Derivative Financial Instruments";
- euro 3,117 thousand in net interest payables on Cross Currency Interest Rate Swaps for which hedge accounting has been discontinued;
- euro 23,698 thousand in financial expenses related to bank loans held by foreign subsidiaries.

The item **commissions** includes, in particular, euro 5,203 thousand in costs for the assignment of receivables with non-recourse clauses, mainly in South America, Italy and Germany and euro 13,101 thousand relative to expenses for sureties and other bank commissions.

The item **net monetary loss** refers to the effect on monetary items deriving from the application of IAS 29 - Financial Reporting in Hyperinflationary Economies, by the Argentine subsidiary Pirelli Neumaticos SAIC to the amount of euro 24,819 thousand and by the Turkish subsidiaries Pirelli Otomobil Lastikleri A.S. and Pirelli Lastikleri Dis Ticaret A.S., to the positive amount of euro 2,569 thousand (reference should be made to Note 41 for further details).

The item **net losses on exchange rates** which amounted to euro 15,834 thousand (gains amounted to euro 770,793 thousand and losses amounted to euro 786,627 thousand) refers to, the adjustment of period-end exchange rates for items expressed in currencies other than the functional currency and still outstanding at the closing date of the Consolidated Financial Statements, and to the net gains realised on items closed during the course of the period. It also includes income to the amount of euro 7,302 thousand relative to the exchange rate component of the fair value valuation of the cross currency interest rate swaps, for which cash flow hedge accounting was adopted, to offset the losses on exchange rates recorded on the hedged liability.

The item **fair value measurement of exchange rate derivatives** refers to forward foreign exchange buy/sell transactions to hedge commercial and financial transactions, in accordance with the Group's exchange rate risk management policy. For transactions still open at period-end, the fair value is determined by applying the forward exchange rate at the reporting date. The measurement at fair value is composed of two elements: the interest component, which is tied to the interest rate differential between the currencies covered by the individual hedges, equal to a net cost of euro 88,167 thousand (an increase of euro 69,788 thousand compared to previous year, mainly due to the increased interest rate differential in Russia and Brazil), and the exchange rate component, equal to a net loss of euro 21,348 thousand.

When comparing the net losses on exchange rates of euro 15,834 thousand, recognised on receivables and payables in currencies other than the functional currency in the various subsidiaries, with the fair value measurement of the exchange rate component of exchange rate derivatives used for hedging, which amounted to a net cost of euro 21,348 thousand, the result is a negative difference of euro 37,182 thousand. This imbalance was partially offset by the positive measurement at fair value of the other financial assets of the Argentine subsidiary Pirelli Neumaticos SAIC, to the amount of euro 22,360 thousand. Reference should be made to Note 36, *"Financial Income"* for further details. Net of the aforementioned Argentine effect, therefore, the imbalance would be a negative euro 14,822 thousand.

The exchange rate component of the fair value measurement of the cross currency interest rate swaps, for which cash flow hedge accounting was adopted, was positive to the amount of euro 7,302 thousand, and was classified under the item net gains on exchange rates, to offset the losses on exchange rates recorded on the hedged liability (refer to Note 36, *"Financial Income"'').*

38. TAXES

Taxes were composed as follows:

(in thousands of euro)

	2022	2021
Current taxes	182,193	143,910
Deferred taxes	(22,459)	(28,752)
Total	**159,734**	**115,158**

Taxes in 2022 amounted to euro 159.734 thousand against a net income before tax of euro 595,634 thousand, compared to the amount of euro 115,158 thousand in 2021 against a net income before tax of euro 436,751 thousand. The tax rate for 2022 stood at 26.8% compared to 26.4% for 2021.

The reconciliation between theoretical and effective taxes is as follows:

(in thousands of euro)

	2022	2021
A) Net income/(loss) before taxes	**595,634**	**436,751**
B) Theoretical taxes	**159,463**	**112,279**
Main causes for changes between estimated and effective taxes:		
Taxes incentives	(21,035)	(18,008)
Non-deductible costs	16,082	15,913
Non-recoverable withholding taxes	(569)	2,282
Other	5,793	2,692
C) Effective taxes	**159,734**	**115,158**
Theoretical tax rate (B/A)	26.8%	25.7%
Effective tax rate (C/A)	26.8%	26.4%

The negative impact on the tax rate resulting from non-deductible costs and from other items, was substantially offset by tax incentives.

The Group's theoretical tax burden is calculated by taking into account the nominal tax rates of the countries where the Group's main companies operate, as shown below:

	2022	2021
Europe and Turkey		
Italy	27.90%	27.90%
Germany	30.00%	30.00%
Romania	16.00%	16.00%
Great Britain	19.00%	19.00%
Turkey	23.00%	25.00%
Russia, Nordics and MEAI		
Russia	20.00%	20.00%
North America		
USA	25.00%	25.00%
Mexico	30.00%	30.00%
South America		
Argentina	35.00%	35.00%
Brazil	34.00%	34.00%
APAC		
China	25.00%	25.00%

The following table shows the incidence of taxes paid during the financial year, which amounted to euro 205,455 thousand (euro 125,633 thousand in 2021), by geographic region:

- 36% Europe and Turkey (29% in 2021);
- 24% APAC (30% in 2021);
- 14% Russia , Nordics and MEAI (7% in 2021)
- 13% South America (22% in 2021);
- 13% North America (12% in 2021).

Taxes paid refers to the total amount of income taxes effectively paid during the tax period by the companies of the Group in their respective jurisdictions of tax residence, to income tax advances paid in 2022, to income taxes paid during the course of 2022 but relative to previous financial years (e.g.; income tax balances relative to 2021), or payments relative to tax assessments for previous financial years. Taxes paid also include withholding taxes incurred on cross-border payments such as dividends, interest and royalties which have been reported in the jurisdiction of the percipient's tax residence.

39. EARNINGS/(LOSSES) PER SHARE

Basic earnings/(loss) per share are calculated by dividing the earnings/(losses) attributable to the Group by the weighted average number of ordinary shares outstanding during the financial year, excluding treasury shares.

(in thousands of euro)

	2022	2021
Net income/(loss) attributable to the Parent Company	417,760	302,796
Weighted average number of ordinary shares outstanding (in thousands)	1,000,000	1,000,000
Earnings /(losses) per ordinary share (in euro per share)	**0.418**	**0.303**

It should be noted that basic and diluted earnings/(losses) per share are the same. It should also be noted that the option to convert the shares of the bond loan has no dilutive effect, as the average market price of the shares was lower than the exercise price of the option itself during 2022.

40. DIVIDENDS PER SHARE

During the course of 2022, Pirelli & C. S.p.A. distributed to its shareholders, from the 2021 results, a unit dividend of euro 0.161 per ordinary share equal to a total dividend pay-out of euro 161 million before withholding taxes.

41. HYPERINFLATION

Based on the provisions of the Group's accounting standards, hyperinflation accounting was adopted by the Argentine subsidiaries, Pirelli Neumaticos SAIC and Latam Servicios Industriales SA as of July 1, 2018 and December 15, 2022 respectively and by the Turkish subsidiaries Pirelli Otomobil Lastikleri A.S. and Pirelli Lastikleri Dis Ticaret A.S., as of June 30, 2022.

For the Argentine companies, the price index used for the application of hyperinflation accounting was the National Consumer Price Index (CPI) published by the National Institute of Statistics and Census (INDEC), equal to an official annual value of 94.75%.

For the Turkish companies, the price index used was the National Consumer Price Index (TUFE) published by the Turkish Statistical Institute (TUIK), equal to an official annual value of 64.27%.

Net losses on the net monetary position were recorded in the Income Statement as *"Financial Expenses"* (Note 37), to the amount of euro 22,250 thousand.

42. NON-RECURRING EVENTS

During the course of 2002, there were no non-recurring events and transactions pursuant to CONSOB Notice No. DEM/6064293 of 28 July 2006. Information on the impact on the financial results for the 2021 financial year is show below:

(in millions of euro)

	2022	2021
Personnel expenses:		
- UK pension fund buy-out	-	*(2.5)*
Impact on operating income	**-**	**(2.5)**
Impact on net income/(loss) before taxes	**-**	**(2.5)**
Taxes:		
- Tax receivables Brazil	-	*23.2*
Impact on net income/(loss)	**-**	**20.7**

43. RELATED PARTY TRANSACTIONS

Related party transactions, including intra-group transactions, do not qualify as either atypical or unusual, but are part of the ordinary course of business for companies of the Group. Such transactions, when not settled under standard conditions, or dictated by specific regulatory conditions, are in any case regulated by conditions consistent with those of the market and carried out in compliance with the provisions contained in the Procedure for Related Party Transactions which the Company has adopted.

The following table summarises the items from the Statement of Financial Position, the Income Statement and the Cash Flow Statement that include related party transactions and their relative impact.

STATEMENT OF FINANCIAL POSITION

(in millions of euro)

	12/31/2022	of which related parties	% incidence	12/31/2021	of which related parties	% incidence
Non current assets						
Other receivables	**231.2**	6.9	3.0%	**362.9**	6.7	1.8%
Current assets						
Trade receivables	**636.4**	11.0	1.7%	**659.2**	19.5	3.0%
Other receivables	**741.2**	111.3	15.0%	**470.6**	105.9	22.5%
Non-current liabilities						
Borrowings from banks and other financial institutions	**3,690.1**	10.4	0.3%	**3,789.4**	13.2	0.3%
Other payables	**74.6**	0.2	0.3%	**76.5**	0.2	0.3%
Provisions for liabilities and charges	**101.7**	21.8	21.5%	**81.2**	22.0	27.1%
Provisions for employee benefit obligations	**180.6**	6.7	3.7%	**220.6**	7.2	3.2%
Current liabilities						
Borrowings from banks and other financial institutions	**800.4**	3.0	0.4%	**1,489.2**	2.8	0.2%
Trade payables	**1,973.3**	166.4	8.4%	**1,626.4**	144.1	8.9%
Other payables	**405.6**	37.4	9.2%	**314.2**	13.4	4.3%

INCOME STATEMENT

(in millions of euro)

	2022	of which related parties	% incidence	2021	of which related parties	% incidence
Revenue from sales and services	**6,615.7**	45.0	0.7%	**5,331.5**	23.7	0.4%
Other income	**330.9**	63.6	19.2%	**303.9**	56.3	18.5%
Raw materials and consumables used (net of changes in inventories)	**(2,419.3)**	(17.6)	0.7%	**(1,820.6)**	(3.6)	0.2%
Personnel expenses	**(1,178.6)**	(15.2)	1.3%	**(1,101.9)**	(23.1)	2.1%
Other costs	**(2,208.8)**	(340.9)	15.4%	**(1,770.5)**	(312.5)	17.6%
Financial income	**102.0**	3.5	3.4%	**35.0**	3.7	10.4%
Financial expenses	**(303.7)**	(1.8)	0.6%	**(179.3)**	(1.5)	0.8%
Net income / (loss) from equity investments	**5.8**	2.9	n.a.	**4.0**	1.7	n.a.

CASH FLOW

(in millions of euro)

	2022	of which related parties	% incidence	2021	of which related parties	% incidence
Net cash flow operating activities:						
Change in Trade receivables	**37.4**	8.9	n.a.	**(51.4)**	(6.4)	n.a.
Change in Trade payables	**272.8**	16.3	n.a.	**214.5**	19.5	n.a.
Change in Other receivables	**(50.5)**	(7.4)	n.a.	**23.7**	(1.2)	n.a.
Change in Other payables	**27.9**	(2.6)	n.a.	**(59.1)**	(5.2)	n.a.
Uses of Provisions for employee benefit obligations	**(89.5)**	-	n.a.	**(48.8)**	(3.0)	n.a.
Net cash flow investing activities:						
Change in Financial receivables from associates and J.V.	**(0.2)**	(0.3)	n.a.	**15.3**	15.3	n.a.
Net cash flow financing activities:						
Repayment of principal and payment of interest for lease obligations	**(114.5)**	(0.9)	n.a.,	**(105.4)**	(3.8)	n.a.

The types of Related Party Transactions are detailed below:

STATEMENT OF FINANCIAL POSITION

(in millions of euro)

	12/31/2022			12/31/2021		
	Associates and joint ventures	Other related parties	Remuneration for Directors and Key Managers	Associates and joint ventures	Other related parties	Remuneration for Directors and Key Managers
Other non-current receivables	6.9	-	-	6.7	-	-
of which financial	*6.9*	-	-	*6.7*	-	-
Trade receivables	9.2	1.8	-	14.7	4.8	-
Other current receivables	87.0	24.3	-	92.4	13.5	-
of which financial	*79.0*	-	-	*81.4*	-	-
Borrowings from banks and other financial institutions non-current	10.4	-	-	13.0	0.2	-
Other non-current payables	-	-	0.2	-	-	0.2
Provisions for liabilities and charges non-current	-	-	21.8	-	-	22.0
Provisions for employee benefit obligations non-current	-	-	6.7	-	-	7.2
Borrowings from banks and other financial institutions current	2.3	0.7	-	2.3	0.5	-
Trade payables	34.0	132.4	-	26.9	117.2	-
Other current payables	-	0.8	36.6	-	1.5	11.9

INCOME STATEMENT

(in millions of euro)

	2022			2021		
	Associates and joint ventures	Other related parties	Remuneration for Directors and Key Managers	Associates and joint ventures	Other related parties	Remuneration for Directors and Key Managers
Revenues from sales and services	42.2	2.8	-	20.9	2.8	-
Other income	14.3	49.3	-	8.4	47.9	-
Raw materials and consumables used (net of change in inventories)	(2.4)	(15.2)	-	(1.1)	(2.5)	-
Personnel expenses	-	-	(15.2)	-	-	(23.1)
Other costs	(163.0)	(148.7)	(29.1)	(137.5)	(146.8)	(28.2)
Financial income	3.4	0.1	-	3.7	-	-
Financial expenses	(0.3)	(1.5)	-	(0.4)	(1.1)	-
Net income/ (loss) from equity investments	2.9	-	-	1.7	-	-

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

TRANSACTIONS - STATEMENT OF FINANCIAL POSITION The item **other non-current receivables** refers to a loan granted by Pirelli Tyre S.p.A. to the Indonesian joint venture PT Evoluzione Tyres.

The item **trade receivables** includes receivables for services rendered mainly to the Chinese joint venture Jining Shenzhou Tyre Co., Ltd.

The item **other current receivables** mainly refers to:

→ receivables for the royalties of Pirelli Tyre S.p.A. from PT Evoluzione Tyres and Jining Shenzhou Tyre Co., Ltd. to the amount of euro 1.4 million and euro 1.9 million each respectively;
→ receivables for the sale of raw materials from Jining Shenzhou Tyre Co., Ltd. to the amount of euro 2.6 million;
→ service fee receivables of the Pirelli Tyre Co., Ltd. from the Jining Shenzhou Tyre Co., Ltd. to the amount of euro 1.2 million.

The financial portion refers to a loan granted by Pirelli Tyre Co., Ltd. to the Jining Shenzhou Tyre Co., Ltd.

The item **borrowings from banks and other financial institutions non-current** refers to the payables of the company Pirelli Deutschland GmbH to Industriekraftwerk Breuberg GmbH for machinery hire and the payables of Pirelli Tyre Co., Ltd. to the Jining Shenzhou Tyre Co., Ltd.

The item **borrowings from banks and other financial institutions current** refers to a portion of the aforementioned short-term debt.

The item **trade payables** mainly refers to payables for the purchase of energy from Industriekraftwerk Breuberg GmbH to the amount of euro 25.9 million and payables to the Jining Shenzhou Tyre Co., Ltd. to the amount of euro 4.6 million.

TRANSACTIONS - INCOME STATEMENT The item **revenues from sales and services** mainly refers to the sales of materials and semi-finished products to the Jining Shenzhou Tyre Co., Ltd. to the amount of euro 41.5 million.

The item **other income** refers to royalties to the amount of euro 7.1 million and the charge-back of expenses to the amount of euro 5.8 million.

The item **other costs** mainly refers to costs for:

- the purchase of tyres from Jining Shenzhou Tyre Co., Ltd. to the amount of euro 65.6 million;
- the purchase of Motorcycle products from PT Evoluzione Tyres to the amount of euro 52.6 million;
- the purchase of energy and the hiring of machines from Industriekraftwerk Breuberg GmbH to the amount of euro 27,7 million.

The item **financial income** refers to interest on loans disbursed to the two joint ventures.

OTHER RELATED-PARTY TRANSACTIONS

The transactions detailed below refer mainly to transactions with the Aeolus Tyre Co., Ltd. and to transactions with the Prometeon Group, both of which are subject to the control of the direct Parent company or indirect Parent companies of Pirelli & C. S.p.A.

TRANSACTIONS - STATEMENT OF FINANCIAL POSITION

The item **trade receivables** refers to receivables from companies of the Prometeon Group.

The item **other current receivables** refers to receivables from companies of the Prometeon Group to the amount of euro 19 million and from the Aeolus Tyre Co., Ltd. to the amount of euro 6.2 million mainly for royalties.

The item **borrowings from banks and other financial institutions current** refers to payable of Pirelli Otomobil Lastikleri A.S. for machine hire from Prometeon Turkey Endüstriyel ve Ticari Lastikler A.S.

The item **trade payables** mainly refers to payables to companies of the Prometeon Group.

TRANSACTIONS - INCOME STATEMENT The item **other income** includes royalties charged to the Aeolus Tyre Co., Ltd. to the amount of euro 7 million per year. The item also includes income from companies of the Prometeon Group mainly relative to:

- royalties recorded in respect of the license agreement for the use of the Pirelli trademark to the amount of euro 24 million;
- the sales of raw materials, finished and semi-finished products for a total amount of euro 0.7 million;
- the licence agreement for know-how charged by Pirelli Tyre S.p.A. to the amount of euro 10.4 million;
- the Long Term Service Agreement to the amount of euro 2.6 million of which euro 2.1 million was earned by Pirelli Sistemi Informativi;
- logistics services for a total amount of euro 2.9 million of which euro 0.8 million was carried out by Pirelli Sistemi Informativi S.r.l. and 0.7 million was carried out by the Spanish company Pirelli Neumaticos S.A. - Sociedad Unipersonal.

The item **raw and consumable materials used** refers to costs payable to companies of the Prometeon Group for the purchase of direct materials/consumables/compounds, of which euro 2 million were costs of the Brazilian company Pirelli Pneus Ltda.

The item **other costs** includes contributions to the Hangar Bicocca Foundation and the Pirelli Foundation to the amount of euro 0.7 million, and costs payable to companies of the Prometeon Group mainly for:

- the purchase of truck products for a total amount of euro 95.5 million of which euro 88.8 million was carried out by the Brazilian company Comercial e Importadora de Pneus Ltda. and subsequently resold to retail customers, and euro 5 million by the German company Driver Reifen und KFZ-Technik GmbH;
- the purchase of Car/Motorcycle and semi-finished products for a total amount of euro 40.3 million of which euro 40.1 million was carried out by the Turkish company, Pirelli Otomobil Latikleri A.S. in respect of the Off-Take contract;
- costs incurred by Pirelli Otomobil Lastikleri A.S. for the purchase of energy amounting to euro 3.5 million.

The item **financial expenses** refers to the aforesaid interest relative to machine hire.

REMUNERATION FOR DIRECTORS AND KEY MANAGERS

Remuneration for Directors and Key Managers can be summarised as follows:

- the Statement of Financial Position items **provisions for liabilities and charges non-current** and **provisions for employee benefit obligations non-current**, include provisions for the monetary three-year 2021-2023 and 2022-2024 Long Term Incentive Plans to the amount of euro 8.6 million (euro 18.9 million at December 31, 2021), provisions for the Short Term Incentive Plan to the amount of euro 5.9 million (euro 3.1 million at December 31, 2021), as well as severance indemnities to the amount of euro 14.2 million (euro 7.2 million at December 31, 2021);
- the Statement of Financial Position item **other current payables** includes the short-term portion relative to the Short Term Incentive Plan and payables for the 2020-2022 Long Term Incentive Plan;
- the items **personnel expenses** and **other costs** include euro 6.1 million relative to employees' leaving indemnities (TFR) and severance indemnities (euro 5.9 million for 2021), as well as provisions for short-term benefits to the amount of euro 14.2 million (euro 14.6 million for 2021) and for long-term benefits, to the amount of euro 12.5 million (euro 14.7 million for 2021).

44. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

On **January 11, 2023**, Pirelli placed its first sustainability-linked bond with investors for a total nominal amount of euro 600 million, with demand equal to almost six times the offer, which amounted to approximately euro 3.5 billion. The issue of the first benchmark-size sustainability-linked bond of this type placed by a global tyre company, as well as the first carried out since

Pirelli obtained its investment grade rating from S&P Global and Fitch Ratings, testifies to the Company's commitment to further integrate sustainability into its business strategy, and is linked to the 2025 targets of reducing absolute greenhouse gas emissions (Scopes 1 and 2) and emissions from purchased raw materials (Scope 3). The transaction, which took place within the framework of the EMTN Programme (Euro Medium Term Note Programme) which was approved by the Board of Directors on February 23, 2022, offers an effective yield at maturity of 4.317% (145 basis points above the mid swap), and allows for the optimisation of the debt structure, by extending maturities and diversifying sources. These securities are listed on the Luxembourg Stock Exchange.

On **February 7, 2023** Pirelli was confirmed as amongst the best companies at global level for sustainability obtaining *"Top 1%"* ranking, the highest recognition in the 2023 Sustainability Yearbook published by S&P Global, after examining the sustainability profile of more than 13,000 companies. This result follows the score recorded by Pirelli in the 2022 Corporate Sustainability Assessment for the Dow Jones Sustainability Index of S&P Global, where the Company had obtained the Top Score of 86 points (revised from the initial 85), the highest in the ATX Auto Components sector of the Dow Jones Sustainability World and European Index.

On **February 14, 2023**, Pirelli announced that Bai Xinping had resigned as a Director of the Company, effective as of February 22, 2023, following the assumption of new professional responsibilities within the Sinochem Group. Bai Xinping has received Pirelli's sincere thanks for his contribution during more than seven years in office. On **February 22, 2023**, the Board of Directors co-opted Wang Feng to replace Bai Xinping, and also proceeded to appoint him as a member of the Remuneration Committee, the Nominations and Successions Committee and the Strategies Committee, roles previously held by Bai Xinping.

Wang Feng – who was qualified by the Board as a non-executive Director – and will remain in office until the next Shareholders' Meeting, does not possess the requisites to qualify as independent pursuant to the Corporate Governance Code, and at the date of the appointment did not hold shares and/or other financial instruments issued by Pirelli.

On **February 22, 2023**, Pirelli announced that the shareholder CNRC had announced that it will submit the notification required by Legislative Decree 21/2012 (the Golden Power Regulation) regarding the renewal of the Shareholders' Agreement signed on May 16, 2022 by and between, amongst others, the CNRC, Marco Polo International S.r.l., Camfin S.p.A. and Marco Tronchetti Provera & C. S.p.A., which will become effective with the convening of the Shareholders' Meeting for the approval of the Financial Statements at December 31, 2022.

45. OTHER INFORMATION

INFORMATION ON CLIMATE CHANGE

The Sustainability Plan at 2025 and at 2030 is fully integrated into the Company's Industrial Plan. The targets of the Plan are designed to be aligned with the materiality of the Company's impacts on the economy, the environment, society and human rights and in support of the United Nations 2030 agenda for Sustainable Development Goals.

The Plan addresses the risks relative to climate change, by forecasting targets and performances at the level of:

- **production processes**, in terms of reducing absolute CO_2 emissions, by increasing the share of electricity from renewable sources and increasing efficiency in the use of natural resources;
- **products**, through the evolution of the ranges of products, with a lower environmental impact throughout their respective life cycles, which at the same time ensure greater driving safety;
- **raw materials**, in terms of increasing the proportion of recycled and renewable materials used in new product lines;
- the **supply chain,** by monitoring and reducing absolute CO_2 emissions that are associated, particularly, with raw materials suppliers.

The achievement of these objectives foresees specific measures that include:

- the purchase of certificates of origin for electrical energy, that is, documents that certify the renewable origin of the energy sources used, which are recorded under other costs;
- investment projects for new products and for increased energy efficiency, which had already begun in 2021, and which were therefore included in the increases to property, plant and equipment. With reference to investments for new products, it should be noted that the assets currently in use for tyre production do not need to be replaced but will be subject to improvements. With regard to projects to achieve energy efficiency, mainly improvements and the purchase of additional components to existing assets are planned. Therefore, it should be noted that these investments do not impact the measurement of the useful lives of the fixed assets currently in use and the recoverability of their carrying amount at December 31, 2022;
- research and development costs for the development of new products and operating costs for improving energy efficiency. During 2022 the new IP Code labelled tyres placed on the market by Pirelli worldwide, with parameters consistent with the highest ratings (A or B) in European labelling for rolling resistance, (an environmental aspect with an indirect impact on vehicle CO_2 emissions), equalled 50% of the total.

With regard to the impact on the financial structure, it should be noted that at December 31, 2022, financing geared to sustainability indexes accounted for almost 55% of the Group's total gross debt (excluding lease liabilities). Specifically, *"sustainable"* bank facilities amounted to euro 3.2 billion, of which euro 2.2 billion resulted as used at December 31, 2022, and euro 1.0 billion was available in the form of a committed revolving credit facility. For further information, reference should be made to Note 23, *"Borrowings from Banks and Other Financial Institutions"*.

With regard to risks linked to climate change, Pirelli monitors these elements of uncertainty along its value chain through sensitivity analyses and risk assessments, to assess and quantify the financial impacts (risks and opportunities) linked to climate change and water stress, and to put in place appropriate prevention and mitigation measures to protect its business. One instrument to support these analyses is the Group's Climate Change and Water Stress Risk Assessment, which is updated bi-annually to integrate these analyses with forecasts for the medium to long-term time frame, with respect to the Intergovernmental Panel on Climate Change (IPPC) climate scenarios, which represent a projection of global temperature increases at the end of the century of between 1.5°C (RCP2. 6) and >4°C (RCP8.5) and International Energy Agency (IEA) projections for energy transition (Stated Policies Scenario (STEPS), Announced Pledges Scenario (APS) and Net Zero by 2050 (NZE)).

Pirelli carries out, on a regular basis, a risk analysis on climate change and water stress, assessing both physical (acute and chronic) and transitional elements of uncertainty.

As regards the physical risks, the potential impacts are projected over a time frame up to 2050, with respect to the different climate scenarios of the Intergovernmental Panel on Climate Change, by assessing the potential number of business interruption days both for the Pirelli production plants and along the supply chain. In terms of potential criticalities, assessed according to the Enterprise Risk Management scale, there were no significant impacts in the short-medium term (2023-2030), while elements of uncertainty persist on the 2050 timescale. Instead, as far as transition risks are concerned, the Group assessed, amongst other things, the introduction and/or tightening of current CO_2 emission pricing schemes in the countries in which it operates. The possible impacts, linked to an increase in production costs, were estimated based on the different CO_2 emissions price developments arising from both the forecasts published by the IEA for the STEPS, APS, NZE scenarios and the three possible carbon intensity pathways of the Group. No material impact emerged with regard to the short (2023) and medium-term, while there were elements of uncertainty with regard to the long-term (>2030), especially if the NZE and APS scenarios were to occur.

At December 31, 2022, no risks of probable losses had emerged that would require specific provisions to be accrued in the Financial Statements.

With reference to the impact of climate-change on the impairment testing of goodwill and of assets with an indefinite useful life (Brand), reference should be made to Note 10, *"Intangible Assets"*.

With regard to the declarations of a non-financial nature and in particular to risks related to climate change, as well as to sustainable development goals and to the main international commitments for sustainability, reference should be made to the relevant sections of the Directors' Report on Operations and the Report on Responsible Value Chain Management, particularly the section *"Adherence to the Task Force on Climate-related Financial Disclosure (TCFD)"* in this Annual Report, and to Pirelli's public responses to the CDP Climate Change 2022 questionnaire.

ACTIVITIES IN RUSSIA

As already announced with the publication of the results of the first quarter of 2022 on May 10, 2022, Pirelli has suspended investments in its factories in Russia, with the exception of those intended for the safety of carrying out operations. In 2022, Russia accounted for 4% of turnover and for 11% of total capacity.

In compliance with **international sanctions** imposed by the EU, which include a ban on imports of Russian finished products into the EU and a ban on the export of some raw materials to Russia, starting from the second half-year of 2022 Pirelli has:

- geared **production** towards the domestic market;
- identified **alternative sources for import/export** streams, with the gradual activation of sourcing supplies of finished products from Turkey and Romania, to replace Russian exports to European markets and the use of mainly local suppliers of raw materials to replace European suppliers;
- diversified its logistics **service providers** in order to ensure the continuity of supplies of finished products and raw materials;
- guaranteed its financial support through local banks.

At December 31, 2022, the Statement of Financial Position of the sub-consolidated entity which aggregates the subsidiaries situated in Russia was mainly composed of:
- non-current assets to the amount of euro 186.0 million (euro 178.0 million at December 31, 2021), of which euro 174.1 million was related to property, plant and equipment and intangible assets (euro 169.3 million at December 31, 2021);
- inventories to the amount of euro 54.0 million;
- trade receivables and other receivables to the amount of euro 65.1 million, of which euro 2.9 million were from other Group companies;
- tax receivables to the amount of euro 11.2 million;
- cash and cash equivalents to the amount of euro 11.1 million;
- borrowings from banks and other financial institutions to the amount of euro 98.3 million which included payables to the Group to the amount of euro 52.8 million;
- trade payables and other payables to the amount of euro 68.9 million, of which euro 8.5 million was to other companies of the Group.

At the date of this document, guarantees had been issued by Pirelli Tyre S.p.A. for the financial and trade payables of the Russian subsidiaries to third parties and other companies of the Group.

Total equity amounted to euro 144.5 million, of which euro 93.9 million was attributable to the Parent Company and euro 50.6 million attributable to non-controlling interests.

Revenues for 2022 from net sales on the Russian market amounted to euro 262.4 million, with an operating income adjusted to the amount of euro 59.3 million.

RESEARCH AND DEVELOPMENT EXPENSES

Research & Development expenses for 2022 amounted to euro 264 million and represented 4% of sales, and refer to expenses for product and process innovation, as well as for the development of new materials. The portion allocated to research and development for High Value activities amounted to euro 247 million and equalled 5.3% of High Value revenues. For further details, reference should be made to the section *"Research and Development Activities"* in the Directors' Report on Operations, which is an integral part of this document.

REMUNERATION FOR DIRECTORS AND STATUTORY AUDITORS

The remuneration paid to the Directors and Statutory Auditors was as follows:

(in thousands of euro)

	2022	2021
Directors	29,068	28,194
Statutory Auditors	390	377
Total	**29,458**	**28,571**

EMPLOYEES - AVERAGE HEADCOUNTS

The average headcounts for employees, sub-divided by category, for the companies included in the scope of consolidation were as follows:

	2022	2021
Executives and white collar staff	6,025	5,934
Blue collar staff	23,465	23,221
Temporary workers	1,724	1,488
Total	**31,214**	**30,643**

REMUNERATION FOR INDEPENDENT AUDITING FIRMS

Pursuant to the applicable regulations, total fees for the 2022 financial year for auditing and non-audit services rendered by the company PricewaterhouseCoopers S.p.A. and by entities belonging to its network, are shown below:

(in thousands of euro)

	Company that provided the service	Company that received the service	Partial fees	Total fees	
Independent auditing services	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	89		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	1,500		
	Network PricewaterhouseCoopers	Subsidiaries	1,457	**3,046**	*85%*
Independent certification services (1)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	212		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	152		
	Network PricewaterhouseCoopers	Subsidiaries	33	**397**	*11%*
Independent services other than auditing	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	140		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	-		
	Network PricewaterhouseCoopers	Subsidiaries	-	**140**	*4%*
				3,583	*100%*

(1) the item "Independent certification services" indicates the amounts paid for other services that require the issuance of an auditor's report, as well as the amounts paid for the so-called certification services, as they are concomitant with the statutory auditing services.

INFORMATION REQUIRED BY LAW NO. 124/2017 ART. 1 PARAGRAPHS 125-129

It should be noted that during the course of the financial year, that the company Pirelli Tyre S.p.A. has:

- received approximately euro 1.5 million for the agreement signed during the 2019 financial year with MiSE (the Ministry of Economic Development, now the Ministry for Enterprises and Made in Italy), to subsidise three Research and Development projects, for up to a maximum of euro 6.3 million in total;
- obtained a concession decree from MiSE granting a subsidy for a Research and Development project in the field of Digital Solutions for up to a maximum of euro 2.6 million;
- obtained, within the framework of the PNRR (National Recovery and Resilience Plan), a concession decree from the MUR (Ministry of Universities and Research), granting a subsidy for Research and Development activities in connection to the *"National Centre for Sustainable Mobility – MOST"* initiative, for up to a maximum of euro 1.2 million;
- obtained eligibility, under the Framework for State Aid – COVID-19 (Artt. 54 - 61 of the Relaunch Decree, as amended by Art. 62 of Legislative Decree 104/2020), for subsidies for 14 applications, for an overall total of approximately euro 102 thousand in non-repayable grants.

For the purpose of providing complete information, it should be noted that during the 2018 financial year, Pirelli Tyre S.p.A. received from M.I.U.R. - *Ministero dell'Istruzione, dell'Università e della Ricerca* (the Ministry of Education, Universities and Research) - a subsidised loan to the amount of euro 5,305 thousand with a duration of 5 years and an interest rate of 0.50% per annum, granted as an incentive to carry out a Research and Development project for the advancement of innovative materials in the tyre manufacturing process.

Pirelli & C. S.p.A. instead obtained, again within the PNRR framework, a concession decree from MUR (the Ministry of Universities and Research), granting a subsidy for Research and Development activities as part of the Innovation Ecosystem, *"MUSA - Multilayered Urban Sustainability Action"* initiative for up to a maximum of euro 0.4 million.

ATYPICAL AND/OR UNUSUAL OPERATIONS

Pursuant to CONSOB Notice No. 6064293 of July 28, 2006, it should be noted that during the course of the 2022 financial year, that no atypical and/or unusual transactions as defined in the aforesaid Notice, were carried out by the Company.

EXCHANGE RATES

The main exchange rates used for consolidation were as follows:

(local currency vs euro)

	Period-end Exchanges Rates		Change in %	Average Exchange Rates		Change in %
	12/31/2022	12/31/2021		2022	2021	
Swedish Krona	**11.1283**	10.2269	8.81%	**10.6326**	10.1449	4.81%
Australian Dollar	**1.5693**	1.5615	0.50%	**1.5167**	1.5749	(3.70%)
Canadian Dollar	**1.4440**	1.4393	0.33%	**1.3695**	1.4826	(7.63%)
Singaporean Dollar	**1.4300**	1.5279	(6.41%)	**1.4512**	1.5891	(8.68%)
US Dollar	**1.0666**	1.1326	(5.83%)	**1.0531**	1.1827	(10.97%)
Taiwan Dollar	**32.7766**	31.3436	4.57%	**31.4352**	33.0389	(4.85%)
Swiss Franc	**0.9847**	1.0331	(4.68%)	**1.0047**	1.0812	(7.07%)
Egyptian Pound	**26.4357**	17.8708	47.93%	**20.3224**	18.6428	9.01%
Turkish Lira	**19.9349**	14.6823	35.78%	**19.9349**	10.4698	90.40%
Romanian Leu	**4.9474**	4.9481	(0.01%)	**4.9313**	4.9208	0.21%
Argentinian Peso	**188.9589**	116.3407	62.42%	**188.9589**	116.3407	62.42%
Mexican Peso	**20.7073**	23.3129	(11.18%)	**21.1915**	23.9812	(11.63%)
South African Rand	**18.0986**	18.0625	0.20%	**17.2086**	17.4766	(1.53%)
Brazilian Real	**5.5694**	6.3210	(11.89%)	**5.4468**	6.3782	(14.60%)
Chinese Renminbi	**7.4284**	7.2211	2.87%	**7.0829**	7.6305	(7.18%)
Russian Rouble	**75.6553**	84.0695	(10.01%)	**71.4929**	87.0941	(17.91%)
British Pound Sterling	**0.8869**	0.8403	5.55%	**0.8528**	0.8596	(0.80%)
Japanese Yen	**140.6600**	130.3800	7.88%	**138.0274**	129.8767	6.28%

NET FINANCIAL POSITION

(Alternative Performance Indicator not provided for by the accounting standards).

(in thousands of euro)

	Note	12/31/2022		12/31/2021	
			of which related parties (note 43)		of which related parties (note 43)
Current borrowings from banks and other financial institutions	**23**	800,389	*2,979*	1,489,249	*2,751*
Current derivative financial instruments (liabilities)	**27**	15,046		10,331	
Non-current borrowings from banks and other financial institutions	**23**	3,690,111	*10,444*	3,789,369	*13,210*
Non-current derivative financial instruments (liabilities)	**27**	-		3,519	
Total gross debt		**4,505,546**		**5,292,468**	
Cash and cash equivalents	**19**	(1,289,744)		(1,884,649)	
Other financial assets at fair value through Income Statement	**18**	(246,884)		(113,901)	
Current financial receivables**	**15**	(270,916)	*(79,024)*	(81,819)	*(81,402)*
Current derivative financial instruments (assets)	**27**	(14,223)		(38,849)	
Net financial debt *		**2,683,779**		**3,173,250**	
Non-current derivative financial instruments (assets)	**27**	(26,430)		(4,612)	
Non-current financial receivables**	**15**	(104,767)	*(6,926)*	(261,522)	*(6,664)*
Total net financial (liquidity) / debt position		**2,552,582**		**2,907,116**	

* Pursuant to CONSOB Notice of July 28, 2006 and in compliance with the ESMA guidelines regarding disclosure requirements pursuant to the Prospectus Regulation applicable from May 05, 2021.
** The item "*financial receivables*" is reported net of the relative provisions for impairment which amounted to euro 10,545 thousand at December 31, 2022 (euro 9,315 thousand at December 31, 2021).

Net financial debt is summarised below based on the format provided by the ESMA guidelines:

(in thousands of euro)

	12/31/2022	12/31/2021
Cash and cash equivalents	(1,289,744)	(1,884,649)
Other current financial assets	(532,023)	(234,569)
of which Current financial receivables	*(270,916)*	*(81,819)*
of which Current derivative financial instruments (assets)	*(14,223)*	*(38,849)*
of which Other financial assets at fair value through Income Statement	*(246,884)*	*(113,901)*
Liquidity	**(1,821,767)**	**(2,119,218)**
Current borrowings from banks and other financial institutions	800,389	1,489,249
Current derivative financial instruments (liabilities)	15,046	10,331
Current financial debt	**815,435**	**1,499,580**
Current net financial debt	**(1,006,332)**	**(619,638)**
Non-current borrowings from banks and other financial institutions	3,690,111	3,789,369
Non-current derivative financial instruments (liabilities)	-	3,519
Non current financial debt	**3,690,111**	**3,792,888**
Net financial debt *	**2,683,779**	**3,173,250**

* Pursuant to CONSOB Notice of July 28, 2006 and in compliance with the ESMA guidelines regarding disclosure requirements pursuant to the Prospectus Regulation applicable from May 5, 2021.

SCOPE OF CONSOLIDATION

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Headquarters	Currency	Share Capital	% holding	Held by
Europe						
Austria						
Pirelli GmbH	Agent	Wien	Euro	726,728	100.00%	Pirelli Tyre (Suisse) S.A.
Belgium						
Pirelli Tyres Belux S.A.	Agent	Brussels	Euro	700,000	99.996%	Pirelli Tyre (Suisse) S.A.
					0.004%	Pneus Pirelli S.A.S.
France						
Pneus Pirelli S.A.S.	Distributor	Villepinte	Euro	1,515,858	100.00%	Pirelli Tyre S.p.A.
Germany						
Deutsche Pirelli Reifen Holding GmbH	Holding	Breuberg / Odenwald	Euro	7,694,943	100.00%	Pirelli Tyre S.p.A.
Driver Handelssysteme GmbH	Service provider	Breuberg / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Deutschland GmbH	Manufacturer and distributor	Breuberg / Odenwald	Euro	23,959,100	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Personal Service GmbH	Service provider	Breuberg / Odenwald	Euro	25,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
PK Grundstuecksverwaltungs GmbH	Dormant	Hoechst / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Driver Reifen und KFZ-Technik GmbH (ex Pneumobil Reifen und KFZ-Technik GmbH)	Distribution chain	Breuberg / Odenwald	Euro	259,225	100.00%	Deutsche Pirelli Reifen Holding GmbH
Greece						
Elastika Pirelli C.S.A.	Distributor	Elliniko-Argyroupoli	Euro	11,630,000	99.90%	Pirelli Tyre S.p.A.
					0.10%	Pirelli Tyre (Suisse) S.A.
Pirelli Hellas S.A. (in liquidation)	Under liquidation	Athens	US $	22,050,000	79.86%	Pirelli Tyre S.p.A.
The Experts in Wheels - Driver Hellas C. S.A.	Service provider	Elliniko-Argyroupoli	Euro	100,000	73.20%	Elastika Pirelli C.S.A.

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Headquarters	Currency	Share Capital	% holding	Held by
Italy						
Driver Italia S.p.A.	Service provider	Milan	Euro	350,000	71.21%	Pirelli Tyre S.p.A.
Driver Servizi Retail S.p.A.	Service provider	Milan	Euro	120,000	100.00%	Pirelli Tyre S.p.A.
HB Servizi S.r.l.	Service provider	Milan	Euro	10,000	100.00%	Pirelli & C. S.p.A.
Maristel S.r.l.	Service provider	Milan	Euro	50,000	100.00%	Pirelli & C. S.p.A.
NewCo Micromobility S.r.l.	Service provider	Milan	Euro	10,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Digital Solutions S.r.l.	Service provider	Milan	Euro	500,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Industrie Pneumatici S.r.l.	Manufacturer	Settimo Torinese (To)	Euro	40,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli International Treasury S.p.A.	Financial	Milan	Euro	125,000,000	70.00%	Pirelli Tyre S.p.A.
					30.00%	Pirelli & C. S.p.A.
Pirelli Servizi Amministrazione e Tesoreria S.p.A.	Service provider	Milan	Euro	2,047,000	100.00%	Pirelli & C. S.p.A.
Pirelli Sistemi Informativi S.r.l.	Service provider	Milan	Euro	1,010,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre S.p.A.	Principal	Milan	Euro	558,154,000	100.00%	Pirelli & C. S.p.A.
Poliambulatorio Bicocca S.r.l.	Service provider	Milan	Euro	10,000	100.00%	Pirelli Tyre S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Service provider	Milan	Euro	104,000	90.35%	Pirelli & C. S.p.A.
					2.95%	Pirelli Tyre S.p.A.
					0.95%	Poliambulatorio Bicocca S.r.l.
					0.98%	Pirelli International Treasury S.p.A.
					0.95%	Driver Italia S.p.A.
					0.98%	Pirelli Industrie Pneumatici S.r.l.
					0.95%	Pirelli Servizi Amministrazione e Tesoreria S.p.A.
					0.95%	Pirelli Sistemi Informativi S.r.l.
					0.95%	HB Servizi S.r.l.
The Netherlands						
Pirelli China Tyre N.V.	Holding	Rotterdam	Euro	38,045,000	100.00%	Pirelli Tyre S.p.A.
Poland						
Driver Polska Sp. z o.o.	Service provider	Warsaw	Pol. Zloty	100,000	68.50%	Pirelli Polska Sp. z o.o.
Pirelli Polska Sp. z o.o.	Distributor	Warsaw	Pol. Zloty	625,771	100.00%	Pirelli Tyre S.p.A.

Company	Business	Headquarters	Currency	Share Capital	% holding	Held by
United Kingdom						
CTC 2008 Ltd.	Dormant	Burton-on-Trent	British Pound Sterling	100,000	100.00%	Pirelli UK Tyres Ltd.
Pirelli Cif Trustees Ltd.	Trustees	Burton-on-Trent	British Pound Sterling	4	25.00%	Pirelli General Executive Pension Trustees Ltd.
					25.00%	Pirelli General & Overseas Pension Trustees Ltd.
					25.00%	Pirelli Tyres Executive Pension Trustees Ltd.
					25.00%	Pirelli Tyres Pension Trustees Ltd.
Pirelli International Limited (ex Pirelli International plc)	Dormant	Burton-on-Trent	Euro	5,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Motorsport Services Ltd.	Service provider	Burton-on-Trent	British Pound Sterling	1	100.00%	Pirelli UK Ltd.
Pirelli General Executive Pension Trustees Ltd.	Trustees	Burton-on-Trent	British Pound Sterling	1	100.00%	Pirelli UK Ltd.
Pirelli General & Overseas Pension Trustees Ltd.	Trustees	Burton-on-Trent	British Pound Sterling	1	100.00%	Pirelli UK Ltd.
Pirelli Tyres Executive Pension Trustees Ltd.	Trustees	Burton-on-Trent	British Pound Sterling	1	100.00%	Pirelli Tyres Ltd.
Pirelli Tyres Ltd.	Dormant	Burton-on-Trent	British Pound Sterling	16,000,000	100.00%	Pirelli UK Tyres Ltd.
Pirelli Tyres Pension Trustees Ltd.	Trustees	Burton-on-Trent	British Pound Sterling	1	100.00%	Pirelli Tyres Ltd.
Pirelli UK Ltd.	Holding	Burton-on-Trent	British Pound Sterling	163,991,278	100.00%	Pirelli & C. S.p.A.
Pirelli UK Tyres Ltd.	Manufacturer and distributor	Burton-on-Trent	British Pound Sterling	85,000,000	100.00%	Pirelli Tyre S.p.A.
Slovakia						
Pirelli Slovakia S.R.O.	Distributor	Bratislava	Euro	6,639	100.00%	Pirelli Tyre S.p.A.
Romania						
Pirelli & C. Eco Technology RO S.r.l.	Service provider	Slatina	Rom. Leu	20,002,000	99.995%	Pirelli Tyre S.p.A.
					0.005%	Pirelli Tyres Romania S.r.l.
Pirelli Tyres Romania S.r.l.	Manufacturer and distributor	Slatina	Rom. Leu	2,189,797,300	100.00%	Pirelli Tyre S.p.A.
Russia						
Closed Joint Stock Company “Voronezh Tyre Plant”	Manufacturer	Voronezh	Russian Rouble	1,520,000,000	100.00%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company Pirelli Tyre Services	Service provider	Moscow	Russian Rouble	54,685,259	95.00%	Pirelli Tyre (Suisse) S.A.
					5.00%	Pirelli Tyre S.p.A.
Limited Liability Company “Industrial Complex “Kirov Tyre”	Manufacturer	Kirov	Russian Rouble	348,423,221	100.00%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company Pirelli Tyre Russia	Manufacturer and distributor	Moscow	Russian Rouble	6,153,846	65.00%	Pirelli Tyre (Pty) Ltd.

Company	Business	Headquarters	Currency	Share Capital	% holding	Held by
Spain						
Euro Driver Car S.L.	Service provider	Valencia	Euro	960,000	58.44%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Neumaticos Arco Iris, S.A.	Service provider	Valencia	Euro	302,303	66.20%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Pirelli Neumaticos S.A. - Sociedad Unipersonal	Distributor	Valencia	Euro	25,075,907	100.00%	Pirelli Tyre S.p.A.
Sweden						
Dackia Aktiebolag	Distribution chain	Stockholm	Swed. Krona	31,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyre Nordic Aktiebolag	Distributor	Stockholm	Swed. Krona	950,000	100.00%	Pirelli Tyre S.p.A.
Switzerland						
Driver (Suisse) S.A.	Service provider	Bioggio	Swiss Franc	100,000	100.00%	Pirelli Tyre (Suisse) S.A.
Pirelli Group Reinsurance Company S.A.	Group reinsurance	Basel	Swiss Franc	3,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre (Suisse) S.A.	Distributor / Distribution chain	Basel	Swiss Franc	1,000,000	100.00%	Pirelli Tyre S.p.A.
Turkey						
Pirelli Lastikleri Dis Ticaret A.S.	Service provider	Istanbul	Turkish Lira	50,000	100.00%	Pirelli Otomobil Lastikleri A.S.
Pirelli Otomobil Lastikleri A.S.	Manufacturer and distributor	Istanbul	Turkish Lira	190,000,000	100.00%	Pirelli Tyre S.p.A.
Hungary						
Pirelli Hungary Tyre Trading and Services Ltd.	Distributor	Budapest	Hun. Forint	3,000,000	100.00%	Pirelli Tyre S.p.A.
North America						
Canada						
Pirelli Tire Inc.	Agent	St-Laurent (Quebec)	Can. $	6,000,000	100.00%	Pirelli Tyre (Suisse) S.A.
U.S.A.						
Pirelli North America Inc.	Holding	New York (New York)	US $	10	100.00%	Pirelli Tyre S.p.A.
Pirelli Tire LLC	Manufacturer and distributor	Rome (Georgia)	US $	1	100.00%	Pirelli North America Inc.
Prestige Stores LLC	Dormant	Los Angeles (California)	US $	10	100.00%	Pirelli Tire LLC

Company	Business	Headquarters	Currency	Share Capital	% holding	Held by
Central/South America						
Argentina						
Pirelli Neumaticos S.A.I.C.	Manufacturer and distributor	Buenos Aires	Arg. Peso	2,948,055,176	99.83%	Pirelli Tyre S.p.A.
					0.17%	Pirelli Pneus Ltda.
Latam Servicios Industriales S.A.	Service provider	Buenos Aires	Arg. Peso	100,000	95.00%	Pirelli Neumaticos S.A.I.C.
					5.00%	Pirelli Pneus Ltda.
Brazil						
Comercial e Importadora de Pneus Ltda..	Distribution chain	Sao Paulo	Bra. Real	381,473,982	100.00%	Pirelli Comercial de Pneus Brasil Ltda.
Pirelli Comercial de Pneus Brasil Ltda.	Distributor	Sao Paulo	Bra. Real	1,149,296,303	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda.
Pirelli Latam Participaçoes Ltda.	Holding	Sao Paulo	Bra. Real	470,635,252	100.00%	Pirelli Tyre S.p.A.
Pirelli Ltda.	Service provider	Santo Andrè	Bra. Real	14,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Pneus Ltda.	Manufacturer and distributor	Campinas (Sao Paulo)	Bra. Real	1,983,585,394	85.03%	Pirelli Tyre S.p.A.
					14.97%	Pirelli Latam Participaçoes Ltda.
Comércio e Importação Multimarcas de Pneus Ltda.	Dormant	Sao Paulo	Bra. Real	3,691,500	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda.
C.P.Complexo Automotivo de Testes, Eventos e Entretenimento Ltda.	Service provider	Elias Fausto (Sao Paulo)	Bra. Real	89,812,000	60.00%	Pirelli Pneus Ltda.
					40.00%	Pirelli Comercial de Pneus Brasil Ltda.
TLM - Total Logistic Management Serviços de Logistica Ltda.	Service provider	Santo Andrè	Bra. Real	3,074,417	99.99%	Pirelli Pneus Ltda.
					0.01%	Pirelli Ltda.
Chile						
Pirelli Neumaticos Chile Ltda.	Distributor	Santiago	US $	3,520,000	85.25%	Pirelli Comercial de Pneus Brasil Ltda.
					14.73%	Pirelli Latam Participaçoes Ltda.
					0.02%	Pirelli Ltda.
Colombia						
Pirelli Tyre Colombia S.A.S.	Distributor	Santa Fe De Bogota	Col. Peso/000	1,863,222,000	85.00%	Pirelli Comercial de Pneus Brasil Ltda.
					15.00%	Pirelli Latam Participaçoes Ltda.
Mexico						
Pirelli Neumaticos S.A. de C.V.	Manufacturer and distributor	Silao	Mex. Peso	11,595,773,848	99.83%	Pirelli Tyre S.p.A.
					0.17%	Pirelli Latam Participaçoes Ltda.

Company	Business	Headquarters	Currency	Share Capital	% holding	Held by
Africa						
Egypt						
Pirelli Egypt Tyre Trading S.A.E.	Holding	Giza	Egy. Pound	84,250,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Egypt Consumer Tyre Distribution S.A.E.	Distributor	Giza	Egy. Pound	89,000,000	99.89%	Pirelli Egypt Tyre Trading S.A.E.
					0.06%	Pirelli Tyre S.p.A.
					0.06%	Pirelli Tyre (Suisse) S.A.
South Africa						
Pirelli Tyre (Pty) Ltd.	Distributor	Gauteng 2090	S.A. Rand	9	100.00%	Pirelli Tyre S.p.A.
E-VOLUTION Tyre South Africa (PTY) Ltd.	Holding	Gauteng 2090	S.A. Rand	100	100.00%	Pirelli Tyre (Pty) Ltd.
Oceania						
Australia						
Pirelli Tyres Australia Pty Ltd.	Distributor	Pyrmont (NSW)	Aus. $	150,000	100.00%	Pirelli Tyre (Suisse) S.A.
Asia						
China						
Pirelli Logistics (Yanzhou) Co., Ltd.	Service provider	Jining	Chinese Yuan	5,000,000	100.00%	Pirelli Tyre Co., Ltd.
Pirelli Taiwan Co., Ltd. (in liquidation)	Agent	New Taipei City	N.T. $	10,000,000	100.00%	Pirelli Tyre (Suisse) S.A.
Pirelli Trading (Beijing) Co., Ltd.	Service provider	Beijing	Chinese Yuan	4,200,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyre (Jiaozuo) Co., Ltd.	Manufacturer	Jiaozuo	Chinese Yuan	350,000,000	80.00%	Pirelli Tyre S.p.A.
Pirelli Tyre Co., Ltd.	Manufacturer and distributor	Yanzhou	Chinese Yuan	2,471,150,000	90.00%	Pirelli China Tyre N.V.
Pirelli Tyre Trading (Shanghai) Co., Ltd.	Service provider	Shanghai	US $	700,000	100.00%	Pirelli China Tyre N.V.
Korea						
Pirelli Korea Ltd.	Distributor	Seoul	Korean Won	100,000,000	100.00%	Pirelli Asia Pte Ltd.
United Arab Emirates						
Pirelli Tyre MEAI DMCC	Distributor	Dubai	AED	50,000	100.00%	Pirelli Asia Pte Ltd.
Japan						
Pirelli Japan Kabushiki Kaisha	Distributor	Tokyo	Jap. Yen	2,200,000,000	100.00%	Pirelli Tyre S.p.A.
Singapore						
Pirelli Asia Pte Ltd.	Distributor	Singapore	Sing. $	2	100.00%	Pirelli Tyre (Suisse) S.A.

Company	Business	Headquarters	Currency	Share Capital	% holding	Held by
Europe						
Germany						
Industriekraftwerk Breuberg GmbH	Electricity generation	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 C.S.A.
Italy						
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.
Poland						
Centrum Utylizacji Opon Organizacja Odzysku S.A.	Tyre	Warsaw	Pln	1,008,000,00	20.00%	Pirelli Polska Sp. z o.o.
Slovakia						
ELT Management Company Slovakia S.R.O.	Tyre	Bratislava	Euro	132,000,00	20.00%	Pirelli Slovakia S.R.O.
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						
Xushen Tyre (Shanghai) Co, Ltd	Tyre	Shanghai	Chinese Yuan	1,050,000,000	49.00%	Pirelli Tyre S.p.A.
Jining Shenzhou Tyre Co, Ltd	Tyre	Jining City	Chinese Yuan	1,050,000,000	100.00%	Xushen Tyre (Shanghai) Co, Ltd
Indonesia						
PT Evoluzione Tyres	Tyre	Subang	Rupees	1,313,238,780,000	63.04%	Pirelli Tyre S.p.A.