
RESILIENCE
PIRELLI

Consolidated financial statements at December 31, 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of euro)

	Note	12/31/2019		12/31/2018	
			of which related parties (note 44)		of which related parties (note 44)
Property, plant and equipment	**9**	3,649,809		3,092,927	
Intangible assets	**10**	5,680,175		5,783,338	
Investments in associates and j.v.	**11**	80,846		72,705	
Other financial assets at fair value through other comprehensive income	**12**	58,967		68,781	
Deferred tax assets	**13**	81,188		74,118	
Other receivables	**15**	342,397	*5,617*	225,707	*12,576*
Tax receivables	**16**	9,140		16,169	
Derivative financial instruments	**27**	52,515		20,134	
Non-current assets		**9,955,037**		**9,353,879**	
Inventories	**17**	1,093,754		1,128,466	
Trade receivables	**14**	649,394	*9,823*	627,968	*15,667*
Other receivables	**15**	451,858	*45,154*	416,651	*55,418*
Other financial assets at fair value through income statement	**18**	38,119		27,196	
Cash and cash equivalents	**19**	1,609,821		1,326,900	
Tax receivables	**16**	41,494		41,393	
Derivative financial instruments	**27**	37,148		98,567	
Current assets		**3,921,588**		**3,667,141**	
Assets held for sale	**39**	**-**		**10,677**	
Total Assets		**13,876,625**		**13,031,697**	
Equity attributable to the owners of the Parent Company:	**20.1**	**4,724,449**		**4,468,121**	
Share capital		1,904,375		1,904,375	
Reserves		2,381,940		2,132,140	
Net income / (loss)		438,134		431,606	
Equity attributable to non-controlling interests:	**20.2**	**102,182**		**82,806**	
Reserves		82,619		72,040	
Net income / (loss)		19,563		10,766	
Total Equity	**20**	**4,826,631**		**4,550,927**	
Borrowings from banks and other financial institutions	**23**	3,949,836	*17,386*	3,929,079	-
Other payables	**25**	90,571		83,287	
Provisions for liabilities and charges	**21**	120,469		138,327	
Provisions for deferred tax liabilities	**13**	1,058,760		1,081,605	
Employee benefit obligations	**22**	203,003		224,312	
Tax payables	**26**	12,555		2,091	
Derivative financial instruments	**27**	10,327		16,039	
Non-current liabilities		**5,445,521**		**5,474,740**	
Borrowings from banks and other financial institutions	**23**	1,419,403	*2,267*	800,145	-
Trade payables	**24**	1,611,488	*171,909*	1,604,677	*191,605*
Other payables	**25**	402,757	*4,840*	436,752	*7,436*
Provisions for liabilities and charges	**21**	43,528		33,876	
Employee benefit obligations	**22**	4,104		5,475	
Tax payables	**26**	81,766		65,503	
Derivative financial instruments	**27**	41,427		59,602	
Current liabilities		**3,604,473**		**3,006,030**	
Total Liabilities and Equity		**13,876,625**		**13,031,697**	

CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

	Note	2019		2018	
			of which related parties (note 44)		of which related parties (note 44)
Revenues from sales and services	**29**	**5,323,054**	*19,305*	**5,194,471**	*8,962*
Other income	**30**	486,307	*74,783*	483,205	*108,536*
Changes in inventories of unfinished, semi-finished and finished products		5,584		201,416	
Raw materials and consumables used (net of change in inventories)		(1,741,249)	*(4,096)*	(1,818,199)	*(12,704)*
Personnel expenses	**31**	(1,072,167)	*(14,498)*	(1,067,579)	*(14,133)*
- of which non-recurring events		-		*(15,410)*	
Amortisation, depreciation and impairment	**32**	(527,818)		(414,523)	
Other costs	**33**	(1,713,404)	*(278,155)*	(1,858,162)	*(290,380)*
- of which non-recurring events		-		*(7,798)*	
Net impairment loss on financial assets	**34**	(22,266)	-	(21,273)	*(9,000)*
Increase in fixed assets for internal works		4,703		3,700	
Operating income / (loss)		**742,744**		**703,056**	
Net income (loss) from equity investments	**35**	(11,006)		(4,980)	
- share of net income (loss) of associates and j.v.		*(9,678)*	*(9,678)*	*(11,560)*	*(11,560)*
- gains on equity investments		*1,684*		*4,007*	
- losses on equity investments		*(8,538)*		*(1,603)*	
- dividends		*5,526*		*4,176*	
Financial income	**36**	128,761	*1,160*	58,862	*3,120*
Financial expenses	**37**	(238,240)	*(1,049)*	(255,173)	*(25)*
- of which non-recurring events		-		*(2,149)*	
Net income / (loss) before tax		**622,259**		**501,765**	
Taxes	**38**	(164,562)		(52,964)	
- of which non-recurring events		-		*60,607*	
Net income / (loss) from continuing operations		**457,697**		**448,801**	
Net income / (loss) from discontinued operations	**39**	-	-	(6,429)	*(10,642)*
Total net income / (loss)		**457,697**		**442,372**	
Attributable to:					
Owners of the Parent Company		438,134		431,606	
Non-controlling interests		19,563		10,766	
Total earnings / (loss) per share (in euro per share)	**40**	**0.438**		**0.432**	
Earnings / (loss) per share related to continuing operations (in euro per share)		0.438		0.438	
Earnings / (loss) per share related to discontinued operations (in euro per share)		-		(0.006)	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euro)

		Note	2019	2018
A	**Total Net income / (loss)**		**457,697**	**442,372**
Other components of comprehensive income:				
B	**Items that may not be reclassified to income statement:**			
	- Remeasurement of employee benefits	**22**	(13,100)	28,727
	- Tax effect		(1,365)	(6,986)
	- Fair value adjustment of other financial assets at fair value through other comprehensive income	**12**	(366)	(8,642)
	Total B		**(14,831)**	**13,099**
C	**Items reclassified / that may be reclassified to income statement:**			
	Exchange differences from translation of foreign financial statements			
	- Gains / (losses) for the period	**20**	(3,247)	(78,150)
	- (Gains) / losses reclassified to income statement	**35**	(1,567)	-
	Fair value adjustment of derivatives designated as cash flow hedges:			
	- Gains / (losses) for the period	**27**	73,439	107,496
	- (Gains) / losses reclassified to income statement	**27**	(79,060)	(118,747)
	- Tax effect		1,989	548
	Cost of hedging			
	- Gains / (losses) for the period	**27**	2,828	20,056
	- (Gains) / losses reclassified to income statement	**27**	(7,189)	(6,798)
	- Tax effect		546	(1,446)
	Share of other comprehensive income related to associates and j.v. net of tax	**11**	(1,176)	(3,221)
	Total C		**(13,437)**	**(80,262)**
D	**Total other comprehensive income (B+C)**		**(28,268)**	**(67,163)**
A+D	**Total comprehensive income / (loss) for the financial year**		**429,429**	**375,209**
	Attributable to:			
	- Owners of the Parent Company		405,610	363,500
	- Non-controlling interests		23,819	11,709
	Attributable to owners of the Parent Company:			
	- Continuing operations		405,610	369,929
	- Discontinued operations		-	(6,429)
	Total attributable to owners of the Parent Company		**405,610**	**363,500**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 12/31/2019

(in thousands of euro)

	ATTRIBUTABLE TO THE PARENT COMPANY					Non-controlling interests	Total
	Share Capital	Translation reserve	Total IAS Reserves*	Other reserves/ retained earnings	**Total attributable to the Parent Company**		
Total at 12/31/2018	**1,904,375**	**(303,557)**	**(66,714)**	**2,934,017**	**4,468,121**	**82,806**	**4,550,927**
Other components of comprehensive income	-	(10,248)	(22,276)	-	(32,524)	4,256	(28,268)
Net income / (loss)	-	-	-	438,134	438,134	19,563	457,697
Total comprehensive income / (loss)	**-**	**(10,248)**	**(22,276)**	**438,134**	**405,610**	**23,819**	**429,429**
Dividends approved	-	-	-	(177,000)	(177,000)	(8,969)	(185,969)
Transactions with non-controlling interests	-	-	-	-	-	4,200	4,200
Effects of High inflation accounting in Argentina	-	-	-	27,514	27,514	-	27,514
Other	-	-	(434)	638	204	326	530
Total at 12/31/2019	**1,904,375**	**(313,805)**	**(89,424)**	**3,223,303**	**4,724,449**	**102,182**	**4,826,631**

(in thousands of euro)

	BREAKDOWN OF IAS RESERVES *					
	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	**Total IAS reserves**
Total at 12/31/2018	**107**	**14,258**	**(25,705)**	**(30,381)**	**(24,993)**	**(66,714)**
Other components of comprehensive income	(366)	(4,360)	(5,621)	(13,100)	1,171	(22,276)
Other changes	31	-	-	(465)	-	(434)
Total at 12/31/2019	**(228)**	**9,898**	**(31,326)**	**(43,946)**	**(23,822)**	**(89,424)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 12/31/2018

(in thousands of euro)

	ATTRIBUTABLE TO THE PARENT COMPANY						
	Share Capital	Translation reserve	Total IAS Reserves*	Other reserves/ retained earnings	**Total attributable to the Parent Company**	**Non-controlling interests**	**Total**
Total at 12/31/2017	**1,904,375**	**(220,624)**	**(70,265)**	**2,503,272**	**4,116,758**	**60,251**	**4,177,009**
Adoption of new accounting standard IFRS 9:							
- Reclassification from available for sale financial assets to other financial assets at FV through income statement	-	-	(10,554)	10,554	-	-	-
- Change due to impairment of financial assets at amortised cost	-	-	-	(1,023)	(1,023)	-	(1,023)
Total at 01/01/2018	**1,904,375**	**(220,624)**	**(80,819)**	**2,512,803**	**4,115,735**	**60,251**	**4,175,986**
Other components of comprehensive income	-	(82,314)	14,208	-	(68,106)	943	(67,163)
Net income (loss)	-	-	-	431,606	431,606	10,766	442,372
Total comprehensive income / (loss)	**-**	**(82,314)**	**14,208**	**431,606**	**363,500**	**11,709**	**375,209**
Dividends paid	-	-	-	-	-	(8,366)	(8,366)
Transactions with non-controlling interests	-	(619)	-	(35,726)	(36,345)	19,033	(17,312)
Effects of High inflation accountig Argentina	-	-	-	26,242	26,242	-	26,242
Other	-	-	(103)	(908)	(1,011)	179	(832)
Total at 12/31/2018	**1,904,375**	**(303,557)**	**(66,714)**	**2,934,017**	**4,468,121**	**82,806**	**4,550,927**

(in thousands of euro)

	BREAKDOWN OF IAS RESERVES *						
	Reserve for fair value adjustment of available-for-sale financial assets	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	**Total IAS reserves**
Total at 12/31/2017	**19,410**	**-**	**-**	**(13,454)**	**(59,110)**	**(17,111)**	**(70,265)**
Adoption of new accounting standard IFRS 9	(19,410)	8,856	1,000	(1,000)	-	-	(10,554)
Total at 01/01/2018	**-**	**8,856**	**1,000**	**(14,454)**	**(59,110)**	**(17,111)**	**(80,819)**
Other components of comprehensive income	-	(8,642)	13,258	(11,251)	28,727	(7,884)	14,208
Other changes	-	(107)	-	-	2	2	(103)
Balance at 12/31/2018	**-**	**107**	**14,258**	**(25,705)**	**(30,381)**	**(24,993)**	**(66,714)**

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of euro)

		Note	2019		2018	
				of which related parties (note 44)		of which related parties (note 44)
	Net income / (loss) before taxes		622,259		501,765	
	Reversals of amortisation, depreciation, impairment losses and restatement of property, plant and equipment and intangible assets	32	527,818		414,523	
	Reversal of Financial expenses	37	238,240		255,173	
	Reversal of Financial income	36	(128,761)		(58,862)	
	Reversal of Dividends	35	(5,526)		(4,176)	
	Reversal of gains / (losses) on equity investments	35	6,854		(2,404)	
	Reversal of share of net income from associates and joint ventures	35	9,678		11,560	
	Reversal of accruals and other		37,509		(12,915)	
	Taxes paid		(141,985)		(119,042)	
	Change in Inventories	17	28,300		(199,919)	
	Change in Trade receivables	14	(44,637)	*5,844*	(23,388)	*47,064*
	Change in Trade payables	24	18,815	*(19,695)*	104,663	*(6,350)*
	Change in Other receivables / Other payables		(79,606)	*28,048*	(151,425)	*(29,341)*
	Uses of Provisions for employee benefit obligations and Other provisions		(66,255)		(57,227)	
A	**Net cash flow provided by / (used in) operating activities**		**1,022,703**		**658,326**	
	Investments in property, plant and equipment	9	(369,699)		(451,801)	
	Change in payables for investments in property, plant and equipment		3,764		(6,291)	
	Disposal of property, plant and equipment/intangible assets		7,662		16,223	
	Investments in intangible assets	10	(20,812)		(11,640)	
	Disposals (Acquisition) of investments in subsidiaries		10,700		-	
	Acquisition of non-controlling interests		-		(49,722)	*(31,230)*
	Dividends/reserves received from associates		-		2,674	*2,674*
	Disposals (Acquisition) of investments in associates and j.v.		(8,925)	*(8,925)*	(65,222)	*(65,222)*
	Quota reimbursment of other non-current financial assets at fair value through other Comprehensive Income		9,430		-	
	Purchase of Caçula controlled distribution network in Brasil		-		(1,393)	
	Disposals (Acquisition) of other non current financial assets at fair value through income statement		-		152,808	
	Dividends received		5,526		4,176	
B	**Net cash flow provided by / (used in) investing activities**		**(362,354)**		**(410,188)**	
	Other changes				4,500	
	Change in Financial payables		83,116		168,952	
	Change in Financial receivables / Other current financial assets at fair value through income statement		(55,135)	*(13,420)*	(31,761)	
	Financial income / (expenses)		(85,537)		(168,406)	
	Dividends paid		(185,768)		(8,366)	
	Repayment of principal and payment of interest for lease obligations		(101,157)	*(1,921)*	-	
C	**Net cash flow provided by / (used in) financing activities**		**(344,481)**		**(35,081)**	
D	**Net cash flow provided by / (used in) discontinued operations**		**-**		**37,101**	*43,530*
E	**Total cash flow provided / (used) during the period (A+B+C+D)**		**315,868**		**250,158**	
F	**Cash and cash equivalents at the beginning of the financial year**		**1,303,852**		**1,109,640**	
G	**Exchange rate differences from translation of cash and cash equivalents**		(19,092)		(55,946)	
H	**Cash and cash equivalents at the end of the period (E+F+G) (°)**		**1,600,628**		**1,303,852**	
(°)	**of which:**					
	cash and cash equivalents	19	1,609,822		1,326,900	
	bank overdrafts		(9,194)		(23,048)	

EXPLANATORY NOTES

1. GENERAL INFORMATION

Pirelli & C. S.p.A. is a corporation organised under the laws of the Republic of Italy.

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 cars, motorcycles and bicycles) whose particular focus is on the High Value tyre market, that is, products created to reach the highest levels of performance, safety, quietness and adherence to the road surface.

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

These 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 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 is indirectly controlled by the China National Chemical Corporation (*"ChemChina"*), a state-owned enterprise (SOE) governed by Chinese law, with registered office in Beijing, and which reports to the Central Government of the People's Republic of China.

As of the starting date of trading on the Stock Exchange (October 4, 2017), there are no subjects that exercise management and coordination activities on the Company.

On March 2, 2020 the Board of Directors authorised the publication of these Consolidated Financial Statements.

2. BASIS OF PRESENTATION

FINANCIAL STATEMENTS

The Consolidated Financial Statements at December 31, 2019 consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flow and the Explanatory Notes, which are accompanied by the Directors' Report on Operations.

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 Statement of Comprehensive Income includes the results for the financial year, and for homogeneous categories, income and expenses that are recognised directly in equity, in accordance with the IFRS.

The Group has opted for the presentations of tax effects, as well as the reclassifications to the Income Statement of gains / losses which were recognised in equity 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 comprehensive income of the period, the amounts from transactions with equity holders and the changes which occurred during the period in reserves.

In the Statement of Cash Flows, the financial flows derived from operating activities are presented using the indirect method, by way of which the gains or losses for the period are adjusted by the effects of non-monetary transactions, by any deferment or accrual of past or future collections or payments for operating activities, and by any revenue or cost items connected with the financial flows arising from any investment or financing activity.

SCOPE OF CONSOLIDATION

The scope of consolidation includes the subsidiaries, associates and 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, that is activities that have a significant influence on the results of the subsidiary;
- the right to the variable results (positive or negative) resulting from the investment in the entity;
- the capacity to utilise its decision-making power to determine the amounts of 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 the share of the results, attributable to non-controlling interests are separately reported respectively in the Consolidated Statement of Financial Position, the Consolidated Income Statement, and the Consolidated Statement of Comprehensive Income.

All companies for which the Group can exercise significant influence as defined by IAS 28 – Investments in Associates and Joint Ventures, are considered associates. 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. In the case of joint operations, it is mandatory that the assets, liabilities, costs and revenues subject to the agreement be recognised in accordance with the applicable accounting standards. The Group does not currently have any agreements in place for joint operations.

The main changes in the scope of consolidation are summarised as follows:

- disposal on February 13, 2019 of a 100% stake in the company the Atom Research Training Centre for New Technologies and Materials;
- acquisition on July 23, 2019 of a 66.20% stake in the company Neumaticos Arco Iris, S.A. - Sociedad Unipersonal;
- disposal on December 2, 2019 of a 100% stake in the company Inter Wheel Sweden Aktiebolag.

INFORMATION ON SUBSIDIARIES

The Consolidated Financial Statements include the assets and liabilities of 92 legal entities. The following is a list of the significant subsidiaries:

	Headquarter	12/31/2019		12/31/2018	
		% 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.	Milano (Italy)	100.00%		100.00%	
Pirelli Industrie Pneumatici S.r.l.	Settimo Torinese (Italy)	100.00%		100.00%	
Pirelli International Treasury S.p.A.	Milano (Italy)	100.00%			
Pirelli Neumaticos S.A. de C.V.	Silao (Mexico)	100.00%		100.00%	
Pirelli International plc	Burton on Trent (United Kingdom)	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%	
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 - list of companies included in Consolidation using the line-by-line method"*.

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, prepared at the reporting date of the Financial Statements of the Parent Company, have been appropriately adjusted to render them consistent with the IAS/IFRS standards as applied by the Group.

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

The differences arising from the conversion of the initial equity at period-end exchange rates are recognised in the reserve for translation differences, together with the difference arising from the translation of the result for the period at period-end exchange rates instead of the average exchange rate. The reserve for translation differences 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 according to which:

  - the assets and liabilities, costs and revenues of the Financial Statements of subsidiaries are assumed in their entirety, regardless of the size of the investment held;
  - the carrying amount of investments is de-recognised against the relative equity shares;
  - the financial and operating transactions between companies consolidated on a line-by-line basis, including dividends distributed within the Group, are eliminated;
  - non-controlling interests are represented in the appropriate items under equity, and similarly, the share of gains or losses attributable to non-controlling interests is shown separately in the Income Statement;
  - at the time of disposal of the subsidiary and the consequent loss of control, in determining the gains or losses arising from the disposal, any goodwill that can be allocated to the subsidiary is taken into account;
  - in the case of an investment share acquired after the assumption of control, any difference between the purchase cost and the corresponding portion of equity acquired, is recognised in equity. Similarly, the effects deriving from the disposal of non-controlling interests without loss of control are also recognised in equity.

- investments in associates and joint ventures are evaluated using the equity method, on the basis of which, the carrying amount of the investments is adjusted by:

  - the investor's pertinent share of the financial results of the subsidiary realised after the acquisition date;
  - the pertinent share of gains and losses recognised directly in the equity of the subsidiary, in accordance with the applicable standards;
  - dividends paid by the subsidiary;
  - when the Group's pertinent share in the losses of the associate/joint venture exceeds the carrying amount of the investment in the Financial Statements, the carrying amount of the investment is reset to zero and the share of any further losses is recognised under *"Provisions for liabilities and charges"*, to the extent to which the Group is contractually or implicitly obligated to cover the losses;
  - the gains emerging from sales made by subsidiaries to joint ventures or associates are eliminated in proportion to the share of ownership held by the acquiring entity.

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, 2019, as well as the provisions issued in the implementation of Article 9 of Legislative Decree no. 38/2005. The term IFRS signifies the IFRS international accounting standards in force as issued by the International Accounting Standards Board (IASB) and approved by the European Union at December 31, 2019, as well as all the revised International Accounting Standards (IAS) 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 evaluated at their fair value:

- derivative financial instruments;
- 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 price paid plus any non-controlling interests in the acquired company, measured at fair value (if this option was chosen for the acquisition in question), or in proportion to the share of the non-controlling interest 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 (step acquisition), the previously held investment is measured at fair value, and the effects of this adjustment are recognised the Income Statement.

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

Contingent considerations, that is, the obligations of the acquiring company to transfer additional assets or shares to the seller in cases certain future events occur or specific conditions are fulfilled, are recognised at fair value at the date of acquisition as part of the amount transferred in exchange for the acquisition itself. Any subsequent changes in the fair value of these agreements are normally recognised in the Income Statement.

INTANGIBLE ASSETS

Intangible assets with finite useful lives are valuated at cost, net of any accumulated amortisation and impairment.

Amortisation is calculated on a straight-line basis and begins when the asset becomes available for use or 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 from the accounts.

Capital gains and capital losses deriving 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 evaluation, aimed at identifying any impairment losses, at least annually or whenever there are indicators of impairment. For the purposes of this verification, goodwill is allocated to the cash generating units (CGUs), or groups of units, in compliance with the maximum aggregation, which cannot exceed the restriction set for that sector of activity pursuant to IFRS 8. The criteria used in the allocation of goodwill coincides with the sole sector of activity in which the Group operates, being Consumer Activities, and takes into consideration the minimum level at which goodwill is monitored, for the purposes of internal management control.

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 evaluated at cost, net of the accumulated amortisation and impairment. This cost is amortised for whichever period is shorter between the duration of the contract or the useful life of the asset. 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 recognised in the Statement of Financial Position net of any amortisation and net of any accumulated impairment. Software is amortised on the basis of its useful life.

CUSTOMER RELATIONSHIPS

Customer Relationships mainly refer to intangible assets acquired in a business combination, and are recognised in the Statement of Financial Position 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 technology, and process technology, as well as product development technology identified during the Purchase Price Allocation. Technology is recognised in the Statement of Financial Position at fair value at the date of acquisition, and is amortised on the basis of its useful life.

RESEARCH AND DEVELOPMENT COSTS

Research costs for new products and/or processes are expensed as they are incurred. There were no development costs that satisfied the requisites for capitalisation as provided for by IAS 38.

PROPERTY, PLANT AND EQUIPMENT

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 of the assets, plus the cost of replacing any parts or portions of the assets of this category, are capitalised only if they increase the future economic benefits inherent to the actual 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 recognised at cost, net of any accumulated depreciation, except for land which is not depreciated but which is recognised 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 economic benefits associated with it.

Depreciation is charged on a straight-line basis on a monthly basis at rates that allow for the depreciation of assets until the end of their useful life or, in the case of disposal, until the last month of use.

Depreciation rates were as follows:

Buildings	3% - 10%
Plant	7% - 20%
Machiery	5% - 20%
Equipment	10% - 33%
Furniture	10% - 33%
Motor vehicles	10% - 25%

Of note, is that that during the 2016 financial year a Purchase Price Allocation was completed, following the acquisition of the Pirelli Group by Marco Polo Industrial Holding S.p.A, which resulted in the detection of a significant surplus value for the Group's productive assets, due mainly due to their optimally maintained condition which resulted in an extension of their residual lives. The assets subject to evaluation for the purposes of the Purchase Price Allocation were depreciated, as of the date of the acquisition of control by Marco Polo Industrial Holding S.p.A., on the basis of their new remaining useful lives determined at the time of the evaluation.

Government capital grants relative to property, plant and equipment are recognised as deferred income, and accredited to the Income Statement for the duration of the depreciation of the relevant assets.

Leasehold improvements are classified as property, plant and equipment, consistent with the nature of the cost incurred. The depreciation period corresponds to whichever is shorter between the remaining useful life of the asset, or the residual term of the lease agreement.

Replacement parts of significant value are capitalised and depreciated for the duration of the estimated useful life of their respective assets.

Any decommissioning costs are estimated and added to the cost of the property, plant and equipment, as a counter entry to the provision 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 derecognised from the Statement of Financial Position at the time of disposal or their permanent retirement from use and, as a consequence, no future economic benefits can be expected to be derived from their disposal or use.

Any capital gains or capital losses resulting 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.

LEASING CONTRACTS (IAS 17 UNTIL DECEMBER 31, 2018)

Any property, plant and equipment acquired through finance lease agreements, through which essentially all the risks and rewards of ownership are transferred to the Group, are accounted for as property, plant and equipment at their fair value or, if lower, at the present value of the minimum lease payments, with a counter entry in the financial liabilities. The cost of the lease payment is separated into two components: a financial expense which is recognised in the Income Statement, and the reimbursement of capital which is recorded as a reduction of the financial liability.

Leases in which the lessor essentially retains all the risks and rewards associated with the ownership of the asset are classified as operating leases. Costs associated with an operating lease are recognised as an expense on a straight-line basis in the Income Statement for the duration of the leasing agreement.

LEASES – RIGHT OF USE (IFRS 16 AS OF JANUARY 1, 2019)

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 two components: a financial expense which is recognised in the Income Statement for the duration of the contract, and a reimbursement of capital which is recorded as a reduction of the financial liability. The right of use is amortised on a monthly basis at constant rates, for whichever period is shorter, between the useful life of the asset and the duration of the contract.

Rights of use and financial liabilities are initially valuated at the present value of future lease 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 purchase 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 on the basis of the Group's credit spread and local credit spread.

The rights of use are valuated at cost, and 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 decommisioning 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 unitary 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 in accordance with any changes in the facts or circumstances (not related to sales performances), which are not foreseeable at the starting date.

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

- 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 ASSETS Whenever there are specific indicators of impairment, and at least on an annual basis for intangible assets with an indefinite useful life including goodwill, property, plant and equipment, intangible assets and rights-of-use assets are subjected 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 property, plant and equipment and intangible assets is whichever is higher between its fair value less the costs to sell, or its value-in-use, where the latter is the present value of estimated future financial flows arising 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 net of taxes, which reflects the current market assessment of the time-value of money and the risks specific to the asset.

For rights-of-use assets, value in use is the present value of the estimated future cash flows generated by the rights- of-use asset for the period of the lease term and of the cash outflow to replace the rights- of-use asset at the end of the lease term (for example, the purchase cost of an asset to replace the leased asset).

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.

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.

In order to evaluate an impairment, assets are aggregated at the lowest level at which their independent cash flows are separately identifiable (cash generating units).

Specifically, goodwill must be allocated to the cash generating units or group of cash generating units in compliance with the maximum aggregation restriction, which cannot be exceeded, for the operating segment.

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 rights-o-use assets, may no longer exist or may have been reduced, the recoverable amount for the asset is estimated again, and if it results higher than the net carrying amount, then the net carrying amount is increased up to, but not exceeding, 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 recorded 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 recorded for goodwill cannot be reversed in subsequent financial years.

Any loss due to the impairment of any goodwill recorded in the interim (half year) Financial Statements cannot be reversed in the Income Statement of the following full financial year.

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 to sell, and the value in use.

For the purposes of impairment testing, the fair value of an investment in an associate or joint venture with shares listed on an active market, is always equal to its market value, irrespective of the percentage of ownership. In the case of investments in unlisted companies, the fair value is determined by using estimates based on the best available information.

For the purposes of determining the value in use of an associate or joint venture, an estimate is made of its share of the present value of the present value of future cash flows that are estimated to be generated by the associate or joint venture, including the cash flows deriving from the operating activities of the associate or joint venture, and the consideration deriving from the final disposal of the investment (the so-called Discounted Cash Flow – asset side criteria).

When there is evidence that an impairment recognised in previous financial years may no longer exist or may have been reduced, the recoverable amount of the investment is estimated again, and if it results higher than the amount of the investment, then the latter amount is increased up to and not exceeding the recoverable amount.

The reinstatement 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 reinstatement 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 the initial recognition or at transition - exercised the irrevocable option to present gains and losses deriving from the changes in 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 have been 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 transaction costs directly attributable to the acquisition.

They are subsequently measured at fair value, and any gains and losses deriving from any changes in fair value are recognised in a specific equity reserve. This reserve is 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 recognition or at transition - did not exercise the irrevocable option to present gains and losses deriving from the changes in 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 business model is "hold to sell" and the cash flows associated with the financial asset represent the payment of the outstanding capital. They are classified as current assets under item *"Other financial assets at Fair Value through the Income Statement"*;
- derivative financial instruments, with the exception of those designated as hedging instruments.

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

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

INVENTORIES

Inventories are valued either at cost determined under the FIFO (first in first out) method, or their estimated realisable value, whichever is lower. The valuation of inventories includes the direct costs of materials and labour as well as indirect costs. The impairment provisions for obsolete and slow moving inventories are calculated by taking their estimated future use and their realisable value into account. Their realisable value is the estimated selling price, net of all costs estimated for the completion of the asset including any sales and distribution costs that will be incurred. The cost is increased by incremental expenses similarly to that described with respect to property, plant and equipment.

RECEIVABLES

Receivables are initially recognised 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 using the effective interest rate method, which is equivalent to the discount rate that, when applied to future cash flows, makes the present value of these flows equal to the initial fair value.

Receivables in currencies other than the functional currency of the individual companies are adjusted to the year-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 rewards 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. At the same time that the receivable is de-recognised, the relative provision is also reversed, if the receivable had previously been impaired.

IMPAIRMENT OF RECEIVABLES

For trade receivables, the Group applies a simplified approach, by calculating the expected losses over the entire life of receivables from the moment of initial recognition. The Group uses a matrix based on historical experience which is tied to the ageing of the receivable itself, and which is adjusted to take forecasting factors into account which are specific to some customers.

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 Statement of Financial Position.

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 entire contractual amount due (for example, when receivables are to the the legal department).

PAYABLES

Payables are initially recognised at fair value, which normally corresponds to the agreed consideration or to the present value of the amount that will be paid. They are subsequently valued at amortised cost. Amortised cost is calculated using the effective interest rate method, which is equivalent to the discount rate that, when applied to future cash flows, makes the present value of these flows equal to the initial fair value. Payables in currencies other than the functional currency of the individual companies are adjusted to the year-end exchange rates with a counter entry in the Income Statement. Payables are de-recognised from the Statement of Financial Position when the specific contractual obligation is extinguished. In the event of a change in a financial liability that does not results in its de-recognition, the gain or loss resulting from the change is calculated by discounting the change in contractual cash flows using the original effective interest rate, and is immediately recognised in the Income Statement.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include bank deposits, postal deposits, cash and cash equivalents on hand, and other forms of short-term investment whose original maturity is three months or less. Current account overdrafts are classified under financial payables as current liabilities. The amounts included in cash and cash equivalents are recognised at fair value and the related changes are recognised in the Income Statement.

CONTINGENT ASSETS

Any contingent assets, which arise as a result of past events and whose realisation is linked to the occurrence or non-occurrence of unforeseeable future events, are not recognised in the Statement of Financial Position, unless the realisation of revenue is virtually certain.

PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges include provisions for current obligations (legal or implicit) arising from a past event, the fulfilment of which is likely to require the use of resources, and whose amounts can be reliably estimated.

Changes in estimates are recognised in the Income Statement for the year in which the change occurred.

If the effect of discounting is significant, provisions are presented at their present value.

A provision for restructuring is recognised only if, in addition to meeting the conditions for the provisions for liabilities and charges, there is a detailed formal restructuring plan so that third parties affected have a valid expectation that the restructuring will be implemented.

EMPLOYEE BENEFITS

Employee benefits paid after the termination of the employment relationship (defined benefit plans) and other long-term benefits are subject to actuarial evaluations. The liability recognised in the Statement of Financial Position is 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 deriving from adjustments based on past experience and from any changes in the actuarial assumptions are fully recognised in equity for the financial year in which they occur.

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 portions matured prior to January 1, 2007 (and not yet paid at the reporting date), whereas the portions accrued subsequent to that date are considered a defined contribution plan.

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

Costs related to 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, 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 equity.

Insurance policies are recognised in the Statement of Financial Position as plan assets and are evaluated on the same basis as the liabilities to which they refer.

DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGING INSTRUMENTS

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, and of the Group's risk management objectives and strategy in carrying out the hedge;
- the hedging relationship meets all the following effectiveness 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 any rebalancing measures, and is consistent with the risk management strategy adopted by the Group.

Derivative financial instruments are measured at fair value.

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

- 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 deriving 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 is also recognised in the Income Statement;
- Cash flow hedge – if a derivative instrument is designated as a hedge against exposure to the variability in cash flows of an asset or liability recognised in the Statement of Financial Position, 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 equity, while the ineffective portion is immediately recognised in the Income Statement. The amounts recognised directly in equity are recycled to the Income Statement of the year in which the hedged item affects the Income Statement.

If the hedge of a highly probable future transaction subsequently results in the recognition of a non-financial asset or liability, the amounts that are suspended in equity are included in the initial value of the non-financial asset or liability.

When future transactions are hedged through forward contracts, the Group may designate in hedge accounting;

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

When a hedging instrument reaches maturity or is sold, terminated early exercised, or no longer meets the conditions to be designated as a hedging instrument, then hedge accounting is discontinued. Fair value adjustments accumulated in equity (both in the cash flow hedge reserve and in the cost of hedging reserve) remain suspended in equity until the hedged item affects the Income Statement. Subsequently they are recycled to the Income Statement in the year in which the acquired financial asset or the assumed financial liability affects the Income Statement.

When the hedged item is no longer expected to have any impact on the Income Statement, the fair value adjustments accumulated in equity (both in the cash flow hedge reserve and in the cost of hedging reserve) are immediately recycledto the Income Statement.

For the derivative instruments that do not satisfy the conditions required by IFRS 9 for the adoption of hedge accounting, reference should be made to the section *"Financial assets at fair value through the Income Statement"*.

The acquisitions and sales of derivative financial instruments are recorded at the settlement date.

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments listed on an active market is based on market prices at the reporting date. The market price used for financial assets is the bid price, while for financial liabilities it is the ask price. The fair value of instruments not listed on an active market is determined by using evaluation techniques based on a series of methods and assumptions which are tied to market conditions at the reporting date.

The fair value of interest rate swaps is calculated as the present value of expected future cash flows.

The fair value of forward exchange contracts is determined by using the forward exchange rate at the reporting date.

The fair value of cross currency interest rate swaps is calculated by discounting estimated future cash flows based on observable yield curves and converted in euro by using the forward exchange rate at the reporting date.

INCOME TAXES

Current taxes are determined on the basis of a realistic forecast of the tax expenses to be paid in application of the current tax regulations in force in the country.

The Group periodically assesses the choices made when determining taxes with reference to situations where current tax legislation 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 Statement of Financial position 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 during the time frame covered by the forecasts of the business plans.

Deferred tax assets and liabilities are calculated by the applying tax rates that are expected to be applicable in the year in which the asset will be realised or the liability settled, based on the tax legislation in force at the closing date of the current year.

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 in which the Group operates, for the 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 related deferred tax liabilities are not recognised when 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 equity if they refer to items that have been credited or debited directly in equity during the year or during previous years.

EQUITY

TREASURY SHARES Treasury shares are classified as a reduction of shareholders’ equity.

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

COSTS OF CAPITAL TRANSACTIONS Costs directly attributable to capital transactions of the Parent Company are recoded as a reduction of shareholders’ equity.

SHARE-BASED PAYMENT TRANSACTIONS (CASH SETTLED)

The additional cash settled benefits granted to certain Group executives are recognised under *“Employee Benefit Obligations”* (other long-term benefits) with a counter entry under *“Personnel costs”*. The cost is estimated at fair value and is recognised over the duration of the plan according to the the vesting condition at the reporting date. The estimate is reviewed at each reporting date until the settlement date.

REVENUE RECOGNITION

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

PRODUCT SALES

Revenues from product sales are recognised when the performance obligations towards customers have been satisfied. Performance obligations are deemed to be met when the control of goods has been transferred to the customer, that is, generally when goods are delivered to the customer.

If the products are ready to be delivered, but delivery is postponed to a future date, 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 are 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 as being the property of the customer;
- the products are ready to be physically delivered to the customer;
- the Group does not have the possibility to use the product or to deliver it to other customers.

Retrospective discounts are applied to product sales based on the achievement of the targets defined in trade agreements. Revenues from sales are recognised net of these discounts, and 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, as the average payment terms applied to customers are the standard commercial terms for the reference country where sales occur.

PROVISION OF SERVICES

Revenues for services are recognised when the service rendered has been completed or based on the stage of completion of the service at the reporting date.

FINANCIAL INCOME AND EXPENSES

Financial income and expenses are recognised on an accrual basis.

ROYALTIES

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

DIVIDENDS

Dividends are recognised when the right to collect is established, which normally corresponds to a the Shareholders' resolution to distribute dividends.

EARNINGS (LOSSES) PER SHARE

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

Earnings (losses) per share - diluted: Diluted earnings per share are calculated by dividing the income (loss) attributable to the Group by the weighted average number of outstanding ordinary shares during the financial year, excluding treasury shares. For the purposes of calculating the diluted earnings per share, the weighted average number of outstanding shares is adjusted by assuming the exercise of all the rights of the assignees for the financial year 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

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

The business carried out by the Group is identifiable as a single operating "*Consumer Activities*" sector.

FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions 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 settlement of monetary items or their translation at rates other than those of their initial recognition at the beginning of the financial year, or different to those at the end of the previous financial, are recognised in the separate Consolidated Income Statement.

Whenever the conditions provided for by IAS 21.15 for the designation of inter-company monetary items such as *"Net Investment in Foreign Operations"* are met, in accordance with the guidance of IAS 21.32, the differences in exchange rate as of the date of the designation are recognised directly in the Consolidated Statement of Comprehensive Income.

ACCOUNTING STANDARDS FOR HYPER-INFLATIONARY COUNTRIES

Group companies operating in high-inflation countries recalculate the values for the non-monetary assets and liabilities present in their original individual Financial Statements in order to eliminate the distorting effects caused by the loss of purchasing power of the currency. The inflation rate used to implement inflation accounting corresponds to the consumer price index.

Companies, operating in countries where the cumulative inflation rate over a three-year period approximates or exceeds 100%, adopt inflation accounting and discontinue it in the event that the cumulative inflation rate over a three-year period falls below 100%.

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

The Financial Statements of companies prepared in currencies other than the euro which operate in high-inflation 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 past three years in Argentina exceeded 100%. This, together with other characteristics of the country's economy, led 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.

NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

Non-current assets and disposal groups are classified as held for sale if their carrying amount is recoverable mainly through their sale rather than through their continuous use. This occurs if the non-current asset or disposal group is available for sale in its present condition and the sale is highly probable, or if a binding schedule for the sale has already begun, or activities to find a buyer have already commenced and it is expected that the sale will be completed within one year following their classification date.

In the Consolidated Statement of Financial Position, the non-current assets held for sale and the assets/liabilities (current and non-current) of the disposal group are presented under a separate item from other assets and liabilities, and totalled respectively in current assets and liabilities.

Non-current assets classified as held for sale and disposal groups are evaluated as the lesser amount between the carrying amount and the fair value net of sales costs.

Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

DISCONTINUED OPERATIONS

A discontinued operation is a component that has been disposed of or has been classified as held for sale, and represents an important independent branch of activity or geographical area of activity forming part of a single coordinated disposal program.

In the Consolidated Income Statement for the period, the net income (loss) from discontinued operations, as well as the gain or loss resulting from their fair value valuation net of sales costs, or from the disposal of the assets or disposal groups which constitute the discontinued operations, are combined in a single item at the end of the Income Statement separately from the results for continuing operations.

It is to be noted that in 2018 with regard to transactions between the Industrial business, which qualified as a *"discontinued operation"*, and the remaining activities of the Pirelli Group ("*continuing business*"), the so called *"post disposal"* treatment was opted for the Income Statement. Particularly for transactions of a continuous commercial nature, it was decided to represent these transactions in the Income Statement data for *"continuing business"*, consequently revealing a result that takes these components into account, and to record the relative intereliminations within the item *"discontinued operations".* The cash flows for discontinued operations are shown separately in the Statement of Cash Flow.

3.1 ACCOUNTING STANDARDS AND INTERPRETATIONS APPROVED AND IN FORCE AS OF JANUARY 1, 2019

Pursuant to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, the IFRS standards in force as of January 1, 2019 were as follows:

- 16 IFRS – Leases

  The impacts deriving from the first application of this standard, which replaces the previous IAS 17, are described in Note 3.3 - *"Impacts deriving from the adoption of IFRS 16 - Leases"*.

- IFRIC 23 – Uncertainty over Income Tax Treatments

  This interpretation clarifies the criteria to be applied for the recognition and measurement of current taxes and deferred tax assets / liabilities in the event of uncertainty regarding tax treatments, i.e., situations where it is not certain that a specific treatment will be accepted by the tax authorities (e.g., the deductibility of certain costs or the exemption of certain income), but also uncertainty regarding the determination of taxable income, tax bases for assets and liabilities, tax losses and tax rates to be applied.

  The accounting treatment depends on the likelihood on whether the tax authorities will accept the tax treatment or not. In cases where it is not probable that the tax authority will accept the uncertain tax treatment, the uncertainty is recognised by recording additional tax liabilities or even by the application of a higher tax rate.

  There were no impacts on the Group's Financial Statements due to the application of this interpretation, with the exception of the reclassification of euro 9,187 thousand, from non-current provisions for liabilities and charges, to non-current tax payables, as the uncertainty recognised in previous years was related to a tax position recorded under tax payables.

- Amendments to IFRS 9 - Financial Instruments: prepayment features with negative compensation and amendments to financial liabilities.
  These amendments concern the following:

  - financial assets (financial receivables and debt securities) which, in the presence of certain characteristics, can be measured at the amortised cost, whereas previously they had to be measured at fair value through the Income Statement;
  - the accounting treatment of financial liabilities in the presence of any changes which do not result in their derecognition from the Statement of Financial Position. In such situations, any gain or loss calculated as the difference between the contractual cash flows of the original liability and any change in cash flows, both discounted using the original effective interest rate, must be recognised in the Income Statement.

    The amendment related to financial assets was not applicable to the Group. The amendment related to the accounting treatment of financial liabilities is applicable to the Group, but had no impact as the Group already applies this accounting treatment.

- Amendments to IAS 28 - Investments in Associates and Joint Ventures: Long-term interests in associates and joint ventures.

  These amendments have clarified that the provisions of IFRS 9, including those relative to impairment, also apply to the financial instruments which represent long-term interests in an associated company or a joint venture, which in essence form part of the net investment in the associated company or joint venture (the so-called long-term interest). There were no impacts on the Financial Statements of the Group due to the amendments made to the standard in force.

- Improvements to the IFRS 2015-2017 cycle (issued by the IASB in December 2017).

  The IASB has issued a series of amendments to four standards in force, which particularly concern the following aspects:

  - IFRS 3 - Business combinations: the attainment of control of a business that is classified as a joint operation must be accounted for as a business combination in phases, and the previously held investment must be re-measured at fair value at the date of acquisition of control;
  - IFRS 11 – Joint arrangements: in the case of the attainment of the joint control of a business which is classified as a joint operation, the previously held investment does not have be re-measured at fair value;
  - IAS 12 - Income Taxes: the accounting treatment of the tax effects of dividends on financial instruments classified as equity must follow that of the transactions or events which generated the distributable dividend;
  - IAS 23 – Borrowing costs: in the event that a specific loan relative to a qualifying asset is still in place at the time when the asset is ready for use or sale, the same becomes part of generic loans.

  There were no impacts on the Group due to the amendments to the standards in force.

- Amendments to IAS 19 - Employee Benefits

  These amendments require that:

  - the current service cost and the net interest for the period following a change and/or reduction of the plan are determined using updated assumptions;
  - any reductions in the surpluses of a plan are recognised in the Income Statement, even if the surplus had not been recognised in the Income Statement due to the asset ceiling.

  There were no impacts on the Group due to the amendments made.

3.2 INTERNATIONAL ACCOUNTING STANDARDS AND/OR INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE IN 2019

Pursuant to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors - the new standards and interpretations that were issued but were not yet effective, or had not yet been endorsed by the European Union at December 31, 2019, and which are therefore not applicable, along with any expected impacts on the Consolidated Financial Statements, are described below.

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

- Amendments to IFRS 3 - Business Combinations

  These changes have introduced a new definition for the term *"business",* according to which, for an acquisition to qualify as a business combination, it must include inputs and processes which contribute substantially in obtaining an output. The definition of output has been amended in a restrictive sense, in that it precisely specifies that any cost savings and other financial benefits are to be excluded as outputs. This amendment will result in multiple acquisitions qualifying as asset acquisitions instead of as business acquisitions.

  These amendments, effective on January 1, 2020 have not yet been endorsed by the European Union. No impacts on the Group Financial Statements are foreseen.

- Amendments to IAS 1 - Presentation of Financial Statements, and IAS 8 - Accounting Policies, changes in accounting estimates and errors.

  In addition to clarifying the concept of materiality of transactions, these amendments focus on the definition of a concept of materiality which is coherent and unique amongst the various accounting standards, and also incorporate the guidelines included in IAS 1 on information that is not material.

  These amendments which were approved by the European Union, came into force on January 1, 2020. No impacts on the Group's Financial Statements are foreseen. Their impacts on disclosures are currently being evaluated.

- Amendments to IFRS 9, IAS 39 and IFRS 7: Reform of interbank offered rates (IBOR reform)

  These changes concern the impacts on the Financial Statements deriving from the replacement of the current benchmark interest rates with alternative interest rates. In the presence of any hedging relationships impacted by the uncertainty of any benchmark rate reform, these changes make it possible to not carry out the evaluations required by IFRS 9 in the presence of any changes in rates. These amendments, which were endorsed by the European Union, are effective January 1, 2020. The impact on the Group's Financial Statements is currently being evaluated as regards the rate component of cross-currency interest rate swaps.

3.3 IMPACTS DERIVING FROM THE ADOPTION OF IFRS 16 - LEASES

Following the application of this standard, at the transition date (January 1, 2019), the Group accounted for lease contracts previously classified as operating leases as:

- a financial liability equal to the present value of residual future lease payments at the transition date, discounted using for each contract the incremental borrowing rate applicable at the transition date. The weighted average incremental borrowing rate applied to the lease liabilities at January 1, 2019 was 5.03%.
- a right of use equal to the value of the lease liability at the transition date, net of any deferred rent asset or liability related to the lease and recognised in the Statement of Financial Position at the date of transition.

The following table shows the impacts due to the adoption of IFRS 16 at the transition date:

(in millions of euro)

NON CURRENT ASSET	01/01/2019
Property, property and equipment	
- Right of use lands	16.2
- Right of use bulldings	376.1
- Right of use plant and machinery	35.8
- Right of use other assets	63.6
Total	**491.7**
CURRENT ASSET	
Other receivables	(1.0)
Total	**490.7**
NON CURRENT LIABILITIES	
Borrowings from banks and other financial institutions	420.7
Provision for liabilities and charges	2.5
CURRENT LIABILITIES	
Borrowings from banks and other financial institutions	73.6
Other payables	(6.1)
Total	**490.7**

The Group has chosen to apply the standard retrospectively, recording the cumulative effect deriving from the application of the standard in equity at January 1, 2019 (modified retrospective approach). The comparative data for the 2018 financial year were not restated.

With reference to transition rules, the Group used the following practical expedients, available when opting for the modified retrospective approach:

- contracts with an expiry date within twelve months from the date of transition are classified as a short-term leases. For these contracts, lease payments are be recorded in the Income Statement on a straight-line basis;
- with reference to the separation of non-lease components for vehicles, the Group has decided not to separate them and not to account for them separately from the lease components. This component has been considered together with the lease component in determining the lease liability and the related right of use;
- use of the information present at the transition date for the determination of the lease term, with particular reference to the exercise of extension and early termination options.

The Group has also used the practical expedient provided for by the standard on first-time adoption, which makes it possible to rely on the conclusions reached in the past on the basis of IFRIC 4 and IAS 17 regarding the quantification of the operating lease components for a specific contract. This practical expedient has been applied to all contracts.

The transition to IFRS 16 introduces 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 below:

- the Group has decided not to apply IFRS 16 for contracts containing a lease that has an intangible asset as underlying asset;

- contract renewal clauses are considered for the purposes of determining the duration of the lease contract, 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 renewal periods that can be exercised unilaterally by the Group, only the first extension period was considered;
- automatic renewal clauses in contracts, in which both parties have the right to terminate the contract, were not considered for the purposes of determining the duration of the contract, as the ability to extend its 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 includes a renewal option in the determination of the duration of the contract. This assessment is also carried out considering the degree of customization of the leased asset. If customization is high, the lessor could incur a significant penalty if he opposes the renewal;
- early termination clauses in contracts are not considered in determining the duration of the contract if they can be exercised only by the lessor or by both parties. In cases where they can be unilaterally exercised by the Group, specific assessments are made contract by contract (for example, the Group is already negotiating a new contract or has already given notice to the lessor).

The following table shows the reconciliation between minimum future lease payments, as provided for by the previous IAS 17, and the lease liabilities at January 1, 2019 deriving from the adoption of IFRS 16:

(in millions of euro)

Minimum future payments due for non-cancellable operating leases 12/31/2018 (IAS 17)	**517.9**
Effects of extension option excercise	155.8
Short term contracts with residual duration at 1/1/2019 of less than 12 months	(9.2)
Low value asset contracts	(12.1)
Service component	0.4
Financial lease liabilities at 31/12/2018	0.2
Discounting effects	(146.3)
Other	(12.4)
Financial liabilities for lease contracts at 1/1/2019 (IFRS 16)	**494.3**

4. FINANCIAL RISK MANAGEMENT POLICIES

The Group is exposed to financial risks which are principally associated with foreign exchange rates trends, with fluctuations in interest rates, with the price of financial assets held in portfolio, with the ability of Pirelli's customers to meet their obligations to the Group (credit risk), and in the procurement of financial resources on the market (liquidity risk).

Financial risk management is an integral part of the Group's business management, and is performed centrally in accordance with the guidelines issued by the Finance Department as part of the risk management strategies defined at a more general level by the Managerial Risk Committee.

4.1 TYPES OF FINANCIAL RISKS

EXCHANGE RATE RISK The geographical distribution of Group production and commercial activities entails exposure to exchange rate risks such as transaction risk and translation risk.

a) Transaction risk

This risk is generated by the commercial and financial transactions of the individual companies which are executed in currencies other than the functional currency of the Company. Fluctuations in the exchange rate between the time when the commercial or financial relationship is established and the time when the transaction is completed (collection or payment) may generate exchange rate gains or losses.

The Group aims to minimise the impact of transaction risks tied to exchange rate 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 transaction risk, whose hedging is then provided in the form of forward contracts which are entered into with the Group Treasury.

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

The Group Treasury is responsible for hedging the resulting net position for each currency and, in accordance with the established guidelines and predetermined restrictions, closes in turn all risk positions by trading derivative hedging contracts on the market, which typically take the form of forward contracts.

For such contracts, the Group did not consider it necessary to avail itself of the option for hedge accounting as provided for by IFRS 9, as the representation of the impacts on the Income Statement and the Statement of Financial Position of a hedging strategy for transaction risk is nevertheless substantially guaranteed even without making use of the aforementioned option.

Of note is that, as part of the annual and three-year planning process, the Group formulates exchange rate forecasts for these time horizons 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 occurs represents the transaction 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 operations, or optional operations such as risk reversal (for example; zero cost collars). Hedge accounting, as provided for by IFRS 9, is activated if and when the requirements are met.

b) Translation risk

The Group owns 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 currency translation risk, which is generated by the conversion into euro of the assets and liabilities of these subsidiaries.

The main exposures to translation risk are constantly monitored, however it is not currently deemed necessary to adopt specific policies to hedge this exposure.

At December 31, 2019 approximately 37.9% of the total consolidated equity was expressed in euro (47.8% at December 31, 2018). The most important currencies for the Group other than the euro were the Brazilian real (14.7%; 10.7% at December 31, 2018), the Turkish lira (0.5%; 0.5%; at December 31, 2018), the Chinese renminbi (12.5%, 12.2% at December 31, 2018), the Romanian leu (11.3%; 8.5% at December 31, 2018), the pound sterling (3.8%, 3.9% at December 31, 2018), the US dollar (3.6%; 3.8% at December 31, 2018) the Mexican peso (10.1%, 7.4% at December 31, 2018), and the Russian rouble (2.1%; 1.6% at December 31, 2018).

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

(in thousands of euro)

	Appreciation of 10%		Depreciation of 10%	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Brazilian Real	79,039	54,258	(64,668)	(44,393)
Turkish Lira	2,794	2,543	(2,286)	(2,080)
Chinese Yuan	67,007	61,628	(54,824)	(50,423)
Romanian Leu	60,763	43,204	(49,715)	(35,349)
Russian Rouble	11,329	8,308	(9,269)	(6,797)
British Pound	20,475	19,481	(16,752)	(15,939)
Argentinian Pesos	9,737	8,779	(7,966)	(7,183)
US Dollar	19,453	19,036	(15,916)	(15,575)
Mexican Pesos	54,371	37,594	(44,486)	(30,759)
Total on consolidated equity	**324,968**	**254,831**	**(265,882)**	**(208,498)**

INTEREST RATE RISK Interest rate risk is represented by exposure to the variability of the fair value, or of the future cash flows, of the financial assets or liabilities due to changes in the market interest rates.

Based on market circumstances, the Group assesses, whether to enter into derivative contracts for hedging interest rate risk, for which hedge accounting is activated when the conditions set forth in the 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%	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Impact on Net income / (loss)	(7,949)	(13,039)	7,949	13,039

The effects on the Group's equity resulting from changes in the LIBOR and EURIBOR rates calculated on the interest rate hedging instruments outstanding at December 31, 2019 are described in Note 27 - *"Derivative 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 and unlisted equities and bonds, which constituted approximately 0.7% of the total consolidated assets at December 31, 2019 (0.7% at December 31, 2018). 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.

Other financial assets at fair value through other Comprehensive Income represented by listed securities amounted to euro 24,893 thousand (euro 28,448 thousand at December 31, 2018) and those represented by securities indirectly associated with listed equity securities (Fin. Priv. S.r.l.) amounted to euro 20,565 thousand, (euro 15,604 thousand at December 31, 2018). These financial assets constituted 45.7% of the total financial assets subject to price risk (45.9% at December 31, 2018). A positive change of +5% in the prices of the aforesaid listed securities, all other conditions being equal, would result in a positive change to the Group's equity of euro 1,245 thousand (a positive change of euro 1,422 thousand at December 31, 2018) while a negative change of -5% in the prices of the aforesaid listed equities, all other conditions being equal, would result in a negative change to the Group's equity of euro 1,245 thousand (a negative change of euro 1,422 thousand to the Group's equity at December 31, 2018).

CREDIT RISK Credit risk represents the Group's exposure to potential losses resulting from the non-fulfilment of the commercial and financial obligations undertaken by counterparties. In order to limit this risk, Pirelli has implemented procedures to evaluate the customer's potential and financial creditworthiness, to monitor expected collection flows and to take credit recovery action if and when necessary. 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. Effective as of January 2012, the company had signed a master agreement which expired in December 2018, with a leading insurance company for worldwide coverage of credit risk, mainly relative to sales on the Replacement channel (with an approximate 71% acceptance rate at December 2019). Insurance coverage was extended to also cover the two year 2019 - 2020 period. At December 31, 2019, the amount of trade receivables remained essentially consistent with that at the closing of the previous financial year.

On the other end, as regard the financial counterparties for the management of its temporary cash surpluses or for trading in derivative instruments, the Group deals only with entities with a high 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 show significant concentrations of credit risk. Expected credit losses on trade receivables are calculated on the entire life of the receivables, starting from the moment of initial recognition, using a matrix based on historical experience which is tied to the ageing of the receivable itself, and which is adjusted to take forecasting factors into account which are specific to some customers, as well as the presence of any collateral securities and other credit risk mitigation instruments. At December 31, 2019 the maximum exposure to credit risk, calculated without considering the presence of any collateral securities and other credit risk mitigation instruments, equalled approximately 72,761 thousand.

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.

The principal instruments used by the Group to manage liquidity risk are annual and three year financial plans, and treasury plans. These allow for the complete and correct recording and measurement of cash inflows and outflows. Deviations between the plans and final data are the subject of constant analysis.

The Group has implemented a centralised system for managing collections and payments flows in compliance with the various local currency and tax regulations. Banking relationships are negotiated and managed centrally, in order to ensure that short and medium-term financial needs are covered at the lowest possible cost. The raising of medium / long-term resources on the capital market is also optimised through centralised management.

Prudent risk management as described above requires maintaining an adequate level of cash or cash equivalents and/or highly liquid short-term securities, the availability of funds that can be obtained through an adequate amount of committed credit facilities and/or the possibility of using the capital market, and the diversification of products and maturities in order to seize the best available opportunities.

At December 31, 2019 the Group had, in addition to cash and other financial assets at fair value through the Income Statement to the amount of euro 1,647,940 thousand (euro 1,354,096 thousand at December 31, 2018), unused credit facilities to the amount of euro 700,000 thousand (euro 700,000 thousand at December 31, 2018) maturing in the second quarter of 2022.

Maturities for financial liabilities at December 31, 2019 can be summarised as follows:

(in thousands of euro)

	within 1 year	1 to 2 years	2 to 5 years	over 5 years	Total
Trade payables	1,611,488	-	-	-	1,611,488
Other payables	402,757	4,811	26,142	59,618	493,328
Derivative financial instruments	2,378	4,021	4,656	139	11,194
Borrowings from banks and other financial institutions	1,278,759	229,189	2,989,547	285,457	4,782,952
of which financial leasing liabilities	102,595	87,227	*188,597*	*265,017*	*643,436*
	3,295,382	**238,021**	**3,020,345**	**345,214**	**6,898,962**

Maturities for financial liabilities at December 31, 2018 can be summarised as follows:

(in thousands of euro)

	within 1 year	1 to 2 years	2 to 5 years	over 5 years	Total
Trade payables	1,604,677	-	-	-	1,604,677
Other payables	436,752	5,122	18,797	59,368	520,039
Derivative financial instruments	63,043	(20,871)	(55,247)	(66)	(13,141)
Borrowings from banks and other financial institutions	892,924	1,324,611	2,867,664	21,029	5,106,228
	2,997,396	**1,308,862**	**2,831,214**	**80,331**	**7,217,803**

5. INFORMATION ON FAIR VALUE

5.1 FAIR VALUE MEASUREMENT

In relation to financial instruments measured at fair value, the following table shows the classification of these instruments on the basis of the hierarchy of levels provided for by IFRS 13, which reflects the significance of the inputs used in determining 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 following table shows **assets and liabilities measured at fair value at December 31, 2019**, divided into the three levels defined above:

(in thousands of euro)

	Nota	Carrying amount at 12/31/2019	Level 1	Level 2	Level 3
FINANCIAL ASSETS:					
Financial assets carried at fair value through Income Statement:					
Other current financial assets at fair value through income statement	18	38,119	-	38,119	-
Current derivative financial instruments	27	26,962	-	26,962	-
Derivative hedging instruments:					
Current derivative financial instruments	27	10,186	-	10,186	-
Non current derivative financial instruments	27	52,515	-	52,515	-
Other financial assets at fair value through other Comprehensive Income					
Securities and shares		55,020	24,893	20,565	9,562
Investment funds		3,947	-	3,947	-
	12	58,967	24,893	24,512	9,562
TOTAL ASSETS		**186,749**	**24,893**	**152,294**	**9,562**
FINANCIAL LIABILITIES:					
Financial liabilities carried at fair value through Income Statement:					
Current derivative financial instruments	27	(41,427)	-	(41,427)	-
Derivative hedging instruments:					
Non current derivative financial instruments	27	(10,327)	-	(10,327)	-
TOTAL LIABILITIES		**(51,754)**		**(51,754)**	

The following table shows **assets and liabilities that were measured at fair value at December 31, 2018**, divided into the three levels defined above:

(in thousands of euro)

	Nota	Carrying amount at 12/31/2018	Level 1	Level 2	Level 3
FINANCIAL ASSETS:					
Financial assets carried at fair value through Income Statement:					
Other current financial assets at fair value through income statement	18	27,196	-	27,196	-
Current derivative financial instruments	27	77,650	-	77,650	-
Derivative hedging instruments:					
Current derivative financial instruments	27	20,917	-	20,917	-
Non current derivative financial instruments	27	20,134	-	20,134	-
Other financial assets at fair value through other comprehensive income:					
Securities and shares		53,207	28,448	15,604	9,155
Investment funds		15,574	-	15,574	-
	12	68,781	28,448	31,178	9,155
TOTAL ASSETS		**214,678**	**28,448**	**177,075**	**9,155**
FINANCIAL LIABILITIES:					
Financial liabilities carried at fair value through Income Statement:					
Current derivative financial instruments	27	(59,602)	-	(59,602)	-
Derivative hedging instruments:					
Non current derivative financial instruments	27	(16,039)	-	(16,039)	-
TOTAL LIABILITIES		**(75,641)**		**(75,641)**	

The following table shows **changes in the financial assets** classified in **level 3 that occurred during the course of 2019**:

(in thousands of euro)

Opening balance 01/01/2019	**9,155**
Translation differences	10
Increases	86
Decreases	(56)
Fair value adjustments through other comprehensive income	424
Other changes	(57)
Closing balance 12/31/2019	**9,562**

These financial assets are mainly represented by equity investments in the European Institute of Oncology (euro 7,465 thousand), and Tlcom I LP (euro 195 thousand).

The **fair value adjustments through other Comprehensive Income** equalled a positive net value of euro 424 thousand, and mainly refers to the fair value adjustment of the investment in the European Institute of Oncology.

During the course of 2019 there were no transfers from level 1 to level 2 or vice versa, nor from level 3 to other levels and vice versa.

The fair value of financial instruments traded on active markets is based on the price quotations published at the reporting date of the Financial Statements. These instruments, included in level 1, primarily comprise of equity investments classified as financial assets at fair value through other Comprehensive Income.

The fair value of financial instruments not traded on active markets (e.g. derivatives) is determined by the use of evaluation techniques widely used in the financial sector, which maximise the utilisation of observable and available 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 the 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 any natural rubber futures is determined by using the closing price of the contract at the reporting date of the Financial Statements.

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)

	Nota	Carrying amount at 12/31/2019	Carrying amount at 12/31/2018
FINANCIAL ASSETS			
Financial assets at fair value through income statement			
Other financial assets at fair value through income statement	18	38,119	27,196
Current derivative financial instruments	27	26,962	77,650
		65,081	*104,846*
Financial assets at amortised cost			
Other non-current receivables	15	342,397	225,707
Current trade receivables	14	649,394	627,968
Other current receivables	15	451,858	416,651
Cash and cash equivalents	19	1,609,821	1,326,900
		3,053,470	*2,597,226*
Financial assets at fair value through other comprehensive income (FVOCI)			
Other financial assets at fair value through Other Comprehensive Income	12	58,967	68,781
Financial hedging derivative instruments			
Current derivative financial instruments	27	10,186	20,917
Non-current financial derivative instruments	27	52,515	20,134
		62,701	*41,051*
TOTAL FINANCIAL ASSETS		**3,240,219**	**2,811,904**
FINANCIAL LIABILITIES			
Financial liabilities carried at fair value through income statement			
Current derivative financial instruments	27	41,427	59,602
Financial liabilities valuated at amortised cost			
Non-current borrowings from banks and other financial institutions (excl. lease obligations)	23	3,544,461	3,929,069
Other non-current payables	25	90,571	83,287
Current borrowings from banks and other financial institutions (excl. lease obligations)	23	1,341,606	799,942
Current trade payables	24	1,611,488	1,604,677
Other current payables	25	402,757	436,752
		6,990,883	*6,853,727*
Lease payables			
Non-current ease payables		405,375	10
Current lease payables		77,797	203
	23	483,172	213
Derivative financial hedging instruments			
Non-current derivative financial instruments	27	10,327	16,039
TOTAL FINANCIAL LIABILITIES		**7,525,809**	**6,929,581**

6. CAPITAL MANAGEMENT POLICY

The Company's objective is to maximise the return on net invested capital while maintaining its ability to operate over time, in order to ensure adequate returns for its shareholders and benefits for other stakeholders, and also providing for the gradual de-leveraging of the financial structure of the Group, which is to be achieved over a short to medium-term period.

The main indicator that the Group uses to manage its capital is the R.O.I. (which is calculated as the percentage ratio between the EBIT adjusted 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"* and *"Other non-current financial assets at fair value through the Income Statement"* and intangible assets related to assets recognised as a consequence of Business Combinations.

The R.O.I. for the 2019 financial year was equal to 24% and includes the impact deriving from the application of the accounting standard IFRS 16 – Leases. Excluding the impact of new accounting standard, R.O.I. was equal to 27%, compared to 30% for 2018.

7. ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated Financial Statements requires Management to make estimates and assumptions which, under certain circumstances are based on difficult and subjective evaluations and estimates based on historical experience, and 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 the 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 schemes 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 loss to be recognised in the Income Statement. In particular, testing involves the allocation of goodwill to the cash generating units (which for the Group coincide with the business sector that is the Consumer Activities), and the subsequent determination of the relative recoverable amount, being the higher amount between either the fair value or the value in use.

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

With reference to the impacts derived from the adoption of the new accounting standard IFRS 16 - Leases, the carrying amount of the cash generating units includes the value of the rights of use belonging to the CGUs themselves. In determining the present value of future flows, any flows related to the repayment of lease obligations are excluded, as they represent flows deriving from financing activities. Consequently, the value of lease obligations is excluded from the carrying amount of the CGU at the date of the impairment test.

The configuration of the value used to determine the recoverable amount for Consumer Activities at December 31, 2019, is that of the value in use which corresponds to the present value of the future cash flows which are expected to be associated with the group of CGUs, using a rate which reflects the specific risks of the individual CGU at the valuation date.

The key assumptions used by Management were the estimates for future increases in sales, in operating cash flows, in the growth rates of operating cash flows beyond explicit forecast period for terminal value estimation purposes, in the weighted average cost of capital (discount rate). The expected cash flows cover a time-frame of three years (2020 - 2022) and refer to the consensus forecasts on the prospective revenues and EBITDA adjusted for the three-year period 2020 - 2022 made by equity analysts and issued after presentation of the 2020 - 2022 Industrial Plan, as these forecasts are more prudent than the Plan approved by the Board of Directors and presented to the financial community on February 19, 2020.

The impairment test at December 31, 2019 did not show any impairment loss, as the fair value of Consumer Activities was significantly higher than the carrying amount.

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 annually or more frequently, if specific events or circumstances arise that may indicate an impairment.

The impairment test at December 31, 2019 was performed using the assistance of an independent third-party professional.

The configuration of the recoverable amount for impairment testing purposes at December 31, 2019 was the fair value, calculated on the basis of the income approach (the so-called Level 3 of the hierarchy of IFRS 13 – Fair Value measurement).

PROPERTY, PLANT AND EQUIPMENT EXCLUDING THE RIGHTS OF USE

In accordance with the relevant accounting standards fixed assets are tested, in order to ascertain whether there has been any impairment when there are indicators 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 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.

RIGHTS OF USE AND LEASE OBLIGATIONS

As regards the estimates and assumptions used for the determination of lease obligations and the rights of use, reference should be made to paragraph 3.3 *"Impacts deriving from the adoption of IFRS 16 - Leases".*

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. In particular, deferred tax assets are recognised to the extent that 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.

As regards the situations in which the tax legislation in force lends itself to interpretation, if the Group considers it probable (more 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, otherwise the effect of any uncertainty is reflected in the determination of the net income (loss) before tax. The probability refers to the fact that the tax authority will not accept the tax treatment adopted, and not to the probability of the assessment.

PENSION FUNDS

The companies of the Group have 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 plans have been closed to new participants, and therefore the actuarial risk refers only to the previous deficit. Management uses different actuarial assumptions to calculate liabilities and plan assets.

The actuarial assumptions of financial nature concern the discount rate, the inflation rate 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 considered balanced, given the context.

PROVISIONS FOR LIABILITIES AND CHARGES

In view of the legal and tax risks related to indirect taxes, provisions for the risk of unfavourable outcomes have been recognised. The value of provisions recognised in the Statement of Financial Position related to these risks represents the best estimate at the date made by Management in relation to legal and tax issues regarding a wide range of issues that are subject to the jurisdiction of various countries. This estimate entails the adoption of assumptions which depend on factors that may change over time and which could therefore have a significant impact on the current estimates made by Management in preparing the Consolidated Financial Statements.

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 income is periodically reviewed by the Chief Executive Officer, in his role as Chief Operating Decision Maker (CODM);
- for which separate income, financial position, and equity data is available.

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

For 2019 Pirelli adopted a new organisational model at regional level, composed of five regions instead of six.

In addition to APAC, North America (previously called NAFTA) and South America, two new macro geographic regions were created:

- EMEA which includes Europe, the Middle East and Africa. The Gulf countries fall under this region, that is, markets with increasing exposure to the High Value segment;
- Russia and Nordics, which are markets with high similarities. The objective is to create a productive and commercial synergy, particularly for *Winter* products.

The comparative data for 2018 have been restated to adapt them to the new breakdown by geographical regions.

Revenues from **sales and services by geographical regions** are shown below:

(in thousands of euro)

	2019	2018
EMEA	2,288,680	2,329,150
North America	1,101,890	1,004,027
Asia / Pacific (APAC)	975,095	903,815
South America	681,995	691,874
Russia & Nordics	275,394	265,605
Total	**5,323,054**	**5,194,471**

Non-current assets by geographical regions, allocated on the basis of the country where the assets are located, are shown below.

(in thousands of euro)

	12/31/2019		12/31/2018	
EMEA	5,701,439	61.12%	5,408,690	60.94%
Russia & Nordics	239,080	2.56%	172,618	1.94%
North America	468,610	5.02%	445,894	5.02%
South America	510,318	5.47%	466,441	5.25%
Asia / Pacific (APAC)	523,549	5.61%	495,760	5.59%
Non-current unallocated assets	1,886,988	20.22%	1,886,862	21.26%
Total	**9,329,984**	**100.00%**	**8,876,265**	**100.00%**

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

9. PROPERTY, PLANT AND EQUIPMENT

They are composed as follows:

(in thousands of euro)

	12/31/2019	12/31/2018
Net Value	**3,649,809**	**3,092,927**
- Tangible assets	3,187,190	3,092,685
- Rights of use	462,619	242

9.1 TANGIBLE ASSETS

The composition and changes are as follows:

NET VALUE

(in thousands of euro)

	12/31/2018	High Inflation Argentina	Translation differ.	Increases	Decreases	Depreciation	Devaluation	Recl./ Other	12/31/2019
Land	**189,026**	1,220	(618)	16	-	-	-	(227)	**189,417**
Buildings	**697,247**	4,069	7,855	47,572	(1,322)	(30,961)	(73)	1,521	**725,908**
Plant and machinery	**1,905,358**	8,267	8,279	235,989	(5,778)	(172,445)	(17,333)	3,533	**1,965,870**
Industrial and trade equipment	**242,242**	930	4,155	77,096	(1,871)	(76,903)	(1,074)	1,901	**246,476**
Other assets	**58,812**	3,915	(1,150)	9,026	(987)	(11,736)	(76)	1,715	**59,519**
Total	**3,092,685**	**18,401**	**18,521**	**369,699**	**(9,958)**	**(292,045)**	**(18,556)**	**8,443**	**3,187,190**

NET VALUE

(in thousands of euro)

	12/31/2017	Assets held for sale	High Inflation Argentina	Translation differ.	Increases	Decreases	Depreciation	Devaluation	Recl./ Other	12/31/2018
Land	**201,216**	(9,890)	2,872	(8,707)	-	(3,250)	-	-	6,785	**189,026**
Buildings	**666,437**	(787)	5,316	(16,882)	67,338	(774)	(29,320)	-	5,919	**697,247**
Plant and machinery	**1,820,958**	-	14,395	(38,949)	305,140	(2,931)	(157,998)	(14,560)	(20,583)	**1,905,472**
Industrial and trade equipment	**237,273**	-	669	(9,925)	56,899	(4,628)	(68,501)	(406)	30,861	**242,242**
Other assets	**54,125**	-	1,389	(3,469)	22,424	(308)	(13,265)	(3)	(2,081)	**58,812**
Total	**2,979,850**	**(10,677)**	**24,641**	**(77,932)**	**451,801**	**(11,891)**	**(269,084)**	**(14,969)**	**20,946**	**3,092,685**

The item **high inflation Argentina** refers to the revaluation of the assets held by the Argentinian company as a consequence of the application of the accounting standard IAS 29 - Financial Reporting in Hyper-inflationary Economies.

Increases, totalling euro 369,699 thousand, were primarily aimed at increasing the capacity of the High Value segment, and to the continuous improvement in the mix and quality in all manufacturing plants.

The ratio of investments to depreciation for 2019 was equal to 1.27 (1.68 for the year 2018).

The item **devaluation** refers to the impairment of property, plant and equipment mainly due to restructuring plans in Brazil and Italy.

Property, plant and equipment in progress at December 31, 2019, included in the individual categories of fixed assets, amounted to euro 217,620 thousand (euro 227,302 thousand at December 31, 2018).

It should be noted that, as part of the financing stipulated in Brazil, the companies of the Group have pledged their own plants and machinery as guarantees to a total value of euro 1,165 thousand.

9.2 RIGHTS OF USE

The value of the assets for which the Group has entered into lease agreements was composed as follows:

(in thousands of euro)

	12/31/2019	12/31/2018
Right of use land	15,323	-
Right of use buildings	355,939	-
Right of use plant and machinery	30,689	114
Right of use other assets	60,668	128
Total	**462,619**	**242**

The figures at December 31, 2018 were relative to financial lease contracts pursuant to IAS 17.

The rights of use for buildings mainly refers to contracts related to offices, warehouses and points of sale.

The rights of use for other assets mainly refers to contracts related 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 rights of use during the 2019 financial year amounted to euro 51,235 thousand.**

At December 31, 2019 depreciation of the rights of use recognised in the Income Statement and included under the item "Amortisation, depreciation and impairment" - (Note 32) was composed as follows:

(in thousands of euro)

	2019
Land	1,130
Building	60,613
Plant e machinery	7,789
Other assets	19,947
Total depreciation of right of use	**89,479**

For interest on lease obligations, reference should be made to Note 37 - *"Financial expenses"*. Information on the costs for lease contracts with duration of less than twelve months, lease contracts for low value assets, and lease contracts with variable lease payments, reference should be made to Note 33 - *"Other costs"*.

10. INTANGIBLE ASSETS

The composition and changes were as follows:

(in thousands of euro)

	12/31/2018	Translation differences	Increase	Decrease	Amortisation	Other	12/31/2019
Concessions / licenses / trademarks - finite life	**63,375**	741	441	-	(5,274)	551	**59,834**
Pirelli Brand - indefinite life	**2,270,000**	-	-	-	-	-	**2,270,000**
Goodwill	**1,886,862**	(204)	-	-	-	330	**1,886,988**
Customer relationships	**342,796**	332	-	-	(34,543)	-	**308,585**
Technology	**1,199,167**	-	-	-	(76,850)	-	**1,122,317**
Software applications	**18,333**	(32)	8,670	(15)	(8,092)	107	**18,971**
Patents and design patent rights	-	-	4,726	-	(236)	-	**4,490**
Other intangible assets	**2,805**	128	6,975	-	(828)	(90)	**8,990**
Total	**5,783,338**	**965**	**20,812**	**(15)**	**(125,823)**	**898**	**5,680,175**

(in thousands of euro)

	12/31/2017	Translation differences	Effect of business combination	Increase	Decrease	Amortisation	Impairment	Other	12/31/2018
Concessions / licenses / trademarks - finite life	**67,797**	(811)	-	979	-	(4,827)	-	237	**63,375**
Pirelli Brand - indefinite life	**2,270,000**	-	-	-	-	-	-	-	**2,270,000**
Goodwill	**1,877,363**	(508)	10,007	-	-	-	-	-	**1,886,862**
Customer relationships	**377,242**	87	-	-	-	(34,533)	-	-	**342,796**
Technology	**1,276,017**	-	-	-	-	(76,850)	-	-	**1,199,167**
Software applications	**20,744**	(118)	-	10,330	(8)	(7,816)	(5,250)	451	**18,333**
Other intangible assets	**4,541**	270	-	331	(679)	(1,194)	-	(464)	**2,805**
Total	**5,893,704**	**(1,080)**	**10,007**	**11,640**	**(687)**	**(125,220)**	**(5,250)**	**224**	**5,783,338**

Intangible assets were composed as follows:

- the Pirelli Brand (indefinite useful life) equal to 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. In particular, the useful life of the Pirelli Brand was assessed as indefinite on the basis of its history of over one hundred years of success (established in 1872), and 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) equal to euro 52,483 thousand included under the item "Concessions, licenses and brands with a finite useful life;"
- Customer relationships (useful life of 10 - 20 years) which mainly includes the value of commercial relationships both for the Original Equipment channel and the 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 1,047,317 thousand and euro 75,000 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 1,886,988 thousand, of which euro 1,877,363 thousand was recorded at the time of acquisition of the Group in September 2015. The residual portion refers to the goodwill provisionally determined as part of the acquisition of the company JMC Pneus Comercio Importação e Exportação Ltda which occurred in 2018.

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 impairment.

For the purposes of such impairment testing, goodwill is allocated to the cash generating units (CGUs) or group of CGUs in compliance with the maximum aggregation limit which cannot exceed that of the operating segment identified pursuant to IFRS 8. Goodwill, amounting to euro 1,886,988 thousand, was allocated to the group of CGUs, the *"Consumer Activities"*, which represents the only sector of activity in which the Group operates, and which it considers to be the minimum level at which goodwill should be monitored for the purposes of internal management control.

The impairment test consists of comparing the recoverable amount of the Cash Generating Unit (CGU) (or of the set of CGUs) to which the goodwill is allocated and its carrying amount, including its operating assets and goodwill.

The recoverable amount is defined as the higher amount between its value in use (present value of the expected cash flows) and the fair value less costs of disposal (market value net of costs for disposal).

The value configuration used to determine the recoverable amount for Consumer Activities at December 31, 2019, is that of the value in use which corresponds to the present value of the future cash flows expected to be associated with the group of CGUs, using a rate which reflects the risks specific to the group of CGUs at the measurement date.

The key assumptions used by Management were the estimates for future increases in sales, in operating cash flows, in the growth rates of operating cash flows beyond explicit forecast period for terminal value estimation purposes, in the weighted average cost of capital (discount rate). The expected cash flows cover a time-frame of three years (2020 - 2022) and refer to the consensus forecasts on the prospective revenues and EBITDA adjusted for the three-year period 2020 - 2022 period made by equity analysts and issued after presentation of the 2020 - 2022 Industrial Plan, as these forecasts are more prudent than the Plan approved by the Board of Directors and presented to the financial community on February 19, 2020; for the 2020 – 2022, period the average annual revenue growth rate is 2.8%, while the average EBITDA margin is 25.1%.

The impairment test at December 31, 2019 was performed using the assistance of an independent third-party professional.

Also considered were the hypothetical cash flows deriving from the disposal of the CGUs at the end of the explicit period (assumed to be equal to the present value of the perpetual income from cash flows generated during the final year of the forecast).

The discount rate, defined as the Weighted Average Cost of Capital (WACC) net of taxes, which was applied to the prospective cash flows equalled 6.48%, while the operating cash flows growth rate, for the purposes of terminal value estimation (g) equalled zero. Capitalization rate of operating cash flows (WACC – g) is hence equal to 6.48%.

On the basis of the results of the tests carried out, no impairment loss emerged.

The recoverable amount is higher compared to the carrying amount of the Consumer Activities (18.2%); for the value in use to be equal to the carrying amount change in key parameters should be the following:

- an increase in the discount rate by 112 basis points;
- a decrease in the growth rate "g" beyond the explicit forecasted period by 129 basis points;
- a decrease in the EBITDA margin adjusted by 252 basis points.

For the purposes of providing complete information, it should be noted that the share price at December 31, 2019 (euro 5.14 per share) was in any case higher than the carrying amount for Group equity (euro 4.72 per share).

IMPAIRMENT TESTING OF THE PIRELLI BRAND (INTANGIBLE FIXED ASSET WITH AN INDEFINITE USEFUL LIFE): The Pirelli Brand, valued at euro 2,270,000 thousand, is an intangible fixed 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, 2019 was carried out with the assistance of an independent third-party professional.

The configuration of the recoverable amount for impairment testing purposes at December 31, 2019 was the fair value, calculated on the basis of the income approach (the so-called Level 3 of the hierarchy of IFRS 13 – Fair Value measurement) and was based on:

- the consensus forecasts of equity analysts for the prospective revenues for the 2020 - 2022 period, as these forecasts are more prudent than the 2020 - 2022 Industrial Plan, where the revenue growth rate for the 2020-2022 period is 2.8%;
- a valuation criterion by sum of parts 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;
- the royalty rates applied to the revenues of the Consumer High Value and Consumer Standard segment was deduced from the royalty rates implicit in the valuations made by an independent entity related to the main brands of the listed companies of the Tyre sector, and was equal to an average royalty rate of 4.46%. With reference to the contribution in

terms of royalties from the Prometeon Tyre Group, the royalties used were those planned;
- a discount rate of 8.00% which included a premium compared to WACC determined on the basis of the risk level of the specific asset;
- a growth rate of g in the terminal value assumed to be equal to zero;
- the TAB (Tax Amortisation Benefit), that is the tax benefit which the market participant could benefit in the abstract if it were to acquire the asset separately as a result of the possibility to amortize it for tax purposes.

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

For the fair value to be equal to the carrying amount of the Pirelli Brand, change in key parameters should be the following:

- a decrease in the royalty rates for the Consumer valuation units by 53 basis points, and the simultaneous zeroing of the balance for royalties from the license agreement with Prometeon Tyre Group;
- an increase in the discount rate by 96 basis points;
- a decrease in the g growth rate of 128 basis points.

11. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Changes in investments in associates and joint ventures were as follows:

(in thousands of euro)

	12/31/2019			12/31/2018		
	Associates	**j.v.**	**Total**	**Associates**	**j.v.**	**Total**
Opening balance	**8,419**	**64,286**	**72,705**	**12,529**	**4,951**	**17,480**
Increases	-	27,580	27,580	-	65,222	65,222
Distribution of dividends	(200)	-	(200)	(2,674)	-	(2,674)
Impairment	-	-	-	(874)	-	(874)
Share of net income / (loss)	249	(9,927)	(9,678)	(274)	(11,286)	(11,560)
Share of other components recognised in Equity	-	(1,176)	(1,176)	-	(3,221)	(3,221)
Use of provision for future risks and expenses	-	(8,620)	(8,620)	-	8,620	8,620
Other	235	-	235	(288)	-	(288)
Closing balance	**8,703**	**72,143**	**80,846**	**8,419**	**64,286**	**72,705**

11.1 INVESTMENTS IN ASSOCIATES

The item was composed as follows:

(in thousands of euro)

	12/31/2018	Distrib. of dividends and reserves	Share of net income (loss)	Other	12/31/2019
Eurostazioni S.p.A.	6,395	-	-	-	6,395
Joint Stock Company Kirov Tyre Plant	1,185	-	55	177	1,417
Other Group companies	839	(200)	194	58	891
Total associates	**8,419**	**(200)**	**249**	**235**	**8,703**

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

11.2 INVESTMENTS IN JOINT VENTURES

The details of the item were as follows:

(in thousands of euro)

	12/31/2018	Increases	Share of net income/(loss)	Share of other components recognised in Equity	Use of provision for liabilities and charges	12/31/2019
PT Evoluzione Tyres	-	27,580	(2,769)	(1,176)	(8,620)	15,015
Xushen Tyre (Shanghai) Co, Ltd	64,286	-	(7,158)	-	-	57,128
Total joint ventures	**64,286**	**27,580**	**(9,927)**	**(1,176)**	**(8,620)**	**72,143**

The Group holds:

- an investment of 63.04% (ownership was 60% at December 31, 2018) 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 contractual agreements between Shareholders, it falls under the definition of a joint venture, in that the governance regulations explicitly require unanimous consensus for significant business decisions. The investment is evaluated using the equity method;
- 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 new plant provides the necessary production flexibility for the High Value segment, taking into account 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. The investment is evaluated using the equity method.

The item **increases** refer to the effects of the recapitalisation of the Indonesian joint venture which was completed during the first half-year through the conversion, by Pirelli Tyre S.p.A., of the Group's outstanding loans at December 31, 2018 of euro18,655 thousand, and a further capital payment of euro 8,925 thousand.

The **share of net income/(loss)** which was negative to the amount of euro 9,927 thousand, refers to euro 7,158 thousand, pro-rata share of the loss for 2019 attributable to the joint venture Xushen Tyre (Shanghai) Co., Ltd., and to euro 2,769 thousand attributable to the joint venture PT Evoluzione Tyres.

The item **use of provision for liabilities and charges** mainly refers to the provision recorded in 2018 for the joint venture PT Evoluzione Tyres, concerning the surplus between the pro-rata share of the loss for the period, and the value of the investment which was used following the recapitalisation of the company during the first half-year of 2019 (Refer to Note 21 - Provisions for liabilities and charges).

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 changes in other financial assets at fair value through other Comprehensive Income amounted to euro 58,967 thousand at December 31, 2019 (euro 68,781 thousand at December 31, 2018), and were as follows:

(in thousands of euro)

Opening balance at 01/01/2019	**68,781**
Translation differences	10
Increases	86
Decreases	(9,486)
FV adjustments through Other comprehensive income	(366)
Other	(58)
Closing balance at 12/31/2019	**58,967**

The composition of the item according to the individual securities is as follows:

(in thousands of euro)

	12/31/2019	12/31/2018
Listed securities		
RCS Mediagroup S.p.A.	24,892	28,449
Total	**24,892**	**28,449**
Unlisted securities		
Fin. Priv. S.r.l.	20,565	15,604
Fondo Anastasia	3,947	15,575
Istituto Europeo di Oncologia S.r.l.	7,465	6,961
Euroqube	10	12
TIcom I LP	195	184
Other companies	1,893	1,996
Total	**34,075**	**40,332**
Total other financial assets at FV through Other comprehensive income	**58,967**	**68,781**

The item **decreases** refers mainly to the partial quotas repayment for the Fondo Comune di Investimento Immobiliare Anastasia (Anastasia Real Estate Investment Fund) to the amount of euro 9,430 thousand.

The **fair value adjustments through other Comprehensive Income** which equalled a negative net value of euro 366 thousand, mainly refer to Fin. Priv. S.r.l. (positive at euro 4,961 thousand), to the European Oncological Institute (positive at euro 504 thousand), which was offset by RCS MediaGroup S.p.A. (negative at euro 3,556 thousand), and by the Fondo Comune di investimento Anastasia (Anastasia Real Estate Investment Fund), (negative at euro 2,197 thousand).

For listed securities, their fair value corresponded to the stock market price at December 31, 2019. The fair value of unlisted securities was determined by using estimates based on the best available information.

13. DEFERRED TAX ASSETS AND PROVISION FOR DEFERRED TAX LIABILITIES

Their composition is as follows:

(in thousands of euro)

	12/31/2019	12/31/2018
Deferred tax assets	81,188	74,118
Provision for deferred tax liabilities	(1,058,760)	(1,081,605)
Total	**(977,572)**	**(1,007,487)**

Deferred tax assets and deferred tax liabilities were offset where a legal right existed that allowed for the offset of current tax assets and current tax liabilities, and the deferred taxes refer to the same legal entity and the same taxation authority.

The **provision for deferred tax liabilities** mainly refers to the tax effect recognised on the value of the assets identified during the course of the 2016 financial year, following the completion of the allocation of the price paid by Marco Polo Industrial Holding S.p.A. for the acquisition of the Pirelli Group at fair value of the Pirelli assets and liabilities acquired (Purchase Price Allocation or PPA), and 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 the same 2016 financial year.

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

(in thousands of euro)

	12/31/2019	12/31/2018
Deferred tax assets	**351,373**	**304,872**
- of which within 12 months	159,911	126,864
- of which beyond 12 months	191,462	178,008
Provision for deferred tax liabilities	**(1,328,945)**	**(1,312,359)**
- of which within 12 months	(5,935)	(3,361)
- of which beyond 12 months	(1,323,010)	(1,308,998)
Total	**(977,572)**	**(1,007,487)**

The tax effect of temporary differences and of tax losses carried forward which make up the item is shown in the following table:

(in thousands of euro)

	12/31/2019	12/31/2018
Deferred tax assets:		
Provisions for liabilities and charges	62,633	48,478
Property, plant and equipment	6,763	-
Leases (IFRS 16)	1,511	-
Employee benefit obligations	66,389	61,428
Inventories	40,452	50,003
Tax losses carried forward	43,338	70,429
Trade receivables and other receivables	29,307	27,727
Trade payables and other payables	2,210	395
Other	98,770	46,412
Total	**351,373**	**304,872**
Provision for deferred tax liabilities:		
Intangible assets	(1,055,683)	(1,083,896)
Property, plant and equipment	(193,202)	(175,808)
Other	(80,060)	(52,655)
Total	**(1,328,945)**	**(1,312,359)**

The item "*Other*" in deferred tax assets mainly includes deferred tax assets recognised on surpluses of interest charges not deducted, and on the ACE benefit (Allowance for Corporate Equity).

At December 31, 2019 the value of deferred tax assets not recognised on tax losses equalled euro 76,218 thousand, while those relative to temporary differences equalled euro 38,423 thousand. This latter item mainly includes deferred tax assets not recognised on interest charges.

The value of tax losses according to their maturity, against which deferred tax assets are not recognised, are as follows:

(in thousands of euro)

Year of maturity	12/31/2019	12/31/2018
2018	-	4,660
2019	1,713	2,406
2020	3,040	3,039
2021	2,552	2,551
2022	5,493	5,490
2023	1,280	1,280
2024	1,893	1,818
2025	5,122	5,114
2026	3,648	3,648
2027	512	512
2028	675	-
Without maturity date	291,683	284,476
Total	**317,611**	**314,994**

Of the total tax losses with no expiration date, euro 145,880 thousand refers to losses attributable to subsidiaries in the UK, Spain, Chile and Netherlands, for which no future taxable income was expected that could justify their recoverability, and euro 125,199 thousand in tax losses attributable to Pirelli & C. S.p.A., which derived from the company Marco Polo Industrial Holding S.p.A. as a result of the reverse merger in 2016.

The tax effect of gains and losses recognised directly in equity was positive to the amount of euro 1,170 thousand (negative to the amount of euro 7,884 thousand for 2018) and is shown 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 derivatives in cash flow hedging.

14. TRADE RECEIVABLES

Trade receivables were analysed as follows:

(in thousands of euro)

	12/31/2019			12/31/2018		
	Total	Non-current	Current	Total	Non-current	Current
Trade receivables	715,361	-	715,361	685,090	-	685,090
Provision for bad debts	(65,967)	-	(65,967)	(57,122)	-	(57,122)
Total	**649,394**	**-**	**649,394**	**627,968**	**-**	**627,968**

The gross value of trade receivables amounted to euro 715,361 thousand (euro 685,090 thousand at December 31, 2018) of which euro 76,404 thousand was for receivables which were past due (expired) at the reporting date (euro 148,663 thousand at December 31, 2018). Receivables which were past due at December 31, 2019 benefited from better collection procedures, implemented during the last quarter of the financial year.

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

Impairment losses on receivables include 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 **changes in the provision for bad debts** were as follows:

(in thousands of euro)

	12/31/2019	12/31/2018
Opening balance	**57,122**	**267,086**
Translation differences	612	16,548
Accruals	30,251	18,978
Decreases	(14,433)	(237,124)
Reversals	(8,016)	(8,211)
Other	431	(155)
Closing balance	**65,967**	**57,122**

Accruals to the provision for bad debts are recognised in the Income Statement under *"Net impairment loss on financial assets"* - (Refer to Note 34).

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

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

15. OTHER RECEIVABLES

Other receivables were analysed as follows:

(in thousands of euro)

	12/31/2019			12/31/2018		
	Total	Non-current	Current	Total	Non-current	Current
Financial receivables	180,150	140,324	39,826	156,952	124,048	32,904
Trade accruals and deferrals	46,399	15,803	30,596	32,837	8,907	23,930
Receivables from employees	7,513	899	6,614	6,625	1,059	5,566
Receivables from social security and welfare institutions	2,136	-	2,136	2,537	-	2,537
Receivables from tax authorities not related to income taxes	458,921	150,513	308,408	306,253	42,021	264,232
Other receivables	108,080	39,186	68,894	152,477	50,173	102,304
	803,199	**346,725**	**456,474**	**657,681**	**226,208**	**431,473**
Provision for bad debts	(8,944)	(4,328)	(4,616)	(15,323)	(501)	(14,822)
Total	**794,255**	**342,397**	**451,858**	**642,358**	**225,707**	**416,651**

The item **non-current financial receivables** (euro 140,324 thousand) refers mainly to, euro 77,656 thousand in sums deposited as guarantees for tax and legal disputes in relation to the subsidiary Pirelli Pneus Ltda (Brazil) and remunerated at market rates, to euro 19,158 thousand in sums deposited into escrow accounts in favour of the pension funds of Pirelli UK Ltd. and Pirelli UK Tyres Ltd. to euro 14,075 thousand in contributions paid in cash at the time of signing an association in participation contract, to euro 5,584 thousand in loans disbursed in favour of the Indonesian joint venture PT Evoluzione Tyres.

The item **current financial receivables** (euro 39,826 thousand) refers to, euro 26,131 thousand for the short-term portion of loans disbursed to the joint venture Jining Shenzhou Tyre Co., Ltd. and to euro 6,843 thousand accrued on derivative cross currency interest swap contracts relative to the unsecured syndicated *"Facilities"* loan granted to Pirelli International Treasury S.p.A., and to euro 965 thousand for the short-term portion of insurance premiums paid in advance for the issue of guarantees in favour of the same pension funds.

The **provision for other receivables and financial receivables** (euro 8,944 thousand) mainly includes euro 8,651 thousand relative to the impairment of financial receivables.

The item **receivables from tax authorities not related to income taxes** (euro 458.921 thousand) is mainly comprised of receivables for IVA (value added tax) and other indirect taxes. The increase compared to December 31, 2018 (equalled euro 152,668 thousand) and was mainly attributable to a receivable from the Brazilian tax authorities totalling euro 162,101 thousand, which was recognised following the attainment of a favourable verdict, no longer subject to appeal, which was formally passed into final judgement (*res judicata*) by the Federal Regional Court, with registered offices in Brasilia and San Paolo, which recognised the right to exclude the ICMS tax (*Imposto Sobre Operações Relativas à Circulação* or state Value Added Tax, for the circulation of goods and the provision of interstate and inter-municipal transport and communication services) from the base calculation of PIS (*Programa de Integracao Social*) and COFINS (*Contribucao para Financiamento de Seguridade Social*) social security contributions for the 1992-2017 period.

The item **other non-current receivables** (euro 39,186 thousand) mainly refers to amounts deposited as guarantees for legal and tax disputes involving the Brazilian business units (euro 35,356 thousand), and receivables pledged as guarantees to the amount of euro 2,397 thousand in Pirelli's favour which may be exercised in the event of contingent liabilities arising in relation to the acquisition of the company Campneus Lider de Pneumaticos Ltda (Brazil), which was subsequently merged into the company Comercial and Importadora de Pneus Ltda.

The item **other current receivables** (euro 68,894 thousand) mainly includes advances to suppliers amounting to euro 25,480 thousand, receivables from related parties and associates to the amount of euro 18,677 thousand, of which euro 4,244 thousand was for the sale of materials and moulds and receivables from the Prometeon Group, and receivables for the disposal of unused real estate property for industrial operations in Brazil amounting to euro 2,207 thousand.

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

16. TAX RECEIVABLES

The item tax receivables refers to income taxes which amounted to euro 50.634 thousand (of which euro 9,140 thousand was non-current) compared to euro 57.562 thousand at December 31, 2018 (of which euro 16,169 thousand was non-current). In more detail, it mainly refers to receivables for advance payments on taxes for the financial year, and to income tax receivables from previous financial years recorded by the Brazilian and Chinese companies.

17. INVENTORIES

The following is an inventories analysis:

(in thousands of euro)

	12/31/2019	12/31/2018
Raw and auxiliary materials and consumables	121,048	155,205
Sundry materials	7,915	6,492
Work in progress and semi-finished products	58,183	55,608
Finished products	905,713	910,447
Advances to suppliers	895	714
Total	**1,093,754**	**1,128,466**

The reinstatement of the value of inventories, which was recognised net of impairments, amounted to euro 7,502 thousand (restatement of euro 21,497 thousand for 2018).

Inventories were not subject to any guarantee pledges.

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

Current other financial assets at Fair Value through the Income Statement amounted to euro 38,119 thousand at December 31, 2019 compared to euro 27,196 thousand at December 31, 2018.

The fair value of unlisted securities was determined by using estimates based on the best available information.

Changes in fair value for the period were recognised in the Income Statement as *"Financial expenses"* - (Refer to Note 37).

19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents went from euro 1,326,900 thousand at December 31, 2018 to euro 1,609,821 thousand at December 31, 2019.

These were concentrated in the finance companies of the Group and in companies that generate liquidity and use it locally. These were essentially invested on the short-term maturity deposits market through leading banking counter-parties at interest rates consistent with the prevailing market conditions.

For the Statement of Cash Flows, the balance of cash and cash equivalents was recorded net of bank overdrafts, to the amount of euro 9,194 thousand at December 31, 2019 (euro 23,048 thousand at December 31, 2018).

20. EQUITY

20.1 ATTRIBUTABLE TO THE PARENT COMPANY

Equity attributable to the Parent company went from euro 4,468,121 thousand at December 31, 2018 to euro 4,724,449 thousand at December 31, 2019.

The subscribed and paid up **share capital** at December 31, 2019 amounted to euro 1,904,375 thousand and was represented by 1,000,000,000 registered ordinary shares without indication of their nominal value.

Translation reserve, arising from the translation into euro of the financial statements of subsidiaries prepared in a functional currency other than the euro, was negative by euro 313,805 thousand at December 31, 2019. The changes occurred during the financial year include a negative change of euro 8,681 thousand, relating to exchange rate differences on the translation of the financial statements of foreign subsidiaries, associates and joint ventures and a negative change of euro 1,567 thousand relating to the reversal to the Income Statement of cumulated translation reserve up to the date of disposal of the Joint Stock Company "R&D Training Center of New Technologies & Materials "ATOM".

IAS reserves increased from a negative amount of euro 66,714 thousand at December 31, 2018 to a negative value of euro 89,424 thousand at December 31, 2019 mainly due to remeasurement of employee benefits (negative for euro 13,100 thousand). Reserves mainly include cumulative remeasurement of employee benefits negative for euro 43,946 thousand and cash flow hedge reserve for euro 31,326 thousand.

Other reserves / retained earnings increased from euro 2,034,917 thousand at December 31, 2018 to 3,323,303 thousand at December 31, 2019, mainly due to the effect of net income for the year (positive for euro 438,134 thousand) and effect of hyper-inflation accounting in Argentina (positive for euro 27,514 thousand) offset by reductions due to dividends approved for distribution to shareholders (euro 177,000 thousand).

20.2 ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Equity attributable to non-controlling interests went from euro 82,806 thousand at December 31, 2018 to euro 102,182 thousand at December 31, 2019. The increase was mainly due to the result for the financial year of euro 19,563 thousand.

21. PROVISIONS FOR LIABILITIES AND CHARGES

The changes that occurred during the period are shown below:

PROVISION FOR LIABILITIES AND CHARGES - NON-CURRENT PORTION

(in thousands of euro)

	12/31/2018	Translation differences	Increases	Uses	Reversals	Reclass./ Other	First time adoption IFRS 16	12/31/2019
Labour disputes	13,111	(342)	6,633	(3,766)	(2,511)	395	-	13,520
Provision for tax risks not related to income taxes	32,046	(17)	238	-	(17,062)	(9,186)	-	6,019
Provision for environmental risks	1,922	-	500	(1,847)	-	2,000	-	2,575
Provision for restructuring and reorganisation	13,000	(385)	13,566	-	-	-	-	26,181
Provision for other risks	78,248	(331)	8,182	(11,673)	(8,255)	3,511	2,492	72,174
Total	**138,327**	**(1,075)**	**29,119**	**(17,286)**	**(27,828)**	**(3,280)**	**2,492**	**120,469**

The item **increases** refers mainly to provisions for labour disputes mainly for the Brazilian subsidiary, to rationalisation measures in Italy to the amount of euro 11,218 thousand, and provisions for commercial risks and supply contracts mainly in Italy to the amount of euro 10,326 thousand.

The item **uses** of other risks, was mainly attributable to the provision for liabilities and charges recorded for 2018 for the investment in the joint venture PT Evoluzione Tyres relative to the surplus between the pro-rata share of the loss for the period and the value of the investment used following recapitalisation which was completed during the first half-year of 2019, and to litigations regarding occupational diseases.

The item **reversals** of tax risks refers mainly to the release of provisions originally recorded for disputes on taxes not related to income of the subsidiary Pirelli Pneus Ltda, while the reversals of other risks were mainly attributable to amounts for disputes the for which the risk of loss is not considered as probable.

The item **reclassifications** mainly refers to the reclassification of tax provisions for income tax, implemented by Italian companies, to tax payables following the application of IFRIC 23 - Uncertainty over Income Tax Treatments. Under other risks, mainly of note were the reclassifications of the provision for the reinstatement of leased assets by the subsidiary Pirelli UK Tyres Ltd., from current to non-current.

The item **other risks** includes a provision of euro 33.5 million attributable to the decision taken by the European Commission – and subsequently confirmed by the verdict of the Court of the European Union on July 12, 2018, against which on September 21, 2018, Pirelli & C. S.p.A. (Pirelli) filed an appeal in the Court of Justice of the European Union following the antitrust investigation initiated in relation to the alleged restrictive conduct of the competition in the European energy cable market. The decision provides for sanctions against Prysmian Cavi e Sistemi S.r.l. (*"Prysmian"*) for having been directly involved in the alleged cartel, a part of which (euro 67 million) Pirelli, despite having been found to not have been involved in the alleged cartel, was held as being jointly liable with Prysmian, based solely on the application of the principle of so-called parental liability, in that during part of the period of the alleged infringement, the share capital of Prysmian S.p.A. was held, either directly or indirectly by Pirelli. The provisioned amount of euro 33.5 million corresponds to the amount of the first demand bank guarantee issued by Pirelli - similar to what was carried out by Prysmian - for the benefit of the Commission (and at the request of the latter) for an amount equal to 50% of the aforementioned sanction imposed jointly and severally on Pirelli and Prysmian to the amount of euro 67 million.

PROVISION FOR LIABILITIES AND CHARGES - CURRENT PORTION

(in thousands of euro)

	12/31/2018	Translation differences	Increases	Uses	Reversals	Reclass./ Other	First time adoption IFRS 16	12/31/2019
Labour disputes	373	(21)	166	-	(206)	-	-	312
Provision for tax risks not related to income taxes	1,116	149	774	-	-	-	-	2,039
Provision for environmental risks	4,700	-	283	(318)	-	(2,000)	-	2,665
Provision for restructuring and reorganisation	-	(349)	13,940	-	-	-	-	13,591
Provision for claims and warranties	10,767	170	1,383	(1,562)	(532)	0	-	10,226
Provision for other risks	16,920	351	7,339	(719)	(3,908)	(5,288)	-	14,695
Total	**33,876**	**300**	**23,885**	**(2,599)**	**(4,646)**	**(7,288)**	**-**	**43,528**

The item **increases** mainly refers to the provisions for insurance risks and accidents at work of the English subsidiary, and rationalisation measures carried out for the subsidiary Pirelli Pneus Ltda, which began during 2018 relative to the Standard business.

The **reversals** of surplus provisions mostly refers to adjustments to the provisions for accidents at work and insurance risks.

The item **reclassifications** refers mainly to the provision for the reinstatement of the leased assets of the subsidiary Pirelli UK Tyres Ltd., from current to non-current.

22. EMPLOYEE BENEFIT OBLIGATIONS

PENSION FUNDS – NON-CURRENT PORTION

The item is composed as follows

(in thousands of euro)

	12/31/2019	12/31/2018
Pension funds:		
- funded	26,235	51,143
- unfunded	89,690	86,639
Employee leaving indemnities (TFR - Italian companies)	32,680	32,175
Healthcare plans	17,825	17,126
Other benefits	36,573	37,229
Total	**203,003**	**224,312**

Pension funds

The following table shows the **composition of pension funds at December 31, 2019.**

(in thousands of euro)

	12/31/2019						
	Germany	Sweden	Total unfunded pension funds	USA	UK	Other countries	Total funded pension funds
Funded funds							
Present value of funded liabilities	-	-	-	124,619	1,181,736	32,957	1,339,312
Fair value of plan assets	-	-	-	(102,720)	(1,183,006)	(27,351)	(1,313,077)
Unfunded funds							
Present value of unfunded liabilities	86,477	3,213	89,690	-	-	-	-
Net liabilities recognised in the Financial Statements	**86,477**	**3,213**	**89,690**	**21,899**	**(1,270)**	**5,606**	**26,235**

The following table shows the **composition of pension funds at December 31, 2018.**

(in thousands of euro)

	12/31/2018						
	Germany	Sweden	Total unfunded pension funds	USA	UK	Other countries	Total funded pension funds
Funded funds							
Present value of funded liabilities	-	-	-	118,489	1,053,985	34,612	1,207,086
Fair value of plan assets	-	-	-	(95,169)	(1,030,587)	(30,187)	(1,155,943)
Unfunded funds							
Present value of unfunded liabilities	83,455	3,184	86,639	-	-	-	-
Net liabilities recognised in the Financial Statements	**83,455**	**3,184**	**86,639**	**23,320**	**23,398**	**4,425**	**51,143**

The characteristics of the main pension funds in place at December 31, 2019 were as follows:

- **Germany:** a non-funded defined benefit plan based on the last 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**: a funded defined benefit plan based on the last salary. This fund guaranteed a pension in addition to the state pension and was administered by a Trust. 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**: a funded defined benefit plan based on the last salary. It guaranteed a pension in addition to the state pension and was administered internally by a Trust. These plans, managed by the subsidiary Pirelli Tyres Ltd were closed in 2001 to new participants and frozen during 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 at the date of the disposal. At the end of October 2017, three of the smaller UK pension funds - Pirelli General Executive Pension and Life Assurance Fund, Pirelli Tyres Limited Executive Retirement Benefits Scheme, and Pirelli General Overseas Retirement Benefits Scheme, entered into so-called *"buy-in"* contracts which consist of the purchase of insurance policies (so-called *"bulk annuities"*);
- **Sweden**: a defined benefits plan (ITP2), which is closed to new participants. The only participants are retired employees and the recipients of deferred pensions.

Changes for the 2019 financial year in the net liabilities of defined benefits (for both funded and non-funded pension funds) were as follows:

(in thousands of euro)

	Present value of gross liabilities	Fair value of plan assets	Total net liabilities
Opening balance at January 1, 2019	1,293,724	(1,155,942)	137,782
Translation difference	59,815	(58,817)	998
Movements through income statement:			
- current service cost	1,606	-	1,606
- cost of services rendered for previous years	128	-	128
- interest expense / (income)	37,166	(34,399)	2,767
	38,900	**(34,399)**	**4,501**
Remeasurements recognized in equity:			
- actuarial (gains) / losses from change in demographic assumptions	(13,585)	-	(13,585)
- actuarial (gains) / losses from change in financial assumptions	130,635	-	130,635
- experience adjustment (gains) losses	(6,002)	-	(6,002)
- return on plan assets, net of interest income	-	(101,172)	(101,172)
	111,048	**(101,172)**	**9,876**
Employer contributions	-	(32,469)	(32,469)
Employee contributions	534	(534)	-
Benefits paid	(74,274)	68,352	(5,922)
Other	(745)	1,904	1,159
Closing balance at December 31, 2019	**1,429,002**	**(1,313,077)**	**115,925**

Changes for the 2018 financial year in the net liabilities of defined benefits (for both funded and unfunded pension funds) were as follows:

(in thousands of euro)

	Present value of gross liabilities	Fair value of plan assets	Total net liabilities
Opening balance at January 1, 2018	1,397,042	(1,213,863)	183,179
Translation difference	(1,839)	2,841	1,002
Movements through income statement:			
- current service cost	1,622	-	1,622
- cost of services rendered for previous years	14,319	-	14,319
- interest expense / (income)	34,248	(30,780)	3,468
	50,189	**(30,780)**	**19,409**
Remeasurements recognized in equity:			
- actuarial (gains) / losses from change in demographic assumptions	(14,988)	-	(14,988)
- actuarial (gains) / losses from change in financial assumptions	(66,749)	-	(66,749)
- experience adjustment (gains) losses	8,252	-	8,252
- return on plan assets, net of interest income	-	46,349	46,349
	(73,485)	**46,349**	**(27,136)**
Employer contributions	-	(33,710)	(33,710)
Employee contributions	528	(528)	-
Benefits paid	(78,167)	72,119	(6,048)
Other	(544)	1,630	1,086
Closing balance at December 31, 2018	**1,293,724**	**(1,155,942)**	**137,782**

Costs for current and past services rendered by employees are included in the item *"Personnel expenses"* - (Refer to Note 31) while interest payables are included in the item *"Financial expenses"* - (Refer to Note 37).

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

(in thousands of euro)

	12/31/2019				12/31/2018			
	listed	unlisted	total	%	listed	unlisted	total	%
Shares	55,412	314,342	369,754	28.2%	54,391	-	54,391	4.7%
Bonds	80,590	79,834	160,424	12.2%	76,181	-	76,181	6.6%
Insurance policies	83,838	-	83,838	6.4%	84,567	-	84,567	7.3%
Deposits	307,900	8,213	316,113	24.1%	355,410	-	355,410	30.8%
Balanced funds	(2,546)	237,017	234,471	17.9%	6,665	559,360	566,025	49.0%
Real Estate	3,867	57,447	61,314	4.7%	2,558	-	2,558	0.2%
Derivatives	-	68,385	68,385	5.2%	3,267	(739)	2,528	0.2%
Other	18,778	-	18,778	1.3%	14,187	95	14,282	1.2%
Total	**547,839**	**765,238**	**1,313,077**	**100%**	**597,226**	**558,716**	**1,155,942**	**100%**

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

- the volatility of the pension fund assets: in order to be able to balance liabilities, the investment strategy cannot limit its horizons exclusively to risk free assets. This implies that certain investments, such as listed securities represent high volatility for the short-term, and that this exposes the plans to risks such as the reduction in value of the assets in the short-term, and to the consequent increase in 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 the bond yields and in the forecast inflation: the expectations of declining bond yields and/or rising inflation brings about 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 which oscillates between 100% and 115% of the value of the liabilities hedged by assets;
- life expectancy: the increase in life expectancy entails an increase in the value of a plan's liabilities. The UK plans were completed during the course of 2016, a process which allowed them to be, through the so-called longevity swaps, stipulated with a pool of insurance companies, to cover approximately 50% of the risks. Residual risks are evaluated by using prudent hypotheses whose adequacy is revised periodically.

In the UK the management of pension fund 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 model of Liability Driven Investment (LDI), namely using the liability benchmark as a reference so as to minimise the volatility (and thus the risk) of the deficit, which in fact has been reduced to approximately one third compared to the levels which existed prior to its introduction (at the beginning of 2011). In addition, the buy in operation implemented in 2017 and the consequent stipulation of the policies on a collective basis (one for each of the three pension funds of the buy in) and not on an individual basis (for each member of the funds), which perfectly replicate the financial profiles of the respective liabilities, has allowed the Group to be relieved of all the aforementioned risks.

The key parameters of this mandate were as follows:

- a mix of assets subject to dynamic management over time, rather than a fixed allocation strategy;
- a hedge which covers approximately 100% - 115% of the risk associated with interest rates and inflation - where the percentage represents the value of assets - through the use of debt instruments such as government bonds and derivatives;
- the management of exchange rate risk which aims at covering at least 70% of the exposure to foreign currencies held in the portfolio through the use of forward contracts.

Furthermore, during the course of 2016, following the increase in financial leverage resulting from the merger of Pirelli & C. S.p.A. with Marco Polo Industrial Holding S.p.A. and the impact deriving from the covenants of the Group, an agreement (the Pension Framework Agreement) was entered into from within the refinancing process with the UK pension funds, through which a package of measures (entered into with a pool of insurance companies, the so called Credit Support Guarantees, comprising of limited payments by way of restricted deposits into escrow accounts, and the definition of an accelerated contributions plan limited to a period of extraordinary leverage) was put in place to guarantee the *"synthetic"* restoration of these covenants to levels which existed prior to the acquisition of the Pirelli Group by Marco Polo Industrial Holding S.p.A., for the purposes of continuing the work of the gradual settlement of the relative deficits previously imposed.

In the United Kingdom, the funding arrangements and funding policies are revised every three years. The next funding evaluation is expected in 2020. 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 2020 financial year amount to euro 5,709 thousand, while for funded pension funds the amount expected is euro 44,026 thousand.

EMPLOYEES' LEAVING INDEMNITIES (TFR)

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

(in thousands of euro)

	12/31/2019	12/31/2018
Opening balance	**32,175**	**33,083**
Movements through Income Statement:		
- current service cost	22	62
- interest expense	498	536
Remeasurements recognized in equity:		
- actuarial (gains) / losses arising from changes in demographic assumptions	-	6
- actuarial (gains) / losses arising from changes in financial assumptions	1,443	291
Indemnities/advanced payments	(1,364)	(1,030)
Other	(94)	(773)
Closing balance	**32,680**	**32,175**

The current cost for services rendered by employees is included in the item *"Personnel expenses"* - (Refer to Note 31) while interest payables are included in the item *"Financial expenses"* - (Refer to 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 12/31/2019	17,825
Liabilities recognised in the Financial Statements at 12/31/2018	17,126

The following changes occurred:

(in thousands of euro)

	12/31/2019	12/31/2018
Opening balance	**17,126**	**18,885**
Translation differences	328	814
Movements through income statement:		
- current service cost	2	4
- interest expense	682	614
Remeasurements recognised in equity:		
- actuarial / (gains) losses arising from changes in financial assumptions	1,834	(993)
- actuarial / (gains) losses arising from changes in demographic assumptions	(329)	(183)
- experience adjustment (gains) losses	(775)	(957)
Benefits paid	(1,043)	(1,058)
Closing balance	**17,825**	**17,126**

The cost for services rendered by employees is included in the item *"Personnel expenses"* - (Refer to Note 31) while interest payables are included in the item *"Financial expenses"* - (Refer to Note 37).

The contributions which are expected to be paid into the healthcare plan during the 2020 financial year amount to euro 1,431 thousand.

ADDITIONAL INFORMATION REGARDING POST-EMPLOYMENT BENEFITS

Net actuarial losses accrued during 2019 which were recognised directly in equity amounted to euro 13,100 thousand.

The main actuarial assumptions used at **December 31, 2019** were as follows:

	Italy	Germany	Sweden	UK	USA	Switzerland
Discount rate	0.70%	0.90%	1.10%	2.10%	3.00%	0.25%
Inflation rate	1.00%	1.50%	1.70%	2.90%	n.a.	0.75%

The main actuarial assumptions used at **December 31, 2018** were as follows:

	Italy	Germany	Netherlands	Sweden	UK	USA	Switzerland
Discount rate	1.50%	1.70%	2.30%	2.05%	2.90%	4.20%	0.85%
Inflation rate	1.50%	1.50%	1.60%	2.00%	3.13%	n.a.	1.00%

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	over 5 years	Total
Pension funds	70,343	70,813	214,827	369,111	725,094
Employees' leaving indemnities (TFR)	2,429	2,622	7,435	8,972	21,458
Healthcare plans	1,431	1,423	4,148	6,119	13,121
Total	**74,203**	**74,858**	**226,410**	**384,202**	**759,673**

The weighted average term for bonds for post-employment benefits equalled 15.04 years (14.57 years at December 31, 2018).

A sensitivity analysis for the relevant actuarial assumptions at the end of the financial year was as follows:

(in %)

	Impact on post employment benefits				
	Change in assumptions	**Increase in assumptions**		**Decrease in assumptions**	
Discount rate	0.25%	decrease of	3.53%	decrease of	3.82%
Inflation rate (only UK plans)	0.25%	increase of	2.62%	increase of	2.14%

At the end of 2018 the situation was as follows:

(in %)

	Impact on post employment benefits				
	Change in assumptions	**Increase in assumptions**		**Decrease in assumptions**	
Discount rate	0.25%	decrease of	3.46%	decrease of	3.67%
Inflation rate (only UK plans)	0.25%	increase of	2.06%	increase of	2.36%

The sole purpose of the analysis outlined above was to estimate the changes in liability as a result of changes in the discount rates and inflation rates in the UK, applying the central hypothesis on the rates themselves, rather than referring to an alternative set of hypotheses.

The sensitivity analysis on the liabilities related to 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 is as follows:

(in thousands of euro)

	12/31/2019	12/31/2018
Long-term incentive plans	-	2,018
Jubilee awards	19,513	18,433
Leaving indemnities	12,154	10,786
Other long-term benefits	4,906	5,992
Total	**36,573**	**37,229**

On December 31, 2018 the item *"Long Term Incentives Plan"* included the amount allocated for the 2018-2020 three-year Long Term Incentives Plan, aimed at the entire management sector and which correlates with the 2018 - 2020 objectives contained in the 2017 - 2020 Industrial Plan. As part of the presentation of 2020 - 2022 Industrial Plan on February 19, 2020, the Board of Directors approved the adoption of a new monetary incentive plan - the Long Term Incentive (LTI) plan - aimed at the areas of Group management (currently around 270 participants) - which is closely correlated with the objectives of the plan. At the same time, the Board of Directors - effective as of December 31, 2019 - resolved to close early, and without any disbursement not even pro-rata, the previous plan adopted in 2018 which correlated the objectives of the 2018-2020 period.

EMPLOYEE BENEFIT OBLIGATIONS - CURRENT PORTION The item employee benefit obligations, which amounted to euro 4,104 thousand, refers to the relevant share at December 31, 2019 of the third instalment of the retention plan, which will be liquidated during the first half-year of 2020. The plan was approved by the Pirelli Board of Directors on February 26, 2018 and is aimed at Managers with strategic responsibilities, and at a select number of senior Managers and Executives.

23. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Borrowings from banks and other financial institution were as follows:

(in thousands of euro)

	12/31/2019			12/31/2018		
	Total	Non-current	Current	Total	Non-current	Current
Bonds	1,271,392	1,071,475	199,917	1,269,514	1,269,514	-
Borrowings from banks	3,532,377	2,472,056	1,060,321	3,412,940	2,654,914	758,026
Borrowings from other financial institutions	56,384	-	56,384	17,048	393	16,655
Lease obligations	483,172	405,375	77,797	213	10	203
Accrued financial expenses and deferred financial income	21,459	-	21,459	21,711	28	21,683
Other financial payables	4,455	930	3,525	7,798	4,220	3,578
Total Borrowings from banks and other financial institutions	**5,369,239**	**3,949,836**	**1,419,403**	**4,729,224**	**3,929,079**	**800,145**

The item **bonds** refers to:

1) an unrated public bond loan for the total nominal amount of euro 753 million of which euro 553 million, (originally for euro 600 million which was partially repurchased for the total amount of euro 47 million during the last quarter of 2018) placed on January 22, 2018 with a fixed coupon of 1.375% with an original maturity of 5 years, plus a second security issued on March 15, 2018 for the nominal amount of euro 200 million at a floating rate, with an original maturity of 2.5 years. Both loans, placed with international institutional investors, were issued as part of the EMTN (Euro Medium Term Note) program approved by the Board of Directors at the end of 2017, signed on January 10, 2018 and updated on December 19, 2018;
2) the floating rate *"Schuldschein"* loan for the total nominal value of euro 525 million placed on July 26, 2018. The loan, signed by primary market operators, consists of one tranche for the amount of euro 82 million with a 3 year maturity, another for euro 423 million with a 5 year maturity, and another for euro 20 million with a 7 year maturity.

The carrying amount for bonds was determined to be as follows:

(in thousands of euro)

	12/31/2019	12/31/2018
Nominal value	1,278,000	1,278,000
Transaction costs	(7,683)	(7,683)
Bond discount	(2,988)	(2,988)
Amortisation of effective interest rate	4,063	2,185
Total	**1,271,392**	**1,269,514**

The item **borrowings from banks**, which amounted to euro 3,532,377 thousand, mainly refers to:

- use of unsecured financing (*"Facilities"*) granted to Pirelli & C. S.p.A. for the amount of euro 1,994,801 thousand, of which euro 252,095 thousand was classified under current borrowings from banks. The nominal amount of the refinancing operation signed on June 27, 2017, (with a closing date of June 29, 2017) equalled euro 2.7 billion (the net amount of repayments made since the date of signing - the original amount of the credit facility granted was euro 4.2 billion). On November 29, 2018 the loan was amended to include the right of the Pirelli Group to extend, at its own discretion, the expiry of the individual credit facilities of the financing to up to 2 years with respect to their original contractual maturity of 3 and 5 years;
- euro 921,473 thousand relative to three bilateral loans disbursed to Pirelli & C. S.p.A. by leading financial institutions, consisting of a nominal euro 600 million with a 5 year maturity (*"Bilateral 600"*), euro 125 million with a 4 year maturity at a floating rate (*"Bilateral 125"*), and euro 200 million whose maturity date has been extended to June 2020 (original maturity in July 2019) at a fixed rate (*"Bilateral 200"*), classified under current borrowings from banks;
- euro 485,031 thousand relative to loans disbursed in Brazil by international and local banking institutions of which euro 4,605 thousand has been classified under non-current borrowings from banks;
- euro 42,790 thousand representing the loan granted to the subsidiary Pirelli Tyre (Jiaozuo) Co., Ltd. (China), classified as current borrowings from banks;
- euro 12,781 thousand representing the loans granted to the subsidiary Pirelli Otomobil Lastikleri (Turkey) by local banks;
- bank loans and the use of credit facilities at local level in Russia, (euro 61,807 thousand), and in Japan (euro 8,201 thousand) classified entirely as current borrowings from banks.

At December 31, 2019 the Group had a liquidity margin equal to euro 2,347.9 million composed of euro 700.0 million in the form of non-utilised committed credit facilities, and euro 1,609.8 million in cash and cash equivalents, in addition to financial assets at fair value through the Income Statement to the amount of euro 38.1 million.

The item **lease obligations** represents the financial liabilities relative to the application of the IFRS 16 accounting standard as of January 1, 2019. Undiscounted future payments for lease contracts for which the exercise of extension options are not considered to be reasonably certain amounted to euro 52,124 thousand at December 31, 2019, and were not included in this item.

Accrued financial expenses and deferred financial income (euro 21,459 thousand) mainly refers to the accrual of interest on borrowings from banks to the amount of euro 11,731 thousand (euro 12,387 thousand at December 31, 2018), and to the accrued interest matured on bonds to the amount of euro 9,082 thousand (euro 9,269 thousand at December 31, 2018).

The change in the total borrowings from banks and other financial institutions was follows:

(in thousands of euro)

Borrowings from banks and other financial institutions at December 31, 2018	**4,729,224**
Drawdowns of unsecured financing (Facilities)	395,931
Repayments of unsecured financing (Facilities)	(1,097,498)
New bilateral borrowings	720,900
Repayment European Investment Bank (EIB) loan	(10,000)
Financial flows for the local credit facilties of Group companies	40,778
Amortised cost for the period	(15,734)
Translation differences and other movements for the period	122,466
Borrowings from banks and other financial institutions at December 31, 2019 w/o IFRS 16	**4,886,067**
IFRS 16 first time adoption impact	494,292
Increase in lease obligations	50,529
Remeasurement and early termination	15,139
Repayment of principal forlease obligations	(77,678)
Translation differences and other movements for the period	890
Borrowings from banks and other financial institutions at December 31, 2019	**5,369,239**

The change in total borrowings from banks and other financial institutions for the previous financial year is shown below:

(in thousands of euro)

Borrowings from banks and other financial institutions at December 31, 2017	**4,456,257**
Bond issuance (EMTN program)	797,012
Bond buy-back (EMTN program)	(645,172)
Bond issuance (Schuldschein)	525,000
Drawdowns of unsecured financing (Facilities)	1,035,786
Repayments of unsecured financing (Facilities)	(1,737,501)
Intesa financing	200,000
Repayment European Investment Bank (EIB) loan	(20,000)
Financial flows for the local credit facilties of Group companies	26,415
Amortised cost for the period	(15,479)
Translation differences and other movements for the period	106,906
Borrowings from banks and other financial institutions at December 31, 2018	**4,729,224**

Current and non-current financial payables backed by secured guarantees (pledges and mortgages) totalled euro 96 thousand (euro 342 thousand at December 31, 2018).

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)

	12/31/2019		12/31/2018	
	Carrying amount	*Fair value*	Carrying amount	*Fair value*
Bonds	1,071,475	1,084,830	1,269,514	1,252,468
Borrowings from banks	2,472,056	2,500,469	2,654,914	2,697,096
Other financial payables	406,305	406,306	4,651	4,651
Total non-current financial payables	**3,949,836**	**3,991,604**	**3,929,079**	**3,954,215**

The unrated public bonds issued by Pirelli & C. S.p.A. are listed, and their relative fair value has been measured on the basis of year-end prices. It has therefore been classified in level 1 of the hierarchy provided for by IFRS 13 – Fair Value Measurement. The fair value 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 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)

	12/31/2019	12/31/2018
EUR	2,772,361	2,403,626
USD (US Dollar)	2,303,523	2,184,842
CNY (Chinese Yuan)	66,284	12,829
RUR (Russian ruble)	64,939	32,738
BRL (Brasilian Real)	52,480	9,887
SEK (Swedish krona)	29,926	4,511
RON (Romanian leu)	28,263	5
GBP (British pound)	19,482	106
TRY (Turkish Lira)	16,075	13,433
JPY (Japanese yen)	10,147	6,357
MXN (Mexican Peso)	1,684	54,187
Other Currencies	4,075	6,703
Total	**5,369,239**	**4,729,224**

At December 31, 2019 there were derivative hedging instruments for interest rates and exchange rates in place for debts at floating rates in foreign currency.

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) is subdivided as follows:

- a floating rate payable to the amount of euro 2,521,850 thousand, whose interest rate is subject to renegotiation within the first six months of 2020;
- a fixed rate payable to the amount of euro 2,847,353 thousand, whose interest rate is not subject to renegotiation until the natural maturity of the debt to which it refers (euro 335,346 thousand with maturity in the following twelve months and euro 2,512,107 thousand euro with maturity after twelve months).

The cost of debt year-on-year stood at 2.83% compared to 2.95% at December 31, 2018.

The reduction in the cost of debt during the course of 2019 mainly reflected:

- the reduction of the cost of the central credit facilities thanks to the partial replacement of existing debt with new debt at a lower cost, and to the reduction of the interest margin on the main credit facilities following the improvement of the Group's leverage to which these margins are indexed;
- lower exposure for the Group, by more than 1.5%, to countries with high interest rates, which at December 31, 2019 represented less than 19% of the Group's gross debt;

With regard to the existence of financial covenants, it is to be noted that (i) the Group's main bank credit facility (*"Facility"*) granted to Pirelli & C. S.p.A. and Pirelli International Plc (up to now usable solely and in its entirety by Pirelli & C) and, (ii) the financing of the *"Schuldschein"* loan, (iii) the bilateral 600 million euro credit facility granted to Pirelli & C. during the course of the first quarter of 2019 (*"Bilateral 600"*), and (iv) the bilateral euro 125 million credit facility granted to Pirelli & C. during the course of the third quarter of 2019 (*"Bilateral 125"*), require compliance with a maximum ratio (*Total Net Leverage)* between net indebtedness and the gross operating margin as reported in the Consolidated Financial Statements of Pirelli & C. S.p.A.

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

Specifically, a default event of can be exercised in accordance with the terms of the relative contract (i) as part of the Facility only if requested by a number of the lending banks which represent at least 66 2/3% of the total commitment, and brings about the early repayment (partial or total) of the loan with the simultaneous cancellation of the relative commitment; (ii) as part of the Schuldschein loan, individually and independently by each lending bank for their share and involves the early repayment of the loan only for that share; and (iii) within both the Bilateral 600 and the Bilateral 125, by the only bank that has granted each of the aforementioned loans, resulting in the early repayment for the entire amount disbursed.

Of note is that this parameter had been complied with at December 31, 2019.

The Facility, the Schuldschein loan and the Bilateral 600 also provide for Negative Pledge clauses whose terms are consistent with market standards for each of the aforementioned types of credit facilities.

The other outstanding financial payables at December 31, 2019 did not contain financial covenants.

24. TRADE PAYABLES

Trade payables were composed as follows:

(in thousands of euro)

	12/31/2019			12/31/2018		
	Total	Non-current	Current	Total	Non-current	Current
Trade payables	1,546,714	-	1,546,714	1,567,718	-	1,567,718
Bill and notes payable	64,774	-	64,774	36,959	-	36,959
Total Trade payables	**1,611,488**	**-**	**1,611,488**	**1,604,677**	**-**	**1,604,677**

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

25. OTHER PAYABLES

Other payables were as follows:

(in thousands of euro)

	12/31/2019			12/31/2018		
	Total	Non-current	Current	Total	Non-current	Current
Accrued expenses and deferred income	83,268	57,684	25,584	84,338	53,233	31,105
Tax payables not related to income taxes	86,252	7,002	79,250	93,200	6,171	87,029
Payables to employees	91,426	62	91,364	98,167	220	97,947
Payables to social security and welfare intitutions	67,404	24,131	43,273	68,576	21,894	46,682
Dividends payable	270	-	270	350	-	350
Contract liabilities	4,754	-	4,754	4,147	-	4,147
Other payables	159,954	1,692	158,262	171,261	1,769	169,492
Total Other payables	**493,328**	**90,571**	**402,757**	**520,039**	**83,287**	**436,752**

The item **non-current accrued expenses and deferred trade income** refers to euro 50,159 thousand in capital contributions received for investments realised in Mexico and Romania, whose benefits are recognised in the Income Statement in proportion to the costs for which the contribution was disbursed, and to euro 7,502 thousand in costs for trade initiatives in Brazil.

The item **current accrued expenses and deferred trade income** includes euro 6,031 thousand for various trade initiatives realised in Germany and Brazil, euro 8,084 thousand in government grants and tax incentives received mainly in Italy and Romania, and euro 1,872 thousand for insurance costs coverage in some European countries.

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

The item **current payables to employees** mainly includes amounts accrued but not yet paid.

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

The item **other current payables** (euro 158.262 thousand) mainly includes:

- euro 109,634 thousand for the purchase of property, plant and equipment (euro 106,668 thousand at December 31, 2018);
- euro 9,114 thousand in payables to representatives, agents, professionals and consultants;
- euro 6,129 thousand in withholding taxes on income;
- euro 5,227 thousand for debts relative to customs duties, import and transport costs;
- euro 3,482 thousand in payables to companies of the Prometeon group particularly in Brazil and China;
- euro 3,183 thousand in payables to Directors, Auditors and supervisory bodies;
- euro 1,380 thousand relative to the purchase of 34 points of sale in São Paulo (Brazil) by the Brazilian subsidiary Pirelli Comercial de Pneus Brasil Ltda. The amount refers to the consideration for the transaction, net of the amount already paid at December 31, 2019.

26. TAX PAYABLES

Tax payables were for the most part related to national and regional income taxes in different countries and amounted to euro 94,321 thousand (of which euro 12,555 thousand was for non-current liabilities), compared to euro 67,594 thousand at December 31, 2018 (of which euro 2,091 thousand was for non-current liabilities). Income tax payables include Management evaluations with reference to any effects of uncertainty on the treatment of income taxes.

27. DERIVATIVE FINANCIAL INSTRUMENTS

The item includes the fair value measurement of derivative instruments. It is composed as follows:

(in thousands of euro)

	12/31/2019				12/31/2018			
	Non current assets	**Current assets**	**Non current liabilities**	**Current liabilities**	**Non current assets**	**Current assets**	**Non current liabilities**	**Current liabilities**
Without adoption of hedge accounting								
Exchange rate derivatives - commercial positions	-	5,058	-	(9,724)	-	7,321	-	(6,092)
Exchange rate derivatives - included in net financial position	-	21,904	-	(31,703)	-	70,329	-	(53,510)
Hedge accounting adopted								
- cash flow hedge:								
Interest rate derivatives	481	-	(10,327)	-	-	-	(4,726)	-
Other derivatives	52,034	10,186	-	-	20,134	20,917	(11,313)	-
Total	**52,515**	**37,148**	**(10,327)**	**(41,427)**	**20,134**	**98,567**	**(16,039)**	**(59,602)**
- Total derivatives included in net financial position	52,515	32,090	(10,327)	(31,703)	20,134	91,245	(13,738)	(53,510)

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

(in thousands of euro)

	12/31/2019	12/31/2018
Current assets		
Forward foreign exchange contracts - fair value recognised in the Income Statement	26,962	77,650
Cross currency interest rate swaps - cash flow edge	10,186	20,917
Total current assets	**37,148**	**98,567**
Non current assets		
Interest rate swaps - cash flow hedge	481	-
Cross currency interest rate swaps - cash flow hedge	52,034	20,134
Total non current assets	**52,515**	**20,134**
Current liabilities		
Forward foreign exchange contracts - fair value recognised in the Income Statement	(41,427)	(59,602)
Total current liabilities	**(41,427)**	**(59,602)**
Non current liabilities		
Interest rate swaps - cash flow hedge	(10,327)	(4,726)
Cross currency interest rate swaps - cash flow hedge	-	(11,313)
Total non current liabilities	**(10,327)**	**(16,039)**

DERIVATIVE FINANCIAL INSTRUMENTS NOT IN HEDGE ACCOUNTING The value of **foreign currency derivatives** included in assets and liabilities corresponds to the fair value of forward currency purchases/sales outstanding at the closing date for the period. These were hedge operations for the commercial and financial transactions of the Group for which the hedge accounting option had not been adopted. Their fair value was determined by using the forward exchange rate at the reporting date.

DERIVATIVE FINANCIAL INSTRUMENTS WITH THE ADOPTION OF HEDGE ACCOUNTING The value of **interest rate derivatives** recognised under current assets to the amount of euro 481 thousand, and under non-current liabilities to the amount of euro 10,327 thousand, refers to the fair value measurement of 9 cross currency interest rate swaps.

Derivative	Hedged element	Notional amount (Euro million)	Start date	Maturity	
IRS	Term loan in EUR	250	June 2019	June 2022	receive floating / pay fix
IRS	Term loan in EUR	63	August 2019	August 2023	receive floating / pay fix
IRS	Term loan in USD + CCIRS	100	October 2019	June 2022	receive floating / pay fix
IRS forward start	Schuldschein	180	July 2020	July 2023	receive floating / pay fix
IRS forward start	Schuldschein	20	July 2020	July 2025	receive floating / pay fix
Total		**613**			

For these derivatives, hedge accounting of the cash flow hedge type was adopted. Items subjected to hedge accounting are:

- any future transaction represented by interest flows on a variable rate financial liability which is considered highly probable;
- the combination of a USD floating rate liability and a CCIRS or cross-currency interest rate swap (Basis Swap);
- the *Schuldschein* loan - (Refer to Note 23).

The change in the fair value for the period which was negative to the amount of euro 6,074 thousand was entirely suspended in equity, while euro 954 thousand was reversed to the Income Statement under the item *"Financial expenses"* - (Refer to 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 7,905 thousand in the equity of the Group, while a change of -0.5% in the EURIBOR curve, all other conditions being equal, would result in a negative change of euro 7,135 thousand in the equity of the Group

The value of **other derivatives,** recognised under non-current assets to the amount of euro 52,034 thousand and under non-current assets to the amount of euro 10,186 thousand, refers to the fair value measurement of 11 cross currency interest rate swaps with the following characteristics:

Derivative	Notional amount	Notional amount (USD million)	Start date (Euro million)	Maturity	
CCIRS	284	243	July 2017	June 2020	pay floating EURIBOR / receive floating LIBOR USD
CCIRS	682	582	July 2017	June 2022	pay floating EURIBOR / receive floating LIBOR USD
CCIRS	1,079	920	July 2019	June 2022	pay fix EUR / receive floating LIBOR USD
Total	**2,045**	**1,744**			

The objective of these derivatives, for which hedge accounting of the cash flow hedge type was adopted, was to hedge the Group against the risk of cash flow fluctuations associated with changes in the LIBOR rate, and changes in the US$/euro exchange rate generated by a liability in US$ at a floating rate.

The positive change in the fair value for the period was suspended in equity to the amount of euro 83,342 thousand (a cash flow hedge reserve of euro 79,513 thousand and a cost of hedging reserve of euro 2,829 thousand), while euro 36,864 thousand was reversed to the Income Statement under the item "*net gains on exchange rates",* (Refer to Note 36 - *"Financial income"*) to offset the unrealised exchange rate losses recorded on the hedged liability, and euro 50,338 thousand which was reversed to the item *"Financial expenses"* - (Refer to Note 37), correcting the financial expenses recognised on the hedged liability.

A parallel change of +0.5% in the EURIBOR and LIBOR curves, all other conditions being equal, would result in a positive change of euro 11,054 thousand in the equity of the Group, while a change of -0.5% in the same curves, all other conditions being equal, would result in a negative change of euro 11,253 thousand in the equity of the Group.

Hedging relationships relative to any IRS (interest rate swap) and CCIRS (cross-currency interest rate swap - Basis Swap) are considered prospectively effective as the following conditions are met:

- there is 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 frequency of the liquidation of interest) are substantially consistent 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 counter-parties with a high 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 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 provides for the comparison of any changes in the risk adjusted fair value of the hedging instrument (with the exception of those attributable to the currency basis spread), with any changes in the risk free fair value of the hedged item, through the identification of a hypothetical derivative with the same characteristics of the underlying financial liability. Possible causes of ineffectiveness were 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.

At December 31, 2019, no ineffectiveness was identified with reference to the aforementioned hedging relationships.

28. COMMITMENTS AND RISKS

COMMITMENTS FOR THE PURCHASE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The commitments to purchase property, plant and equipment and intangible assets amounted respectively to euro 92,242 thousand and euro 4.753 thousand and refer mainly to subsidiary companies in Italy, Romania, Brazil, Russia, UK and Mexico.

LEASING CONTRACT COMMITMENTS

At December 31, 2019, the total of undiscounted future payments for lease contracts not yet in force, and against which no financial payable was recognised, was equal to euro 34,005 thousand and mainly refers to lease contracts for warehouses and offices.

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 an amount equal to a maximum of euro 2,158 thousand.

OTHER RISKS

ACTION FILED AGAINST PRYSMIAN BEFORE THE COURT OF MILAN Pending the decision of the EU Community proceedings referred to in Note 21 - *"Provisions for Risks and Charges"*, in November 2014, Pirelli & C. S.p.A. (*"Pirelli"*) commenced legal action before the Court of Milan in order to obtain an examination and declaratory judgement of the obligation of Prysmian Cavi e Sistemi S.r.l. to hold Pirelli harmless from any claim relative to the alleged anti-competitive agreement for the energy cables sector, including the penalty imposed by the European Commission and confirmed by the decision of the General Court of the European Union on July 12, 2018, referred to in Note 21, against which, on September 21, 2018, Pirelli filed an appeal before the Court of Justice of the European Union.

Prysmian also filed an appearance in the proceedings requesting, that Pirelli's claims be dismissed, as well as to be held harmless by Pirelli in relation to the consequences deriving from the Decision of the European Commission or otherwise in any way connected to it. Proceedings were suspended pending the final ruling by the EU Community Courts.

On the basis of an accurate legal analyses provided by external counsel, Pirelli maintained that it was not involved in the commission of the alleged irregularities, and maintains that the full and final liability for any violation must be borne exclusively by the company directly involved.

In October 2019 Pirelli took further action before the Court of Milan against Prysmian Cavi e Sistemi S.r.l. and Prysmian S.p.A. requesting an assessment and judgement for the obligation of Prysmian Cavi e Sistemi S.r.l. to indemnify and hold Pirelli harmless against all charges, expenses, costs and/or damage consequent to claims by private and/or public third parties (including authorities other than the European Commission) relative, connected and/or consequential to the facts which were subject to the Decision of the European Commission, as well as the consequent order that Prysmian Cavi e Sistemi S.r.l. reimburse any charge, expense, costs or damage incurred or suffered by Pirelli.

Pirelli also requested the examination of Prysmian Cavi e Sistemi S.r.l.'s and Prysmian S.p.A.'s liabilities in relation the illegal conduct connected to the aforementioned alleged anti-competitive agreement, carried out by the same, and, consequently, an order to pay all damage incurred and currently being incurred by Pirelli.

Pirelli also requested the examination and declaratory judgement of the joint liability of Prysmian S.p.A. in relation to the amounts that will be paid both due to these new proceedings and those brought in November 2014, which will not be paid by Prysmian Cavi e Sistemi S.r.l.

OTHER DISPUTES RELATED TO THE EUROPEAN COMMISSION DECISION In November, 2015, Prysmian S.p.A. notified Pirelli of a summons for proceedings for the recovery of damages brought before the London High Court of Justice against Prysmian S.p.A. and other defendants named in the European Commission decision of April 2, 2014, by National Grid and Scottish Power, companies who claim to have been injured by the alleged unlawful agreement. Specifically, Prysmian S.p.A. has submitted a plea to obtain from Pirelli and Goldman Sachs, based on the role played by the Parent companies, at the time of the cartel, to hold it harmless in respect of any obligations to pay any compensation obligations (to date unquantified) by National Grid and Scottish Power. Due to the aforementioned pending legal action before the Court of Milan, 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 previous Court of appeal. In April 2016, the High Court of Justice, in proceedings between Pirelli and Prysmian S.p.A. suspended the English proceedings until judgement became final, which would define the Italian proceedings already pending.

In April 2019, Terna S.p.A. - National Electricity Grid (*"Terna"*) jointly and severally sued Pirelli, three Prysmian Group companies and another defendant named in the aforementioned European Commission Decision, in order to obtain compensation for the damage allegedly suffered as a consequence of the alleged anti-competitive conduct, currently quantified by the plaintiff as euro 199.9 million.

Finally, 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 summons against Pirelli, some of the Prysmian Group companies and other defendants named in the aforementioned European Commission Decision, agreeing both jointly and severally, to obtain compensation for the damage allegedly suffered as a consequence of the alleged anti-competitive conduct. This proceeding was brought before the Court of Amsterdam. At present, the plaintiffs have not yet quantified the damage allegedly suffered.

On the basis of accurate legal analyses provided by external counsel, Pirelli, not being involved in the commission of the alleged irregularities of its former subsidiary, maintains that the full and final liability for any violation must be borne exclusively by the company directly involved. As a consequence of the aforesaid, the assessment of the risk relative to the disputes described above is considered as to not require the allocation of any specific provision in the Consolidated Financial Statements at December 31, 2019, even with the initial status of proceedings having been taken into consideration.

TAX DISPUTES IN BRAZIL The subsidiary Pirelli Pneus is involved in tax disputes and litigations. The most relevant are described below:

DISPUTES CONCERNING THE ICMS TAX RECEIVABLES ASSIGNED BY THE STATE OF SANTA CATARINA With reference to the dispute concerning the ICMS tax receivables (*Imposto Sobre Operações Relativas à Circulação* or state value added tax) assigned by the State of Santa Catarina, Pirelli Pneus Ltda received notices of assessment which disavowed the ICMS tax receivables. The claim was motioned by the State of São Paulo, according to which Pirelli Pneus benefited from the ICMS tax credits assigned by the State of Santa Catarina, but which were deemed to have been unlawful from the start in that they were assigned by the latter in violation of the Brazilian Constitution, in the absence of a previous agreement between the various States. The dispute has been presented before the competent administrative and tax commissions and, despite the first decisions not being favourable to Pirelli Pneus, the Group maintains that it has a good chance of winning in following court proceedings. This assessment is based on the orientation in favour of the tax payer whose legal position is strengthening, in particular, as with another case under consideration by the Brazilian Supreme Court, who will have to express its legal position through a sentence which will set a binding precedence *erga omnes*, on the impossibility for a Federal State to penalise the tax payer for the use of credits granted by law by another Federal State, even if that law did not observe constitutional rules. According to a previous case before the Supreme Court, this dispute should be managed by the Federal States, and without unduly penalising the tax payer. In addition to the aforesaid, a legislative provision (Complementary Law No. 160) came into force on August 8, 2017, which was designed to put an end to the dispute between various states in Brazil. This legislation validates the incentives, which to date were considered illegitimate, and therefore also extinguishes the relative sanctions imposed by the Brazilian tax authorities. The implementative aspects of this new provision have to date been defined by the Brazilian States, and therefore last December 2019, Pirelli Pneus also filed a petition for amnesty regarding the dispute in question. This petition does not interrupt the ongoing litigation in court, which can therefore continue in case the amnesty petition should have a negative outcome. The risk is estimated at approximately euro 146 million, inclusive of taxes, interests and penalties. The risk of losing has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for this dispute.

LITIGATION CONCERNING THE IPI TAX RATE APPLICABLE TO CERTAIN TYPES OF TYRES The subsidiary Pirelli Pneus is involved in a tax disputes with the Brazilian tax authorities concerning the IPI tax rate (I*mposto sobre Produtos Industrializados* or tax on industrialised products) with particular 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 and 2017, the aforementioned tyres should have been subjected to the IPI tax rate for the production and importation of tyres for cars – an applicable rate of 15% - instead of the 2% rate applied by Pirelli Pneus, as is provided for the production and importation of tyres for heavy industrial use vehicles.

To date, the dispute is pending before the competent administrative and tax commissions, and also in light of the recent judgement in favour of Pirelli Pneus, 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, who concluded their analysis by equating the tyres discussed, in light of their similar characteristics, with those used for heavy industrial vehicles. The risk is estimated at approximately euro 37 million, inclusive of tax, interests and penalties. The risk of losing has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for this dispute.

DISPUTES CONCERNING THE IPI TAX RATE WITH RESPECT TO THE SALE OF TYRES TO THE AUTOMOTIVE SECTOR Pirelli Pneus is involved in a dispute concerning the IPI tax rate, (*Imposto sobre Produtos Industrializados* or tax on industrialised products) which also refers to the particular case of the sale of components to companies operating in the automotive sector. According to the Brazilian tax authority's claim as stated in a notice of assessment issued in 2013, Pirelli Pneus should not benefit, as regards its secondary office established in the city of Ibiritè in the Federal State of Minas Gerais, from the IPI tax rate exemption as provided for by law in the case of sales of particular components to companies operating in the automotive sector. The Group maintains that it has well founded reasons to object to the tax administration's claim. In particular, both the legislation applicable to this case regarding the IPI tax rate and the precedence in case law for similar cases appear to support this position. The risk is estimated at approximately euro 20 million, inclusive of tax, interests and penalties. The risk of losing has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for this dispute.

DISPUTE CONCERNING THE TAX IMPACT DERIVING FROM THE SO CALLED "PLANO VERÃO" (GOVERNMENT STABILISATION PLAN) Pirelli Pneus is involved in dispute over taxes with the Brazilian tax authorities, which, in the opinion of the Company - for the period between 1989 and 1994 - were collected by the Brazilian tax administration in amounts that exceeded what was actually due following the so called *"Plano Verão"*, the economic measure introduced by the then Brazilian government, to control the phenomenon of hyperinflation that was affecting the country through price freezes. However, the difference between the real and indexed inflation had the effect of creating significant distortions in the Financial Statements of companies and, last but not least, the amount of taxes paid by the same. Pirelli Pneus made use of the real inflation rate for its own Financial Statements valuations, and, at the same time, began administrative legal proceedings aimed at asserting its reasons for the correct amount of taxes owed. In the course of the aforementioned proceedings, Pirelli Pneus first adhered to an amnesty for the tax disputes in order to define the dispute in question and, only subsequently, on the basis of a ruling with binding effectiveness towards everyone by the Brazilian Supreme Court, requested the annulment of the effects of the amnesty, to which it had previously adhered. The risk is estimated at between euro 17 and 31 million, inclusive of tax, interests and penalties. Also on the basis of the recent jurisprudence on cases similar to that of Pirelli Pneus, the Group revised the assessment of the risk of losing, which at December 31, 2019 is no longer considered as probable. In light of this, during the 2019 financial year, a provision in the Financial Statements of approximately euro 17 million, previously set aside due to the uncertainty regarding the possibility that the competent judicial courts would express themselves in favour of cancelling the effects of the tax amnesty, was completely released.

OTHER PIRELLI PNEUS DISPUTES Pirelli Pneus is involved in two other relevant tax disputes concerning federal taxes and excises (such as the IPI tax rate, the PIS and COFINS tax) as well as the ICMS state value added tax). In particular, Pirelli Pneus is involved in certain administrative and judicial proceedings aimed at ensuring that their own reasons prevail over those of the tax authorities, with reference to:

(i) the so called *"Desenvolve"* litigation relative to a fiscal incentive recognised by the Federal State of Bahia, but which is claimed by the Brazilian tax authorities to have been incorrectly calculated by Pirelli Pneus - approximately euro 9 million inclusive of taxes, penalties and interest;
(ii) a dispute relative to import customs costs for natural rubber, which in the opinion of the Brazilian tax authorities, was underestimated by not taking into account the value of the intra-group royalties paid - approximately euro 10 million inclusive of taxes, penalties and interest.

For all two of the aforementioned disputes, also on the basis of the results of the first incidences of proceedings, the risk of losing has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for these disputes.

29. REVENUES FROM SALES AND SERVICES

Revenues from sales and services were as follows:

(in thousands of euro)

	2019	2018
Revenues from sales of goods	5,174,701	5,049,040
Revenues from services	148,353	145,431
Total	**5,323,054**	**5,194,471**

30. OTHER INCOME

The item is composed as follows:

(in thousands of euro)

	2019	2018
Other income from Prometeon Group	60,922	91,343
Sales of Industrial products	158,709	183,762
Gains on disposal of property, plant and equipment	1,298	7,848
Rent income	3,780	5,465
Income from sublease of rights of use assets	1,662	-
Recoveries and reimbursements	164,475	95,785
Government grants	13,343	14,515
Other income	82,118	84,487
Total	**486,307**	**483,205**

The item **other income from the Prometeon Group** includes the sale of raw materials, semi-finished and finished products for the amount of euro 18,688 thousand, royalties recorded from the trademark license agreement to the amount of euro 10,423 thousand, royalties recorded from the know-how license contract to the amount of euro 16,326 thousand, and services rendered for the amount of euro 15,485 thousand. The decrease recorded compared to the previous financial year was mainly attributable to the fact that raw materials are no longer supplied to the Prometeon Group by the British subsidiary Pirelli International Plc. Reference should also be made to Note 44 – *"Related Party Transactions"*.

The item **sales of industrial products** mainly refers to revenues and income 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 **recoveries and reimbursements** includes, in particular:

- refunds of taxes and duties for a total of euro 110,681 thousand, received mainly from the Brazilian subsidiary. The item includes euro 73,938 thousand derived from the benefit recorded following the attainment of a favourable verdict by the Federal Regional Court, with registered office in in Brasilia, which recognised the right to exclude the ICMS tax (*Imposto Sobre Operações Relativas à Circulação* or state Value Added Tax for the circulation of goods and the provision of interstate and inter-municipal transport and communication services) from the base calculation of PIS (*Programa de Integracao Social*) and COFINS (*Contribucao para Financiamento de Seguridade Social*) social security contributions for the 2003-2014 period. Reference should be made to Note 15 - *"Other Receivables"* for further details.
- tax refunds totalling euro 17,852 thousand deriving from tax incentives obtained mainly in the state of Bahia, Brazil for commercial exports;
- proceeds from the sale of tyres and scrap materials carried out in the United Kingdom for a total of euro 5,814 thousand;
- income from the sale of tyres for testing and the recovery of transport expenses incurred in Germany to the amount of euro 1,838 thousand.

The item **other** includes income from sporting activities amounting to euro 34,953 thousand.

31. PERSONNEL EXPENSES

The item is composed as follows:

(in thousands of euro)

	2019	2018
Wages and salaries	822,647	796,874
Social security and welfare contributions	167,184	167,011
Costs for employee leaving indemnities and similar	16,888	19,087
Costs for defined contribution pension funds	23,583	22,698
Costs for defined benefit pension funds	1,627	13,831
Costs for jubilee awards	3,622	4,247
Costs for defined contribution healthcare plans	5,290	3,007
Other costs	31,326	40,824
Total	**1,072,167**	**1,067,579**

The item **other costs** includes the portion of the retention plan that was approved by the Pirelli Board of Directors on February 26, 2018.

The item **personnel expenses for 2018 had included non-recurring events** for a total of euro 15,410 thousand (1.4% of the total) attributable to provisions for the estimated impacts on pension obligations deriving from the need to recalculate them, in order to rectify some of the disparities in the treatments of Guaranteed Minimum Pension (GMP equalisation) amounts, that emerged for UK pensions following the High Court ruling of October 36, 2018 in the case concerning the Lloyds Banking Group.

32. AMORTISATION, DEPRECIATION AND IMPAIRMENT

The item is composed as follows:

(in thousands of euro)

	2019	2018
Amortisation	125,823	125,220
Depreciation (excl. Depreciation of right of use)	292,045	269,084
Depreciation of right of use	89,479	-
Impairment of property, plant and equipment and intangible assets	20,471	20,219
Total	**527,818**	**414,523**

The item **impairments** mainly refers to property, plant and equipment due to the rationalisation plan carried out in Italy and Brazil, consistent with the reduction of the Standard capacity.

33. OTHER COSTS

The item is subdivided as follows:

(in thousands of euro)

	2019	2018
Selling costs	320,189	310,687
Purchases of goods for resale	367,365	434,201
Fluids and energy	181,650	161,180
Advertising	214,919	231,981
Consultants	48,522	43,872
Maintenance	50,494	51,394
Warehouse operating costs	71,226	70,225
Leases and rentals	36,905	125,359
Outsourcing	34,944	38,572
Travel expenses	37,311	52,847
IT expenses	34,537	34,844
Key managers compensations	7,235	8,229
Other provisions	41,785	37,867
Duty stamps, duties and local taxes	27,507	29,031
Canteen	16,091	17,043
Insurance	31,476	30,319
Cleaning expenses	14,836	14,788
Waste disposal	7,558	7,160
Security expenses	9,714	9,150
Telephone expenses	8,744	9,723
Other	150,396	139,690
Total	**1,713,404**	**1,858,162**

The item **leases and rentals** includes costs relative to the application of the new accounting standard IFRS16, in particular:

- → euro 23,555 thousand for lease contracts with duration of less than twelve months;
- → euro 7,394 thousand for lease contracts for low unit value assets;
- → euro 5,956 thousand for lease contracts with variable payments.

In 2018 the item included costs relating to operating leases recorded in accordance with IAS 17 - Leases replaced from 1 January 2019 by the new accounting standard IFRS 16 - Leases.

The item **other** also includes labour provided by third parties to the amount of euro 31,083 thousand, and expenses for technological tests to the amount of euro 20,190 thousand.

The item **other costs for 2018 had included non-recurring events** for a total of euro 8,639 thousand (0.5% of the total) and mainly relative to costs for consultancy services as part of non-recurring transactions, as well as costs incurred as a result of extraordinary events.

34. NET IMPAIRMENT OF FINANCIAL ASSETS

The item, which was negative euro 22,266 thousand compared to euro 21,273 thousand for 2018, mainly includes the net impairment of trade receivables to the amount of euro 22,235 thousand (euro 12,019 thousand at December 2018).

35. NET INCOME (LOSS) FROM EQUITY INVESTMENTS

35.1 SHARE OF NET INCOME (LOSS) FROM EQUITY INVESTMENTS IN ASSOCIATES AND JOINT VENTURES.

The share of net income (loss) from equity investments in associates and joint ventures evaluated using the equity method amounted to a negative euro 9,678 thousand and refers mainly to investments in the joint venture Xushen Tyre (Shanghai) Co., Ltd. which recorded a loss of euro 7,158 thousand, and in the joint venture PT Evoluzione Tyres in Indonesia which recorded a loss of euro 2,769 thousand (a loss euro 10,350 thousand for 2018).

For further details reference should be made to preceding Note 11 - *"Investments in Associates and Joint Ventures"*.

35.2 GAINS ON EQUITY INVESTMENTS

The amount euro 1,684 thousand mainly refers to the reversal to the Income Statement of the foreign currency translation reserve, accumulated up until the date of disposal of the Joint Stock Company, the Atom Research Training Centre for New Technologies and Materials, of euro 1,567 thousand.

For 2018 this item had mainly referred to the positive impact of euro 3,780 thousand relative to the investment in Mediobanca S.p.A. classified under *"Other financial assets at fair value through the Income Statement"* sold on January 11, 2018.

35.3 LOSSES ON EQUITY INVESTMENTS

For 2019 the item amounted to euro 8,538 thousand, and referred to the disposal of the investment in Inter Wheel Sweden Aktiebolag.

For 2018 the item had amounted to euro 1,603 thousand, and mainly referred to the impairment of the investment in Focus Investments S.p.A..

35.4 DIVIDENDS

For 2019 this item amounted to euro 5,526 thousand and mainly included dividends received from the RCS Mediagroup S.p.A. (euro 1,482 thousand), from the Fondo Comune di investimento immobiliare Anastasia (Anastasia Real Estate Investment Fund) (euro 2,434 thousand), from Fin. Priv. S.r.l. (euro 957 thousand) and from Genextra S.p.A. (euro 178 thousand).

For 2018 this item had amounted to euro 4,176 thousand and mainly includes dividends received from Equinox Two S.C.A. to the amount of euro 1,508 thousand, and from Fin. Priv. S.r.l. to the amount of euro 957 thousand.

36. FINANCIAL INCOME

The item is composed as follows:

(in thousands of euro)

	2019	2018
Interest	13,773	17,176
Net interest income on Brazilian tax credits	107,302	-
Hyperinflation impact	-	8,536
Other financial income	5,141	9,627
Net gains on exchange rates	2,461	-
Fair value measurement of currency derivatives	-	23,523
Fair value measurement of other derivatives	83	-
Total	**128,761**	**58,862**

The item **interest** includes euro 5,384 thousand for interest on fixed income securities, and euro 3,095 thousand for interest income due from financial institutions.

The item **net interest on tax credits in Brazil** refers to the interest matured on receivables from the Brazilian tax authorities recorded following the attainment of a favourable judgement by the Federal Regional Court, with registered offices in Brasilia and San Paolo, which recognised the right to deduct the state tax on goods and services (ICMS) from the base calculation of PIS *(Programa de Integracao Social)* and COFINS *(Contribucao para Financiamento de Seguridade Social)* social security contributions. Reference should be made to Note 15 - *"Other receivables"* for further details.

The item **other financial income** mainly includes interest matured on tax credits and on security deposits provided by the Brazilian subsidiaries as a guarantee for legal and tax disputes.

The item **net gains on exchange rates** which amounted to euro 2,461 thousand (gains amounted to euro 2,174,212 thousand and losses amounted to euro 2,171,151 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 reporting date of the Consolidated Financial Statements, and to the net losses realised on items closed during the course of the period.

37. FINANCIAL EXPENSES

The item is composed as follows:

(in thousands of euro)

	2019	2018
Interests	107,166	103,975
Commissions	20,298	20,522
High inflation effect	19,995	-
Other financial expenses	9,303	13,183
Interest expenses on lease obligations	23,480	-
Net losses on exchange rates	-	111,569
Net interest costs on employee benefit obligations	4,612	5,446
Fair value measurement of exchange rate derivatives	53,386	-
Fair value measurements of other derivatives	-	478
Total	**238,240**	**255,173**

Interests which totalled euro 107,166 thousand included:

- euro 98,639 thousand for bank credit facilities held by Pirelli & C. S.p.A.;
- euro 15,213 thousand in financial expenses relative to bond loans, of which euro 9,869 thousand refers to unrated bonds, and euro 5,344 thousand relative to the *Schuldschein* loan, both issued by Pirelli & C. S.p.A.
- euro 52,169 thousand for net interest on Cross Currency Interest Rate Swaps and *Interest Rate Swaps* to rectify the flow of financial expenses, credit facilities and bond loans referred to in the previous points. For further details reference should be made to Note 27 - *"Derivative financial instruments".*
- euro 34,740 thousand in financial expenses relative to bank finance for foreign affiliates.

The item **commissions** includes, in particular, euro 7,459 thousand in costs for the assignment of receivables with a non-recourse clause mainly in LatAm, Italy and Germany, and euro 12,839 thousand relative to expenses for sureties and other bank commissions.

The item **high inflation effect** refers to the effect on monetary items deriving from the application of IAS 29 - Hyperinflation, by the subsidiary company Pirelli Neumaticos SAIC. Reference should be made to Note 42 for more details.

The item **valuation at fair value of exchange rate derivatives** refers to the purchase/sale of the forward currency contracts to hedge commercial and financial transactions, in accordance with the Group's policy for the management of exchange rate risk. For transactions still open at the end of the financial year, the fair value was determined by applying the forward exchange rate at the reporting date of the Consolidated Financial Statements. The valuation at fair value is composed of two elements: the interest component which is tied to the interest rate differential between the currencies which are subject to the individual hedges, equal to a net cost of euro 48,191 thousand, and the exchange rate component equal to a net cost of euro 31,895 thousand.

For 2019 the exchange rate component of the fair value measurement of the cross currency interest rate swaps, for which hedge accounting of the cash flow hedge type was adopted, was positive to the amount of euro 36,864 thousand, and was reclassified under the item net gains on exchange rates, to offset unrealised exchange losses recorded on the hedged liability. To ensure comparability with the previous financial year, the exchange rate component for 2018, positive to the amount of euro 80,868 thousand, was reclassified to reduce net losses on exchange rates in order to offset unrealised currency exchange losses recorded for 2018 on the hedged liability.

Net of the aforementioned reclassification, in comparing the net gains on exchange rates, which totalled euro 2,461 thousand recorded for receivables and payables in currencies other than the functional currency of the various subsidiaries, with the fair value valuation of the exchange rate component of the exchange rate hedge derivative, equal to a net loss of euro 5,056 thousand, there results a negative imbalance of euro 2,595 thousand, which indicates that the management of exchange rate risk is basically in balance.

For **2018 financial expenses had included non-recurring events** to the amount of euro 2,149 thousand (0.8% of the total) relative to:

- expenses arising from the early extinction of the bond placed by Pirelli International Plc (for the amount of euro 600 million with a fixed coupon of 1.75% and original maturity date in November 2019), which resulted in the reversal to the Income Statement of the portion of costs not amortised at the extinction date (euro 3,557 thousand), plus additional financial expenses consequent to the exercise of the so-called make-whole option (euro 18,690 thousand);
- the positive impact of euro 29,750 thousand (euro 20,101 thousand net of the relative amortised portion) due to the repricing of the unsecured credit facility (*"Facilities"*) which took place in January 2018.

38. TAXES

Taxes were composed as follows:

(in thousands of euro)

	2019	2018
Current taxes	198,460	156,104
Deferred taxes	(33,898)	(103,140)
Total	**164,562**	**52,964**

Taxes for 2019 amounted to euro 164,562 thousand against pre-tax earnings of euro 622.259 thousand. The tax rate which stood at 26.5% was consistent with the expected tax rate for the 2019 financial year.

For 2018 taxes had included non-recurring expenses and was positive to the amount of euro 60,607 thousand, attributable to the benefit derived from the application of the subsidised tax relief scheme, the so called Patent Box, relative to the 2015 – 2018 period due to the preliminary agreement signed by Pirelli Tyre S.p.A. on October 15, 2018 with the Agenzia delle Entrate (Italian Tax Office). The tax rate for the 2018 financial year had stood at 10.6%.

The **reconciliation between theoretical and effective taxes** is as follows:

(in thousands of euro)

	2019
A) Net income / (loss) before taxes	**622,259**
B) Theoretical taxes	**172,424**
Main causes for changes between estimated and effective taxes:	
Tax incentives	(38,787)
Non-deductible costs	8,924
Witholding taxes not recoverable	15,895
Other	6,106
C) Effective taxes	**164,562**
Theoretical tax rate (B/A)	28%
Effective tax rate (C/A)	26%

The difference between the nominal and effective tax rates of the Group was mainly due to tax incentives, net of non-deductible costs which were considered irrecoverable. The tax incentives mainly refer to the benefit estimated for 2019 derived from the subsidised tax relief scheme in Italy, the so called Patent Box.

The difference between the Group theoretical tax of 2019 and 2018 is mainly due to a different composition of profit before tax generated by subsidiaries operating in countries with different nominal tax rates. The main 2019 effect refers to the increase of profit before tax generated in Brazil on which a nominal tax rate of 34% applies.

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:

	2019
EMEA	
Italy	27.90%
Germany	30.00%
Romania	16.00%
Great Britain	19.00%
Turkey	22.00%
Russia and Nordics	
Russia	20.00%
North America	
USA	25.00%
Mexico	30.00%
South America	
Argentina	30.00%
Brazil	34.00%
APAC	
China	25.00%

The share of taxes paid according to geographical area during the course of the financial year, equal to euro 141,985 thousand, was follows:

- 41% APAC;
- 35% Europe;
- 14% LatAm;
- 7% NAFTA;
- 3% Russia, Nordics and MEAI.

The term paid taxes refers to the total amount of income taxes effectively paid during the tax period by the Group companies to the respective jurisdictions of tax residence, to income tax payments paid in 2019, to income taxes paid during the course of 2019 but relative to previous financial years (e.g. income tax balances relative to 2018) or to 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 tax residence jurisdictions of the recipient.

39. ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

For 2018 the item included the last residual activities in China and Argentina relative to the Industrial business, which as a result of the assignment by Pirelli & C. S.p.A. of the TP Industrial Holding S.p.A. shares in 2017 to the Parent company Marco Polo International Holding Italy S.p.A. were classified as *"discontinued operations"*.

40. EARNINGS/(LOSSES) PER SHARE

Earnings/(losses) per share are determined by the ratio between the earnings/losses attributable to the Parent Company and the weighted average of the number of ordinary shares outstanding during the period, with the exclusion of treasury shares.

(in thousands of euro)

	2019	2018
Net income attributable to the Parent Company related to **continuing operations**	438,134	438,035
Weighted average number of ordinary shares outstanding (in thousands)	1,000,000	1,000,000
Earnings / (loss) per share related to continuing operations (in euro per share)	**0.438**	**0.438**
Net income attributable to the Parent Company related to **discontinued operations**	-	(6,429)
Weighted average number of ordinary shares outstanding (in thousands)	1,000,000	1,000,000
Earnings / (loss) per share related to discontinued operations (in euro per share)	**-**	**(0.006)**

It should be noted that the earnings/(loss) per basic and diluted share coincide as there are no potential issues of shares with dilutive effects on the results.

41. DIVIDENDS PER SHARE

Based on the results of 2018, during the course of 2019, Pirelli & C. S.p.A. distributed a dividend of euro 0.177 to its shareholders for each of the 1.000.000.000 ordinary shares for a total amount of euro 177.000 thousand.

42. HYPERINFLATION

Based on the provisions of the accounting standards of the Group, with regard to the criteria for entering/exiting inflation accounting, the subsidiary Pirelli Neumaticos SAIC has adopted inflation accounting since July 1, 2018, and it is the only Group company operating in a high-inflation country. The price index used for this purpose was the national consumer price index (CPI) published by the National Institute for Statistics and Census (INDEC).

For the Consolidated Financial Statements at December 31, 2019 the official inflation index of 54.3% was used.

Losses on the net monetary position were recognised in the Income Statement as "*Financial expenses*" (Refer to Note 37) to the amount of euro 19,995 thousand.

43. NON-RECURRING EVENTS

Pursuant to CONSOB Notification No. DEM/6064293 of July 28, 2006, there were no non-recurring events recorded during the 2019 financial year.

For the 2018 financial year, the impact of non-recurring events on the operating income had amounted to expenses totalling euro 24 million, while the impact on the net income had been positive to the amount of euro 34.4 million.

44. RELATED-PARTY TRANSACTIONS

Related party transactions, including inter-group transactions, are neither exceptional nor unusual, but are part of the ordinary course of business for companies of the Group. Such transactions, when not concluded under standard conditions or dictated by specific regulatory conditions, are in any case governed by conditions consistent with those of the market and carried out in compliance with the provisions of 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 Statement of Cash Flows which include the related party transactions and their relative impact.

STATEMENT OF FINANCIAL POSITION

(in millions of euro)

	Total reported at 12/31/2019	of which related parties	% incidence	Total reported at 12/31/2018	of which related parties	% incidence
Non-current assets						
Other financial assets	**342.4**	5.6	1.6%	**225.7**	12.6	5.6%
Current assets						
Trade receivables	**649.4**	9.8	1.5%	**628.0**	15.7	2.5%
Other receivables	**451.9**	45.2	10.0%	**416.7**	55.4	13.3%
Non-current liabilities						
Borrowings from banks and other financial institutions	**3,949.8**	17.4	0.4%	**3,929.1**	-	n.a.
Current liabilities						
Borrowings from banks and other financial institutions	**1,419.4**	2.2	0.2%	**800.1**	-	n.a.
Trade payables	**1,611.5**	171.9	10.7%	**1,604.7**	191.6	11.9%
Other payables	**402.8**	4.8	1.2%	**436.8**	7.4	1.7%

INCOME STATEMENT

(in millions of euro)

	2019	of which related parties	% incidence	2018	of which related parties	% incidence
Revenue from sales and services	**5.323.1**	19.3	0.4%	**5.194.5**	9.0	0.2%
Other income	**486.3**	74.8	15.4%	**483.2**	108.5	22.5%
Raw materials and consumables used	**(1,741.2)**	(4.1)	0.2%	**(1,818.2)**	(12.7)	0.7%
Personnel expenses	**(1,072.2)**	(14.5)	1.4%	**(1,067.6)**	(14.1)	1.3%
Other costs	**(1,713.4)**	(278.2)	16.2%	**(1,858.2)**	(290.4)	15.6%
Net impairment loss of financial assets	**(22.3)**	-	n.a.	**(21.3)**	(9.0)	42.3%
Financial income	**128.8**	1.2	0.9%	**58.9**	3.1	5.3%
Financial expenses	**(238.2)**	(1.0)	0.4%	**(255.2)**	-	0.0%
Net income/(loss) from equity investments	**(11.0)**	(9.7)	n.a.	**(5.0)**	(11.6)	n.a.
Net income/(loss) from discontinued operations	**-**	-	n.a.	**(6.4)**	(10.6)	n.a.

CASH FLOW

(in millions of euro)

	2019	of which related parties	% incidence	2018	of which related parties	% incidence
Net cash flows operating activities:						
Trade receivables	**(44.6)**	5.8	n.a.	**(23.4)**	47.1	n.a.
Trade payables	**18.8**	(19.7)	n.a.	**104.7**	(6.4)	n.a.
Other receivables/payables	**(79.6)**	28.0	n.a.	**(151.4)**	(29.3)	n.a.
Net cash flows investing activities:						
Acquisition of non-controlling interests	**-**	-	n.a.	**(49.7)**	(31.2)	n.a.
Dividends received from associates	**-**	-	n.a.	**2.7**	2.7	n.a.
Disposals (Acquisition) of investments in associates and JV	**(8.9)**	(8.9)	n.a.	**(65.2)**	(65.2)	n.a.
Net cash flows financing activities:						
Change in Financial receivables/Other current financial assets at fair value through income statement	**(55.1)**	(13.4)	n.a.	**(31.8)**	-	n.a.
Repayment of principal and payment of interest for lease obligations	**(101.2)**	(1.9)	n.a.	**-**	-	n.a.
Net cash flows provided by (used in) discontinued operations	**-**	-	n.a.	**37.1**	43.5	n.a.

Related party transactions on the consolidated data for Pirelli & C. Group were as follows:

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

STATEMENT OF FINANCIAL POSITION

(in millions of euro)

	12/31/2019	12/31/2018
Other non current receivables	5.6	12.6
of which financial	*5.6*	*12.6*
Trade receivables	3.4	3.6
Other current receivables	40.7	32.2
of which financial	*26.5*	*6.2*
Borrowings from banks and other financial institutions non-current	15.4	-
Borrowings from banks and other financial institutions current	1.6	-
Trade payables	36.2	23.1
Other current payables	-	0.1

INCOME STATEMENT

(in millions of euro)

	2019	2018
Revenues from sales and services	19.0	6.2
Other income	6.8	2.1
Raw materials and consumables (net of change in inventory)	0.4	-
Other costs	85.4	42.7
Financial income	1.0	1.2
Financial expenses	0.6	-
Net income/loss from equity investments	9.7	11.6

CASH FLOW

(in millions of euro)

	2019	2018
Change in Trade receivables	0.2	-
Change in Trade payables	13.1	-
Change in Other receivables/Other payables	11.9	-
Net cash flows provided by / (used in) investing activities	(8.9)	2.5
Change in financial receivables / Other financial assets at fair value through Income Statement	(13.4)	-
Repayment of principal and payment of interest for lease obligations	(1.6)	-

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 by Pirelli Tyre Co., Ltd. to the Chinese joint venture Jining Shenzhou Tyre Co., Ltd.

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

- receivables for the sale of materials and moulds to the Joint Stock Company *"Kirov Tyre Plant"* to the amount of euro 8.4 million, and from Jining Shenzhou Tyre Co., Ltd. to the amount of euro 2.7 million;
- receivables from PT Evoluzione Tyres for the recovery of costs sustained by Pirelli Tyre S.p.A. to the amount of euro 2.7 million.

The financial portion refers to a loan granted by Pirelli Tyre Co., Ltd. to Jining Shenzhou Tyre Co., Ltd. for euro 26.1 million.

The item **non-current borrowings from banks and other financial institutions** refers to payables for machine hire by the company Pirelli Deutschland GMBH from the company Industriekraftwerk Breuberg Gmbh.

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

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

TRANSACTIONS - INCOME STATEMENT

The item **revenues from sales and services** mainly refers to sales of materials and services to the Jining Shenzhou Tyre Co., Ltd. to the amount of euro 11 million, and to the Joint Stock Company *"Kirov Tyre Plant"* to the amount of euro 3.8 million, as well as royalties charged to PT Evoluzione Tyres and to Jining Shenzhou Tyre Co., Ltd. for a total of euro 2.6 million.

The item **other income** refers mainly to the recharging for labour costs.

The item **other costs** mainly refers to the cost for the purchase of motorcycle products from PT Evoluzione Tyres to the amount of euro 36.6 million, costs for the purchase of tyres from Jining Shenzhou Tyre Co., Ltd. to the amount of euro 26.5 million and costs for the purchase of energy and machine hire from Industriekraftwerk Breuberg GmbH to the amount of euro 21 million.

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

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

TRANSACTIONS WITH OTHER RELATED PARTIES

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.

STATEMENT OF FINANCIAL POSITION

(in millions of euro)

	12/31/2019	12/31/2018
Trade receivables	6.4	12.0
Other current receivables	4.4	23.2
Borrowings from banks and other financial institutions non-current	2.0	-
Borrowings from banks and other financial institutions current	0.6	-
Trade payables	135.7	168.5
Other current payables	4.8	7.4

INCOME STATEMENT

(in millions of euro)

	2019	2018
Revenues from sales and services	0.3	2.7
Other income	68.0	106.4
Raw materials and consumables (net of change in inventory)	3.7	12.7
Other costs	185.5	239.4
Net impairment loss on financial assets	-	9.0
Financial income	0.1	1.9
Financial expenses	0.4	-
Other income from discontinued operations	-	7.8
Other costs from discontinued operations	-	18.5

CASH FLOW

(in millions of euro)

	2019	2018
Change in trade receivables	5.6	47.1
Change in trade payables	(32.8)	(6.3)
Change in Other receivables/Other payables	16.2	(29.3)
Net cash flows provided by / (used in) investing activities	-	(31.2)
Repayment of principal and payment of interest for lease obligations	(0.3)	-
Net cash flows for discontinued operations	-	43.5

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 4.2 million, and receivables for royalties from the Aeolus Tyre Co., Ltd. to the amount of euro 0.2 million.

The item **non-current borrowings from banks and other financial institutions** refers to payables of the company Pirelli Otomobil Lastikleri A.S. for machine hire from the Prometeon company Turkey Endüstriyel ve Ticari Lastikler A.S. to the amount of euro 1.4 million, and the payables of Pirelli Pneus Ltda to TP Industrial de Pneus Brasil Ltda to the amount of euro 0.6 million.

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

The item **trade payables** almost exclusively refers to payables to companies of the Prometeon Group to the amount of euro 134.8 million.

The item **other current payables** mainly refers to other current payables to companies of the Prometeon Group to the amount of euro 4.2 million.

TRANSACTIONS - INCOME STATEMENT

The item **other income** includes royalties recognised from Aeolus Tyre Co., Ltd. in respect of the license agreement stipulated in 2016 for euro 7 million per year, which was subjected to the renegotiation of some of the terms and conditions in February 2019. The item also includes income from companies of the Prometeon Group mainly relative to:

- royalties recorded in respect of the license contract for the use of the Pirelli trademark to the amount of euro 16.3 million;
- the sale of raw materials, finished and semi-finished products for the total amount of euro 18.7 million of which euro 15.1 million was carried out by Pirelli Pneus Ltda;
- the Long-Term Service Agreement to the amount of euro 8.4 million of which euro 3.7 million was earned by Pirelli Sistemi Informativi S.r.l., and euro 1.1 million by Pirelli Pneus Ltda;
- logistics services for a total amount of euro 2.1 million of which euro 0.7 million was carried out by the Brazilian company Total Logistic Management Serviços del Logistica Ltda;
- the licence agreement for know-how charged by Pirelli Tyre S.p.A. to the amount of euro 10.4 million.

The decrease in other income compared to the same period of the previous financial year was mainly attributable to the renegotiation of the license agreement with the Aeolus Tyre Co., Ltd. and to the fact that raw materials are no longer supplied to the Prometeon Group by the British subsidiary Pirelli International Plc.

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 2.2 million was carried out by the Turkish company Pirelli Otomobil Latikleri A.S., and euro 1.3 million by the Brazilian company Pirelli Pneus Ltda. The decrease for this item compared to 2018 was mainly attributable to a reorganisation within the purchasing process.

The item **other costs** includes contributions to the Hangar Bicocca Foundation and the Pirelli Foundation to the amount of euro 0.8 million, and costs payable to companies of the Prometeon Group mainly for:

- the purchase of truck products for a total amount of euro 100.3 million of which euro 83.9 million was carried out by the Brazilian company Comercial e Importadora de Pneus Ltda. for the Brazilian sales network, and euro 4.3 million was carried out 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 57.6 million (of which euro 52.6 million was carried out by the Turkish company Pirelli Otomobil Lastikleri A.S.) in respect of the Off-Take contract, and euro 3.7 million on the part of Pirelli Pneus Ltda for the purchase of inner tubes for tyres;
- costs to the amount of euro 10.7 million incurred by Pirelli Pneus Ltda for services for the transformation of raw materials as a result of activities pertinent to the Toll manufacturing contract.

The item **financial income** refers to interest between Pirelli Tyre (Suisse) SA and the Prometeon Group.

The item **financial expenses** refers to interest relative to machine hire between Pirelli Otomobil Lastikleri A.S. and the Prometeon Group.

BENEFITS FOR KEY MANAGERS OF THE COMPANY

At December 31, 2019 the compensation to which key managers with strategic responsibilities were entitled to totalled euro 21,732 thousand (euro 22,362 thousand for 2018). The portion relative to employee benefits was recognised in the Income Statement under *"Personnel expenses"* to the amount of euro 14,498 thousand (euro 14,133 thousand for 2018), and under the item "*Other Costs*" in the Income Statement to the amount of euro 7,235 thousand (euro 8,229 thousand for 2018). The remuneration also includes euro 1,535 thousand for employee leaving indemnity (TFR) and retirement benefits (euro 1,625 thousand for 2018), and short-term benefits for euro 6,970 thousand (euro 8,641 thousand for 2018).

45. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

In early 2020, the Covid-19 (SARS-CoV-2) virus spread, initially in the People's Republic of China and later in other countries, including Italy.

Pirelli sells its products on a world wide basis in over 160 countries and owns industrial sites located in different countries, some of which are also significantly affected by the Covid-19 outbreak.

Sensitivity assumptions have been formulated regarding the effects of the spread of Covid-19, and elaborated on the basis of first estimates. By their nature, these hypotheses contain elements of uncertainty and are subject to changes, even significant ones, due to the continuous changes in the scenario and in the context for reference, which could lead to a significant alteration to the normal dynamics of the market and, more generally, to business operating conditions.

The negative impact currently expected at the level of the EBIT adjusted for the first quarter of 2020, is expected to be reabsorbed during the course of the year. However should the crisis continue, Pirelli will take steps to implement further mitigation measures.

Pirelli is following developments in the spread of the Coronavirus with constant contact with national and international organisations. The Company immediately adopted control and preventative measures for all their employees across the world, with particular attention to China, where all expatriate workers returned to their countries of origin with their families.

In **January 2020** Pirelli received three important ESG awards. On **January 20**, the company was recognised as the global leader in the fight against climate change, which put Pirelli on the Climate A-List drawn up by the CDP (the former Carbon Disclosure Project), an international non-profit organisation that deals with collecting, disseminating and promoting information on environmental issues. On **January 31**, however, Pirelli won the highest recognition in the SAM Sustainability Yearbook 2020 published by S&P Global, achieving recognition as the ESG sector Leader in the FTSE4Good Index Series, which sees Pirelli now ranked at the top of the Tyre and Consumer Goods sector.

On **February 19, 2020** Pirelli presented the 2020 - 2022 Industrial Plan/Vision 2025 to the financial community. For further details, reference should be made to the section *"Outlook for the 2020 – 2022 Three-Year Period"* of the Directors' report on operations. On the same date, the Board of Directors approved the adoption of a new monetary incentive plan - the Long Term Incentive (LTI) plan - aimed at all areas of Group Management (currently approximately 270 participants) - correlated to the objectives of the plan. The New LTI Plan, is as in the past, totally self-financed, in that the relative expenses are included in the financial data of the Industrial Plan. The New LTI Plan provides for the following objectives:

- → Total Shareholder Return (TSR) for the Group relative to the Tier 1 panel of peers, with an overall target of 40% of the LTI monetary incentive;
- → cash flow for the Group (before dividends) with a target of 40% of the LTI monetary incentive;
- → the positioning of Pirelli in selected global sustainability indicators, with an overall target of 20% of the LTI monetary incentive.

At the same time, the Board of Directors - effective as of December 31, 2019 - resolved to close early, and without any disbursements not even pro-rata, the previous plan adopted in 2018 relative to the objectives of the 2018-2020 period. Participants of the New LTI (Long Term Incentive) Plan, amongst others, include the Executive Vice Chairman and Chief Executive Officer of Pirelli, Marco Tronchetti Provera, the General Manager of Operations, Andrea Casaluci, and the ESR executives identified through the express decision of the Board of Directors as *"executives with strategic responsibility".* The new LTI Plan is also aimed at Senior Managers, (including the Director Giovanni Tronchetti Provera, as Senior Manager), and to the Group's Executives (managers of Italian companies or employees of foreign Group companies with a position or role equivalent to that of Executive in Italy).

46. OTHER INFORMATION

RESEARCH AND DEVELOPMENT EXPENSES

Research & Development expenses for 2019 amounted to euro 232.5 million and represented 4.4% of sales, and mainly included expenses destined for High Value activities (euro 215.7 million equal to 6.1% of High Value revenues).

REMUNERATION FOR DIRECTORS AND AUDITORS

The compensation paid to the Directors and Auditors was as follows:

(in thousands of euro)

	2019	2018
Directors	6,020	6,920
Statutory Auditors	315	315
Total	**6,335**	**7,235**

EMPLOYEES- AVERAGE HEADCOUNTS

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

	2019	2018
Executives and white collar staff	6,755	6,737
Blue collar staff	23,920	23,786
Temporary workers	993	1,015
Total	**31,668**	**31,538**

REMUNERATION FOR INDEPENDENT AUDITORS

Pursuant to the applicable laws, the total fees for the 2019 financial year for auditing services and for services other than auditing, rendered by the company PricewaterhouseCoopers S.p.A. and by other entities belonging to its network were as follows:

(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.	71		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	894		
	Network PricewaterhouseCoopers	Subsidiaries	1,632	**2,597**	*79%*
Independent certification services[1]	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	277		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	354		
	Network PricewaterhouseCoopers	Subsidiaries	3	**634**	*19%*
Services other than auditing	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	-		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	-		
	Network PricewaterhouseCoopers	Subsidiaries	55	**55**	*2%*
				3,286	*100%*

1 the item "independent certification services" includes amounts paid for other services that envisage the issuance of an auditor's report as well as amounts paid for the so called certification services since they create synergies with the auditing services.

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

During the 2019 financial year no collections for national or regional contributions were recorded.

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

Pirelli Tyre S.p.A. also obtained in 2018 a non-refundable grant from the Lombardy Region for a total of euro 2,462 thousand, as incentive for a Smart Manufacturing R&D project for which euro 847 thousand were collected during the previous year.

UNUSUAL AND/OR EXCEPTIONAL TRANSACTIONS

Pursuant to CONSOB Notice No. 6064293 of July 28, 2006, it is hereby specified that during the course of the 2019 financial year that no exceptional 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			Average exchange rates		
	12/31/2019	12/31/2018	Change in %	2019	2018	Change in %
Swedish Krona	10.44890	10.2548	1.89%	10.59066	10.2600	3.22%
Australian Dollar	1.59950	1.6220	(1.39%)	1.61088	1.5798	1.97%
Canadian Dollar	1.45980	1.5605	(6.45%)	1.48548	1.5295	(2.88%)
Singaporean Dollar	1.51110	1.5591	(3.08%)	1.52728	1.5926	(4.10%)
U.S. Dollar	1.12340	1.1450	(1.89%)	1.11947	1.1812	(5.23%)
Taiwan Dollar	33.69189	34.9786	(3.68%)	34.59898	35.6178	(2.86%)
Swiss Franc	1.08540	1.1269	(3.68%)	1.11245	1.1550	(3.68%)
Egyptian Pound	18.09359	20.5806	(12.08%)	18.87575	21.1035	(10.56%)
Turkish Lira (new)	6.65060	6.0280	10.33%	6.35116	5.6655	12.10%
New Romanian Leu	4.77930	4.6639	2.47%	4.74513	4.6535	1.97%
Argentinian Peso	67.28043	43.1665	55.86%	67.28043	43.1665	55.86%
Mexican Peso	21.17070	22.5170	(5.98%)	21.56215	22.7260	(5.12%)
South African Rand	15.77730	16.4594	(4.14%)	16.17568	15.6192	3.56%
Brazilian Real	4.53050	4.4390	2.06%	4.41692	4.3084	2.52%
Chinese Renminbi	7.83706	7.8584	(0.27%)	7.72262	7.8167	(1.20%)
Russian Ruble	69.34060	79.6581	(12.95%)	72.38878	73.9444	(2.10%)
British Pound	0.85080	0.8945	(4.89%)	0.87777	0.8847	(0.78%)
Japanese Yen	121.94000	125.8500	(3.11%)	122.00576	130.3778	(6.42%)

NET FINANCIAL POSITION

(Alternative performance indicators not provided for by the accounting standards)

(in thousands of euro)

	Note	12/31/2019		12/31/2018	
			of which related parties (note 44)		*of which related parties (note 44)*
Current borrowings from banks and other financial institutions without IFRS 16	**23**	1,341,607	*2,267*	800,145	-
Current derivative financial instruments (liabilities)	**27**	31,703		53,510	
Non-current borrowings from banks and other financial institutions without IFRS 16	**23**	3,544,461	*17,386*	3,929,079	-
Non current derivative financial instruments (liabilities)	**27**	10,327		13,738	
Lease obligations IFRS 16		483,172		-	
Total gross debt		**5,411,270**		**4,796,472**	
Cash and cash equivalents	**19**	(1,609,821)		(1,326,900)	
Other financial assets at fair value through income statement	**18**	(38,119)		(27,196)	
Current financial receivables and other assets**	**15**	(35,503)	*(26,486)*	(27,320)	*(6,154)*
Current derivative financial instruments (assets)	**27**	(32,090)		(91,245)	
Net financial debt *		**3,695,737**		**3,323,811**	
Non-current derivative financial instruments (assets)	**27**	(52,515)		(20,134)	
Non-current financial receivables and other assets**	**15**	(135,996)	*(5,617)*	(123,547)	*(12,576)*
Total net financial (liquidity) / debt position		**3,507,227**		**3,180,130**	
Lease obligations IFRS 16		(483,172)		-	
Net financial (liquidity) / debt position without IFRS 16		**3,024,055**		**3,180,130**	

* Pursuant to Consob Notice of July 28, 2006 and in compliance with ESMA/2013/319 Recommendations
** The amount for "financial receivables and other assets" is reported net of the relative provision for impairment amounting to euro 8,651 thousand as at December 31, 2019 and euro 6.085 thousand as at Dcember 31, 2018.

SCOPE OF CONSOLIDATION

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Europe						
Austria						
Pirelli GmbH	Tyre	Wien	Euro	726,728	100.00%	Pirelli Tyre (Suisse) SA
Belgium						
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700,000	100.00%	Pirelli Tyre (Suisse) SA
France						
Pneus Pirelli S.A.S.	Tyre	Villepinte	Euro	1,515,858	100.00%	Pirelli Tyre S.p.A.
Germany						
Deutsche Pirelli Reifen Holding GmbH	Tyre	Breuberg / Odenwald	Euro	7,694,943	100.00%	Pirelli Tyre S.p.A.
Driver Handelssysteme GmbH	Tyre	Breuberg / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Deutschland GmbH	Tyre	Breuberg / Odenwald	Euro	23,959,100	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Personal Service GmbH	Tyre	Breuberg / Odenwald	Euro	25,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
PK Grundstuecksverwaltungs GmbH	Tyre	Hoechst / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Driver Reifen und KFZ-Technik GmbH (ex Pneumobil Reifen und KFZ-Technik GmbH)	Tyre	Breuberg / Odenwald	Euro	259,225	100.00%	Deutsche Pirelli Reifen Holding GmbH
Greece						
Elastika Pirelli C.S.A.	Tyre	Elliniko-Argyroupoli	Euro	11,630,000	99.90%	Pirelli Tyre S.p.A.
					0.10%	Pirelli Tyre (Suisse) SA
Pirelli Hellas S.A. (in liquidation)	Tyre	Athens	US $	22,050,000	79.86%	Pirelli Tyre S.p.A.
The Experts in Wheels - Driver Hellas C. S.A.	Tyre	Elliniko-Argyroupoli	Euro	100,000	72.80%	Elastika Pirelli C.S.A.

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Italy						
Driver Italia S.p.A.	Tyre	Milan	Euro	350,000	71.21%	Pirelli Tyre S.p.A.
Driver Servizi Retail S.p.A.	Tyre	Milan	Euro	120,000	100.00%	Pirelli Tyre S.p.A.
HB Servizi S.r.l.	Services	Milan	Euro	10,000	100.00%	Pirelli & C. S.p.A.
Maristel s.r.l.	Services	Milan	Euro	50,000	100.00%	Pirelli & C. S.p.A.
Pirelli Industrie Pneumatici S.r.l.	Tyre	Settimo Torinese (To)	Euro	40,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli International Treasury S.p.A.	Tyre	Milano	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.	Services	Milan	Euro	2,047,000	100.00%	Pirelli & C. S.p.A.
Pirelli Sistemi Informativi S.r.l.	Information Systems	Milan	Euro	1,010,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre S.p.A.	Tyre	Milan	Euro	558,154,000	100.00%	Pirelli & C. S.p.A.
Poliambulatorio Bicocca S.r.l.	Services	Milan	Euro	10,000	100.00%	Pirelli Tyre S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Services	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						
E-VOLUTION Tyre B.V.	Tyre	Rotterdam	Euro	170,140,000	100.00%	Pirelli Tyre S.p.A.
Pirelli China Tyre N.V.	Tyre	Rotterdam	Euro	38,045,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Rotterdam	Euro	18,152	100.00%	Pirelli Tyre (Suisse) SA
Poland						
Driver Polska Sp. z o.o.	Tyre	Warsaw	Pol. Zloty	100,000	63.50%	Pirelli Polska Sp. z o.o.
Pirelli Polska Sp. z o.o.	Tyre	Warsaw	Pol. Zloty	625,771	100.00%	Pirelli Tyre S.p.A.

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
United Kingdom						
CTC 2008 Ltd	Tyre	Burton on Trent	British Pound	100.000	100.00%	Pirelli UK Tyres Ltd
Pirelli Cif Trustees Ltd	Financial	Burton on Trent	British Pound	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)	Financial	Burton on Trent	Euro	250.000.000	100.00%	Pirelli Tyre S.p.A.
Pirelli Motorsport Services Ltd	Tyre	Burton on Trent	British Pound	1	100.00%	Pirelli UK Ltd
Pirelli General Executive Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli UK Ltd
Pirelli General & Overseas Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli UK Ltd
Pirelli Tyres Executive Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli Tyres Ltd
Pirelli Tyres Ltd	Tyre	Burton on Trent	British Pound	16.000.000	100.00%	Pirelli UK Tyres Ltd
Pirelli Tyres Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli Tyres Ltd
Pirelli UK Ltd	Financial	Burton on Trent	British Pound	163.991.278	100.00%	Pirelli & C. S.p.A.
Pirelli UK Tyres Ltd	Tyre	Burton on Trent	British Pound	85.000.000	100.00%	Pirelli Tyre S.p.A.
Slovakia						
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Euro	6.639	100.00%	Pirelli Tyre S.p.A.
Romania						
Pirelli & C. Eco Technology RO S.r.l.	Sustainable mobility	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.	Tyre	Slatina	Rom. Leu	1.612.612.300	100.00%	Pirelli Tyre S.p.A.
Russia						
Closed Joint Stock Company "Voronezh Tyre Plant"	Tyre	Voronezh	Russian Rouble	1.520.000.000	100.00%	Limited Liability Company Pirelli Tyre Russia
Joint Stock Company "Scientific institute of medical polymers"	Tyre	Moscow	Russian Rouble	7.392.000	100.00%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company Pirelli Tyre Services	Tyre	Moscow	Russian Rouble	54.685.259	95.00%	Pirelli Tyre (Suisse) SA
					5.00%	Pirelli Tyre S.p.A.
Limited Liability Company "Industrial Complex "Kirov Tyre"	Tyre	Kirov	Russian Rouble	348.423.221	100.00%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company Pirelli Tyre Russia	Tyre	Moscow	Russian Rouble	6.153.846	65.00%	E-VOLUTION Tyre B.V.

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Spain						
Euro Driver Car S.L.	Tyre	Valencia	Euro	960,000	58.44%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
					0.31%	Omnia Motor S.A. - Sociedad Unipersonal
Neumaticos Arco Iris, S.A. - Sociedad Unipersonal	Tyre	Barcellona	Euro	302,303	66.20%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Omnia Motor S.A. - Sociedad Unipersonal	Tyre	Valencia	Euro	1,502,530	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Pirelli Neumaticos S.A. - Sociedad Unipersonal	Tyre	Valencia	Euro	25,075,907	100.00%	Pirelli Tyre S.p.A.
Tyre & Fleet S.L. - Sociedad Unipersonal	Tyre	Valencia	Euro	20,000	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Sweden						
Dackia Aktiebolag	Tyre	Taby	Swed. Krona	31,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyre Nordic Aktiebolag	Tyre	Bromma	Swed. Krona	950,000	100.00%	Pirelli Tyre S.p.A.
Switzerland						
Driver (Suisse) SA	Tyre	Bioggio	Swiss Franc	100,000	100.00%	Pirelli Tyre (Suisse) SA
Pirelli Group Reinsurance Company SA	Reinsurance	Basel	Swiss Franc	3,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre (Suisse) SA	Tyre	Basel	Swiss Franc	1,000,000	100.00%	Pirelli Tyre S.p.A.
Turkey						
Pirelli Lastikleri Dis Ticaret A.S.	Tyre	Istanbul	Turkey Lira	50,000,000	100.00%	Pirelli Otomobil Lastikleri A.S.
Pirelli Otomobil Lastikleri A.S.	Tyre	Istanbul	Turkey Lira	85,000,000	100.00%	Pirelli Tyre S.p.A.
Hungary						
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint	3,000,000	100.00%	Pirelli Tyre S.p.A.
North America						
Canada						
Pirelli Tire Inc.	Tyre	St-Laurent (Quebec)	Can. $	6,000,000	100.00%	Pirelli Tyre (Suisse) SA
U.S.A.						
Pirelli North America Inc.	Tyre	New York (New York)	US $	10	100.00%	Pirelli Tyre S.p.A.
Pirelli Tire LLC	Tyre	Rome (Georgia)	US $	1	100.00%	Pirelli North America Inc.
Prestige Stores LLC	Tyre	Wilmington (Delaware)	US $	10	100.00%	Pirelli Tire LLC

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Central/South America						
Argentina						
Pirelli Neumaticos S.A.I.C.	Tyre	Buenos Aires	Arg. Peso	2,948,055,176	99.83%	Pirelli Tyre S.p.A.
					0.17%	Pirelli Pneus Ltda
Brazil						
Comercial e Importadora de Pneus Ltda.	Tyre	Sao Paulo	Bra. Real	380,718,453	100.00%	Pirelli Comercial de Pneus Brasil Ltda
CPA - Comercial e Importadora de Pneus Ltda.	Tyre	Sao Paulo	Bra. Real	200,000	100.00%	Comercial e Importadora de Pneus Ltda
Pirelli Comercial de Pneus Brasil Ltda.	Tyre	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.	Tyre	Sao Paulo	Bra. Real	343,514,252	100.00%	Pirelli Tyre S.p.A.
Pirelli Ltda.	Financial	Santo Andrè	Bra. Real	14,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Pneus Ltda.	Tyre	Santo Andrè	Bra. Real	1,132,178,494	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda
Comércio e Importação Multimarcas de Pneus Ltda.	Tyre	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.	Tyre	Elias Fausto (Sao Paulo)	Bra. Real	6,812,000	100.00%	Pirelli Pneus Ltda
TLM - Total Logistic Management Serviços de Logistica Ltda.	Tyre	Santo Andrè	Bra. Real	3,074,417	99.99%	Pirelli Pneus Ltda
					0.01%	Pirelli Ltda
Chile						
Pirelli Neumaticos Chile Ltda	Tyre	Santiago	Chile Peso/000	1,918,450,809	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.	Tyre	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 de Mexico S.A. de C.V.	Tyre	Silao	Mex. Peso	335,691,500	99.997%	Pirelli Tyre S.p.A.
					0.003%	Pirelli Ltda.
Pirelli Neumaticos S.A. de C.V.	Tyre	Silao	Mex. Peso	10,614,387,348	99.82%	Pirelli Tyre S.p.A.
					0.18%	Pirelli Latam Participaçoes Ltda
Pirelli Servicios S.A. de C.V.	Tyre	Silao	Mex. Peso	50,000	99.00%	Pirelli Tyre S.p.A.
					1.00%	Pirelli North America Inc.

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Africa						
Egypt						
Pirelli Egypt Tyre Trading S.A.E.	Tyre	Giza	Egy. Pound	84,250,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Egypt Consumer Tyre Distribution S.A.E.	Tyre	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) SA
South Africa						
Pirelli Tyre (Pty) Ltd	Tyre	Gauteng 2090	S.A. Rand	1	100.00%	Pirelli Tyre (Suisse) SA
Oceania						
Australia						
Pirelli Tyres Australia Pty Ltd	Tyre	Sydney	Aus. $	150,000	100.00%	Pirelli Tyre (Suisse) SA
Asia						
China						
Pirelli Taiwan Co. Ltd	Tyre	New Taipei City	N.T. $	10,000,000	100.00%	Pirelli Tyre (Suisse) SA
Pirelli Trading (Beijing) Co., Ltd.	Tyre	Beijing	Ch. Renminbi	4,200,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyre (Jiaozuo) Co., Ltd.	Tyre	Jiaozuo	Ch. Renminbi	350,000,000	80.00%	Pirelli Tyre S.p.A.
Pirelli Tyre Co., Ltd	Tyre	Yanzhou	Ch. Renminbi	2,071,150,000	90.00%	Pirelli China Tyre N.V.
Pirelli Tyre Trading (Shanghai) Co., Ltd	Tyre	Shanghai	US $	700,000	100.00%	Pirelli China Tyre N.V.
Yanzhou HIXIH Ecotech Environment Co., Ltd	Sustainable mobility	Yanzhou	Ch. Renminbi	130,000,000	100.00%	Pirelli Tyre Co. Ltd
Korea						
Pirelli Korea Ltd	Tyre	Seoul	Korean Won	100,000,000	100.00%	Pirelli Asia Pte Ltd
Japan						
Pirelli Japan Kabushiki Kaisha	Tyre	Tokyo	Jap. Yen	2,200,000,000	100.00%	Pirelli Tyre S.p.A.
Singapore						
Pirelli Asia Pte Ltd	Tyre	Singapore	Sing. $	2	100.00%	Pirelli Tyre (Suisse) SA

INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Europe						
Germany						
Industriekraftwerk Breuberg GmbH	Cogenera-tion	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.
Focus Investments S.p.A.	Financial	Milan	Euro	183,333	8.33%	Pirelli & C. S.p.A. (25% diritto di Voto)
Poland						
Centrum Utylizacji Opon Organizacja Odzysku S.A.	Tyre	Warsaw	Pln	1,008,000	20.00%	Pirelli Polska Sp. z o.o.
Slovakia						
ELT Management Company Slovakia S.R.O.	Tyre	Bratislava	Euro	132,000	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.
Russia						
Joint Stock Company "Kirov Tyre Plant"	Tyre	Kirov	Russian Rouble	5,665,418	20.00%	Limited Liability Company Pirelli Tyre Russia
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	Ch. Renminbi	1,050,000,000	49.00%	Pirelli Tyre S.p.A.
Jining Shenzhou Tyre Co, Ltd	Tyre	Jining City	Ch. Renminbi	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.