
VELOCITY
220
240

Pirelli & C. S.p.A. separate financial statements at December 31, 2019

STATEMENT OF FINANCIAL POSITION

(in euro)

	Note	12/31/2019	*of which related parties (Note 39)*	12/31/2018	*of which related parties (Note 39)*
Property, plant and equipment	8	67,368,466		36,626,844	
Intangible assets	9	2,275,363,639		2,273,663,830	
Investments in subsidiaries	10	4,647,665,638		4,568,324,362	
Investments in associates	11	6,374,501		6,374,501	
Other financial assets at fair value through other other comprehensive income	12	57,202,933		66,999,913	
Other receivables	13	619,605		600,543,719	*600,000,000*
Derivative financial instruments	17	30,268,648	*30,268,648*	19,402,654	*19,402,654*
Non-current assets		**7,084,863,430**		**7,571,935,823**	
Trade receivables	14	23,774,954	*21,725,022*	35,365,570	*32,352,151*
Other receivables	13	2,347,951,637	*2,327,043,431*	1,548,690,528	*1,524,041,518*
Cash and cash equivalents	15	1,754,093		101,764,103	
Tax receivables	16	31,743,542	*29,829,632*	49,745,832	*48,490,491*
Derivative financial instruments	17	10,154,148	*10,154,148*	3,749,194	*3,749,194*
Current assets		**2,415,378,374**		**1,739,315,227**	
Total assets		**9,500,241,804**		**9,311,251,050**	
Shareholders' equity:					
- Share capital		1,904,374,936		1,904,374,936	
- Other reserves		2,135,985,619		2,144,425,954	
- Retained earnings reserve		266,842,318		181,511,751	
- Net income of the year		273,241,811		262,362,043	
Total shareholders' equity	18	**4,580,444,684**		**4,492,674,684**	
Borrowings from banks and other financial institutions	19	3,577,172,974		3,921,508,709	
Other payables	23	211,511		211,511	
Provisions for liabilities and charges	20	40,330,854		40,530,891	
Provision for deferred tax liabilities	24	538,902,124		527,806,343	
Employee benefit obligations	21	4,276,571		2,210,239	
Derivative financial instruments	17	9,588,636	*9,588,636*	10,565,158	*10,565,158*
Non-current liabilities		**4,170,482,670**		**4,502,832,851**	
Borrowings from banks and other financial institutions	19	678,288,912	*252,124*	222,503,724	*6,591*
Trade payables	22	19,262,363	*4,770,882*	19,380,689	*2,986,850*
Other payables	23	32,107,042	*11,894,924*	48,351,164	*26,177,691*
Provisions for liabilities and charges	20	-		1,815,160	
Employee benefit obligations	21	2,034,344		1,964,819	
Tax payables	25	17,616,705	*17,387,827*	16,436,159	*16,207,276*
Derivative financial instruments	17	5,084	*5,084*	5,291,800	*5,291,800*
Current liabilities		**749,314,450**		**315,743,515**	
Total Liabilities and Equity		**9,500,241,804**		**9,311,251,050**	

INCOME STATEMENT

(in euro)

	Note	2019	*of which related parties (Note 39)*	2018	*of which related parties (Note 39)*
Revenues from sales and services	27	51,992,302	*50,822,605*	38,718,521	*37,363,694*
Other income	28	110,179,851	*106,726,066*	112,178,568	*102,183,610*
Raw materials and consumables used	29	(225,458)		(210,126)	
Personnel expenses	30	(48,228,505)	*(5,571,006)*	(34,130,338)	*(2,185,521)*
Amortisation, depreciation and impairment	31	(8,253,996)		(3,983,656)	
Other costs	32	(89,518,450)	*(22,315,223)*	(105,044,273)	*(20,168,662)*
- of which non recurring events	38	-		*(1,025,850)*	
Net impairment loss on financial assets	33	(96,923)		(1,930,360)	
Operating income		**15,848,821**		**5,598,336**	
Net income from equity investments	34	268,905,541		284,943,288	
- gains on equity investments		*2,065*	*2,065*	*4,006,808*	
- losses on equity investments		-		*(3,580,191)*	*(3,580,191)*
- dividends		*268,903,476*	*263,841,647*	*284,516,671*	*283,549,189*
Financial income	35	40,274,216	*39,705,871*	20,526,846	*18,666,309*
Financial expenses	36	(64,024,611)	*51,506,753*	(53,377,733)	*(6,837,931)*
- of which non recurring events	38	-		*(9,964,795)*	*(21,977,000)*
Net income before taxes		**261,003,967**		**257,690,737**	
Taxes	37	12,237,844		4,671,306	
- of which non recurring events	38	-		*2,677,575*	
Total net income of the year		**273,241,811**		**262,362,043**	

STATEMENT OF COMPREHENSIVE INCOME

(in euro)

	Note	2019	2018
A - Net income of the year		**273,241,811**	**262,362,043**
Other components of comprehensive income:			
B - Items that may not be reclassified to income statement:			
- Remeasurement of employee benefits	**21**	(95,957)	(8,269)
- Tax effect		21,120	1,985
- Fair value adjustment of other financial assets at fair value through other comprehensive income	**12**	(366,374)	(5,709,065)
Total B		**(441,211)**	**(5,715,349)**
C - Items reclassified / that may be reclassified to income statement:			
Fair value adjustment of derivatives designated as cash flow hedge:			
- Gains / (losses) for the period	**17**	69,841,426	54,928,567
- (Gains) / losses reclassified to income statement	**17**	(78,130,940)	(64,453,722)
- Tax effect		1,989,483	2,286,037
Cost of hedging			
- Gains / (losses) for the period	**17**	5,350,715	10,481,543
- (Gains) / losses reclassified to income statement	**17**	(7,627,777)	(4,040,529)
- Tax effect		546,495	(1,545,843)
Total C		**(8,030,598)**	**(2,343,947)**
D - Total other components of comprehensive income (B+C)		**(8,471,809)**	**(8,059,296)**
A+D Total comprehensive income / (loss) for the financial year		**264,770,002**	**254,302,747**

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

(in euro)

	Share capital	Legal reserve	Surplus reserve	Concentra-tion reserve	Other reserves	IAS Reserves *	Merger reserve	Reserve from results	Net result of the year	Total
Total at 12/31/2017	**1,904,374,936**	**380,874,988**	**630,380,599**	**12,466,897**	**92,534,791**	**23,961,093**	**1,022,927,715**	**-**	**170,850,918**	**4,238,371,937**
Adoption of new accounting standard IFRS 9										
- Reclassification from available for sale financial assets to other	-	-	-	-	-	(10,554,761)	-	10,554,761	-	-
Total at 01/01/2018	**1,904,374,936**	**380,874,988**	**630,380,599**	**12,466,897**	**92,534,791**	**13,406,332**	**1,022,927,715**	**10,554,761**	**170,850,918**	**4,238,371,937**
Result carried forward as per resolution of May 15, 2018	-	-	-	-	-	-	-	170,850,918	(170,850,918)	-
Other components of comprehensive income	-	-	-	-	-	(8,059,296)	-	-	-	(8,059,296)
Result for the year	-	-	-	-	-	-	-	-	262,362,043	262,362,043
Total comprehensive income/(loss) for the year	-	-	-	-	-	(8,059,296)	-	-	262,362,043	254,302,747
Other changes	-	-	-	-	-	(106,073)	-	106,073	-	-
Total at 12/31/2018	**1,904,374,936**	**380,874,988**	**630,380,599**	**12,466,897**	**92,534,791**	**5,240,963**	**1,022,927,715**	**181,511,751**	**262,362,041**	**4,492,674,684**
Dividend distribution	-	-	-	-	-	-	-	-	(177,000,000)	(177,000,000)
Result carried forward as per resolution of May 15, 2019	-	-	-	-	-	-	-	85,362,041	(85,362,041)	-
Other components of comprehensive income	-	-	-	-	-	(8,471,809)	-	-	-	(8,471,809)
Result for the year	-	-	-	-	-	-	-	-	273,241,811	273,241,811
Total comprehensive income/(loss) for the year	-	-	-	-	-	*(8,471,809)*	-	-	*273,241,811*	*264,770,002*
Other changes	-	-	-	-	-	31,475	-	(31,475)	-	-
Total at 12/31/2019	**1,904,374,936**	**380,874,988**	**630,380,599**	**12,466,897**	**92,534,791**	**(3,199,371)**	**1,022,927,715**	**266,842,318**	**273,241,811**	**4,580,444,684**

STATEMENT OF CHANGES IN EQUITY

(in 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 Remeasurement for employee benefit**	**Reserve for cost of hedging**	**Cash flow hedge reserve**	**Tax effect**	**Total**
Balance at 12/31/2017	**27,342,368**	**-**	**2,028,017**	**-**	**(7,117,489)**	**1,708,197**	**23,961,093**
Adoption of new accounting standard IFRS 9	(27,342,368)	16,787,607	-	394,804	(394,804)	-	(10,554,761)
Balance at 1/1/2018	**-**	**16,787,607**	**2,028,017**	**394,804**	**(7,512,293)**	**1,708,197**	**13,406,332**
Other components of comprehensive income	-	(5,709,064)	(8,269)	6,441,013	(9,525,155)	742,179	(8,059,296)
Other changes	-	(106,073)	-	-	-	-	(106,073)
Balance at 12/31/2018	**-**	**10,972,470**	**2,019,748**	**6,835,817**	**(17,037,448)**	**2,450,376**	**5,240,963**
Other components of comprehensive income	-	(366,374)	(95,957)	(2,277,062)	(8,289,514)	2,557,098	(8,471,809)
Other changes	-	31,475	-	-	-	-	31,475
Balance at 12/31/2019	**-**	**10,637,571**	**1,923,791**	**4,558,755**	**(25,326,962)**	**5,007,474**	**(3,199,371)**

CASH FLOW STATEMENT

(in euro)

		Note	2019	*of which related parties (Note 39)*	2018	*of which related parties (Note 39)*
	Net income before taxes		261,003,967		257,690,737	
	Reversals of amortisation, depreciation, impairment losses	31	8,253,996		3,983,656	
	Reversal of net accruals	32	2,623,933		5,479,360	
	Reversal of Financial expenses	36	64,024,611	*(51,506,753)*	53,377,733	*6,837,931*
	Reversal of Financial income	35	(40,274,216)	*(39,705,871)*	(20,526,846)	*(18,666,309)*
	Reversal of Dividends	34	(268,905,541)	*(263,841,647)*	(284,943,288)	(283,549,189)
	Reversal of Gains/losses from sales of tangible and intangible assets	32	1,909		(575,786)	
	Taxes paid		-		-	
	Change in Trade receivables	14	11,505,912	*10,627,130*	14,749,472	*11,369,615*
	Change in Trade payables	22	(3,070,023)	*(1,784,032)*	(10,594,441)	*(1,832,918)*
	Change in Other receivables/Other payables		(11,739,252)	*(12,915,767)*	(10,015,951)	*(3,428,000)*
	Change in Tax receivables/Tax payables		45,327,218	*45,961,314*	42,775,429	*42,775,429*
	Change in Provisions for employee benefit obligations and Other provisions		(5,111,200)		(4,562,000)	
A	**Net cash flows provided by/(used in) operating activities**		**63,641,315**		**46,838,075**	
	Investments in property, plant and equipment	8	(165,500)		(1,384)	
	Disposal of property, plant and equipment	8	21,000		3,000,000	
	Investments in intangible assets	9	(1,554,334)		(1,024,267)	
	Acquisition of investments in subsidiaries	10	(75,883,269)	*(75,883,269)*	(15,000)	*(15,000)*
	Disposals /(Acquisition) in other non current financial assets at fair value through other comprehensive income		-		109,254	
	Reimbursement of other non current financial assets at fair value through other comprehensive income	12	9,431,000		-	
	Disposals in other non current financial assets at fair value through other comprehensive income		-		152,807,660	
	Repayment of share capital and reserves from associates		-		249,710	*249,710*
	Dividends received		268,270,519	*263,841,647*	284,516,671	*283,549,189*
B	**Net cash generated/(used) by investment activities**		**200,119,416**		**439,642,644**	
	Change in Financial receivables	13	(204,828,000)	*(204,802,000)*	(2,103,421,000)	*(2,103,912,000)*
	Financial income	35	43,889,329	*43,840,121*	15,820,233	*15,820,233*
	Change in Financial payables	19	20,374,734		1,744,063,616	*(9,000,000)*
	Dividends paid	34	(177,000,000)		-	
	Financial expenses	36	(43,508,386)	*52,134,229*	(42,928,955)	*2,233,556*
	Cash outflow for lease obligations	19	(2,698,417)		-	
C	**Net cash generated/(used) by financing activities**		**(363,770,741)**		**(386,466,106)**	
D	**Total net cash generated/(used) in the year (A+B+C)**		**(100,010,010)**		**100,014,613**	
E	**Cash and cash equivalents at the beginning of the year**		**101,764,103**		**1,749,490**	
F	**Cash and cash equivalents at the end of the year (D+E)**		**1,754,093**		**101,764,103**	

EXPLANATORY NOTES

1. GENERAL INFORMATION

Pirelli & C. S.p.A. (hereinafter also the "Company" or the "Parent Company") is a corporation organised under the laws of the Republic of Italy.

Founded in 1872, it is a holding company that manages, coordinates and funds the activities of subsidiaries (hereinafter Pirelli Group).

The registered office of the Company is in Viale Piero e Alberto Pirelli 25 – Milan.

As from October 4, 2017, Pirelli & C. S.p.A. shares are now traded on the Mercato Telematico Azionario (MTA Telematic Stock Market), managed by Borsa Italiana S.p.A.

Pirelli & C. S.p.A. is directly controlled by Marco Polo International Italy S.r.l., a company indirectly controlled by China National Chemical Corporation ("ChemChina"), a "state-owned enterprise" (SOE) under Chinese law, with registered office in Beijing, referring to the Central Government of the People's Republic of China.

There are no entities that exercise management and coordination activities over the Company.

On March 2, 2020, the Board of Directors authorised publication of these Annual Financial Statements ("Annual Financial Statements or Separate Financial Statements").

SIGNIFICANT EVENTS 2019

ACQUISITION OF BUSINESS UNIT FROM THE SUBSIDIARY PIRELLI TYRE S.P.A. Effective January 1, 2019 was the disposal by the subsidiary Pirelli Tyre S.p.A. to the parent company Pirelli & C. S.p.A. of the business unit consisting of all the staff and business support functions related to Human Resources, Health and Safety, Security, Planning and Controlling, CFO, Legal Affairs, Digital, Communication. The above operation was part of a large project for the reorganisation of activities within the Group. The difference between the amount of the fee and the book value of the business unit acquired, equal to Euro 4.4 million, was considered as a contribution in favor of the subsidiary and consequently recorded as an increase in the value of the investment in the subsidiary.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS AT DECEMBER 31 AND DIVIDEND DISTRIBUTION On May 15, 2019, the Pirelli & C. S.p.A. Shareholders' Meeting approved the financial statements for 2018 and approved the distribution of a dividend of Euro 0.177 per ordinary share equal to total dividends of Euro 177 million. The dividend will be paid as from May 22, 2019, with ex dividend date on May 20, 2019 (record date May 21, 2019).

2. BASIS OF PRESENTATION

These Financial Statements have been prepared on a going concern assumption since the Directors have verified the absence of financial, operational or other types of indicators that could indicate critical issues regarding the ability of the Company to meet its obligations in the foreseeable future and in particular in the next 12 months. The description of the ways in which the Company manages financial risks is contained in Chapter 4 Financial risk management policy and in Chapter 6 Capital management policy of these Notes.

In application of Legislative Decree of February 28, 2005, no. 38, "Exercise of the options provided for by article 5 of regulation (EC) no. 1606/2002 on international accounting standards", issuers are required to prepare not only the consolidated financial statements but also the financial statements of the Company in compliance with the international accounting standards (IFRS) issued by the International Accounting Standards Board (IASB) and published in the Official Journal of the European Community (GUCE).

IFRS include all International Financial Reporting Standards, International Accounting Standards (IAS), all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC).

The financial statements have been prepared under the historical cost basis, except for the following items that are measured at fair value:

- derivative financial instruments;
- other financial assets at fair value recorded in the other components of the comprehensive income statement;
- other financial assets at fair value through the income statement.

FINANCIAL STATEMENTS

The separate 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 Flows and the Explanatory Notes, and are accompanied by the Directors' Report on Operations.

The format adopted for the Statement of Financial Position classifies assets and liabilities as current and non-current.

The Company has opted to present the components of profit/loss for the year in a separate Income Statement, rather than include these components directly in the Statement of Comprehensive Income. The Income Statement adopted classifies costs by nature.

The Statement of Comprehensive Income includes the result for the year and, for homogeneous categories, the revenues and costs which, in accordance with IFRSs, are recognised directly in equity.

The Company opted for the presentation of the tax effects and reclassifications to the income statement of profits/

losses recognised in equity in previous years directly in the Statement of Comprehensive Income and not in the Notes.

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

In the Statement of Cash Flows, the cash flows deriving from operating activities are presented using the indirect method, according to which the profit or loss for the period is adjusted by the effects of non-monetary items, by any deferment or accrual of past or future operating receipts or payments, and by any revenue or cost items connected with the cash flows arising from investing activities or financing activities.

It shall also be noted that the Group has applied the provisions of Consob Resolution no. 15519 of July 27, 2006 in regard to the formats of financial statements and Consob Notice no. 6064293 of July 28, 2006 in regard to corporate disclosure.

In order to provide greater clarity and comparability of the financial statement items, the amount of the corresponding items of the previous year were adjusted where necessary.

All amounts included in the Notes, unless otherwise specified, are in thousands of Euro.

3. ACCOUNTING STANDARDS

The accounting standards used in the preparation of separate financial statements are the same as those used for the purposes of preparing the consolidated financial statements where applicable, except in relation to the assessment of investments in subsidiaries and associate companies and dividends, as indicated below.

INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Investments in subsidiaries and associates are recognised at cost, net of any impairment losses.

In the presence of specific impairment indicators, the value of investments in subsidiaries and associates, determined based on the historical cost basis, is tested for impairment.

The indicators are as follows:

- the book value of the investment in the separate financial statements exceeds the book value of the investee's net assets (inclusive of any associates goodwill) expressed in the consolidated financial statements;
- the dividend distributed by the investee exceeds the total comprehensive income of the investee of the year whom dividend refers;
- the operating result achieved by the investee company is significantly lower than the amount envisaged in the management plan, if this indicator can be considered significant for the reference company;
- there are expectations of significantly decreasing operating results for future years;
- existence of changes in the technological, market, economic or regulatory environment in which the investee operates that may generate significant negative economic effects on the company's results.

The impairment test consists of comparing the book value and the recoverable value of the investment.

If the recoverable amount of an investment is lower than the carrying amount, the latter is reduced to the recoverable amount. This reduction constitutes an impairment loss recognised in the Income Statement.

The recoverable amount of an investment is identified as the greater of fair value and value in use. The value in use of an investment is the present value of future cash flows expected to originate from a cash-generating investment. The value in use reflects the effects of factors that may be entity specific, factors that may not be applicable to any entity.

If the reason for impairment ceases to exist, the carrying amount of the investment is recognised in the Income Statement, up to the original cost.

DIVIDENDS

Dividend income is recognised in Income Statement when the right to receive payment is established, which normally corresponds to the resolution approved by the Shareholders' Meeting for the distribution of dividends.

3.1 ACCOUNTING STANDARDS AND INTERPRETATIONS ENDORSED AND IN FORCE FROM JANUARY 1, 2019

In accordance with IAS 8 "Accounting standards, changes in accounting estimates and errors", the IFRS effective from January 1, 2019 are indicated below:

- IFRS 16 – 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 on the treatment of income taxes
  This interpretation clarifies the criteria to be applied for the recognition and measurement of current and deferred tax liabilities/assets in the event of uncertainty regarding the tax treatment, i.e. situations in which it is not certain that a specific treatment will be accepted by the tax authorities (ex. deductibility some costs or exemption of some income), but also uncertainty regarding the determination of taxable income, the tax base of assets and liabilities, tax losses and rates to be applied.
  Accounting treatment depends on whether the tax authorities are likely to accept the tax treatment or not. In the event that it is not probable that the tax authority will accept the uncertain tax treatment, the uncertainty is recorded by recognising an additional tax liability or by applying a higher rate. There are no impacts on the Financial Statements of the Company.

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

  - financial assets (financial receivables and debt securities) which, in the presence of certain characteristics, can be measured at amortised cost, whereas previously they had to be measured at fair value recognised in the income statement;
  - accounting treatment of financial liabilities in the presence of changes that do not lead to derecognition from the financial statements: in such situations, a profit or loss calculated as the difference between the contractual cash flows of the original liability and the changed cash flows must be recognised in the income statement, both discounted at the original effective interest rate.

  The change relating to financial assets is not applicable to the Company; the change relating the accounting treatment of financial liabilities is applicable to the Company and has no impact as the Company 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 clarified that the provisions of IFRS, including those on impairment, also apply to financial instruments representing long-term interests in an associated company or joint venture, which, in substance, form part of the net investment in the associated company or joint venture (long-term interest).There are no impacts on the Financial Statements of the Company due to the amendment made to the standard in force.
- "Improvements" to IFRS 2015-2017 (issued by the IASB in December 2017).
  The IASB issued a series of amendments to four standards in force in particular regarding the following aspects:

  - IFRS 3 – business combinations: obtaining control of a business that is classified as a joint operation must be accounted for as a business combination in phases and the investment previously held must be remeasured at fair value on the date of acquisition of control.
  - IFRS 11 – Joint arrangements: in the case of obtaining joint control over a business that is classified as a joint operation, the investment previously held does not have to be remeasured at fair value.
  - IAS 12 – taxes: the accounting treatment of the tax effects of dividends on financial instruments classified as equity must follow that of the transactions or events that generated the distributable dividend.
  - IAS 23 – financial expenses: if a specific loan relating to a qualifying asset is still outstanding at the time the asset is ready for use or sale, it becomes part of the generic loans.

  There are no impacts on the Company due to the amendments made to the standards in force.

- Amendments to IAS 19 – Employee benefits
  Said amendments require that:

  - the cost for the current service and the net interest for the period following a modification and/or reduction of the plan are determined using updated assumptions;
  - any reductions in the surplus 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 are no impacts on the Company due to the amendments made.

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

Pursuant to IAS 8 "Accounting standards, changes in accounting estimates and errors", the following are the new Standards or Interpretations that have been issued but have not yet come into force or have not yet been endorsed by the European Union at December 31, 2019, and which are therefore not applicable, and the foreseeable impacts on the Separate Financial Statements.

None of these standards and interpretations have been adopted in advance.

- Amendments to IFRS 3 – Business Combinations
  These amendments introduced a new definition of business, according to which for an acquisition to qualify as a business combination, it must include input and processes that contribute substantially to obtaining an output. The definition of output is modified in a restrictive sense, and it is specified that cost savings and other economic benefits are to be excluded as output. This amendment will result in multiple acquisitions qualifying as asset acquisitions rather than business acquisitions.
  These amendments, which will come into force on January 1, 2020, have not yet been endorsed by the European Union.
  No impacts are expected on the Financial Statements of the Company.
- Amendments to IAS 1 – Presentation of Financial Statements and to IAS 8 – Accounting standards, Changes in accounting estimates and errors
  In addition to clarifying the concept of materiality of transactions, these amendments focus on the definition of a coherent and unique concept of materiality among the various accounting standards and incorporate the guidelines included in IAS 1 on insignificant information.
  Said amendments have been endorsed by the European Union and will be applicable from January 1, 2020. No impacts are expected on the Financial Statements of the Company. The impacts on disclosure are being evaluated.
- Amendments to IFRS 9, IAS 39 and IFRS 7: Reference interest rate reform (IBOR reform)
  These amendments concern the impacts on the financial statements deriving from the replacement of the current reference interest rates (benchmark) with alternative interest rates: in the presence of hedging relationships affected by the uncertainty of the reform of the reference rates, these amendments do not allow the valuations required by IFRS 9 and IAS 39 in the presence of changes in rates.

These amendments, endorsed by the European Union, will come into force on January 1, 2020. The impact on the Group Financial Statements is currently being evaluated as regards the rate component of the cross-currency interest rate swaps.

3.3 IMPACTS DERIVING FROM THE ADOPTION OF IFRS 16 – LEASES

Following the application of the standard, the Company recognised, at the transition date (January 1, 2019), in relation to the lease contracts previously classified as operating:

- a financial liability, equal to the present value of the future residual payments at the transition date, discounted using the incremental borrowing rate applicable at the transition date for each contract; The weighted average marginal loan rate applied to financial liabilities for leasing as of January 1, 2019 was 3.85%.
- right of use equal to the value of the financial liability at the transition date, net of any advanced/deferred payment of lease rent and recorded in the balance sheet at the transition date.

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

(in thousand of euro)

	01/01/2019
NON CURRENT ASSETS	
Property, plant and equipment	
- Right of use buildings	32,475
- Right of use other assets	1,786
Total	**34,261**
CURRENT ASSETS	
Other receivables	(127)
Total assets	**34,134**
NON CURRENT LIABILITIES	
Borrowings from banks and other financial istitutions	36,144
CURRENT LIABILITIES	
Borrowings from banks and other financial istitutions	1,106
Other payables	(3,116)
Total liabilities	**34,134**

The Company has chosen to apply the standard retrospectively, with recognition of the cumulative effect deriving from the application of the standard in shareholders' equity at January 1, 2019 (modified retrospective method). The comparable data for 2018 was not subjected to restatement.

With reference to the transition rules, the Company referred to the following practical expedients available in the case of opting for the modified retrospective method:

- classification of contracts that expire within 12 months from the transition date as a short-term lease. For these contracts, lease payments will be recognised in the income statement on a linear basis;
- with reference to the separation of non-lease components for cars, the Company decided not to separate them and not to account for them separately from the lease components. This component was considered together with the lease component to determine the financial liability of the lease and the related right of use;
- use of the information present on the transition date for the determination of the lease term, with particular reference to the exercise of extension and early closure options.

The Company also referred to the practical expedient provided for by the standard for first application, which makes it possible to base itself on the conclusions reached in the past on the basis of IFRIC 4 and IAS 17 regarding the quantification of the components of operating leases for a specific contract. This practical expedient was applied to all contracts.

The transition to IFRS 16 introduces some elements of professional opinion 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 Company has decided not to apply IFRS 16 for contracts containing a lease that have an intangible asset as an underlying asset;
- the contract renewal clauses are considered for the purposes of determining the duration of the contract when the Company has the option of exercising them without the need to obtain the consent of the counterparty and when their exercise is deemed reasonably certain. In the case of clauses which provide for multiple renewals that can be exercised unilaterally by the Company, only the first extension period has been considered;
- the automatic renewal clauses in which both parties have the right to terminate the contract have not been considered for the purposes of determining the duration of the contract, as the ability to extend the duration of the same is not under the unilateral control of the Company and the penalties 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 Company considers the inclusion of a renewal option in determining the duration of the contract. This assessment is also carried out considering the degree of customisation of the asset subject to leasing: if the customisation is high, the lessor may incur a significant penalty if opposing the renewal;
- early termination clauses in contracts: these clauses are not considered in determining the duration of the contract if they can only be exercised by the lessor or by both parties. If they are unilaterally exercised by the Company, specific assessments are contractually conducted (for example, the Company is already negotiating a new contract or has already given notice to the lessor).

The following table provides reconciliation between the future commitments of lease contracts as envisaged by the previous IAS 17 and the financial liabilities for leases at January 1, 2019 deriving from the adoption of IFRS 16:

(in thousand of euro)

Minimum future payments due for non-cancellable operating leases 12/31/2018	**47,796**
Short term contracts with residual duration at 1/1/2019 of less than 12 months	(136)
Low value asset contracts	(127)
Disconting effects	(9,056)
Other	(1,227)
Finance liabilitites for lease contracts at 1/1/2019 (IFRS 16)	**37,250**

The adoption of the new IFRS 16 standard has not led to changes in the accounting treatment of active sub-lease contracts.

4. FINANCIAL RISK MANAGEMENT POLICY

The measurement and management of the financial risks of Pirelli & C. S.p.A. are consistent with as defined by the Group policies.

The Pirelli Group is exposed to financial risks. These are principally associated with foreign exchange rates, fluctuations in interest rates, the price of financial assets held as investments, the ability of customers to meet their obligations to the Group (credit risk), and raising funds on the market (liquidity risk).

Financial risk management is an integral part of Group business management and is handled directly by the headquarters in accordance with guidelines issued by the Finance Department on the basis of general risk management strategies defined by the Managerial Risk Committee.

The main financial risk categories to which the Company is exposed are shown below:

EXCHANGE RATE RISK

This risk is generated by the commercial and financial transactions that are executed in currencies other than the Euro. Exchange rate fluctuations between the time when the commercial or financial relationship is established and when the transaction is completed (collection or payment) may generate foreign exchange gains or losses.

The Group's objective is to minimise the effects on the Income Statement of foreign exchange rate risk related to volatility. To achieve this objective, Group procedures make the Operating Units responsible for collecting complete information about the assets and liabilities that are subject to transaction exchange rate risk. This risk is hedged with forward contracts made with the Group Treasury.

The items subject to exchange rate risk are mainly represented by trade receivables and payables denominated in foreign currency.

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

The Group has decided not to opt for hedge accounting pursuant to IFRS 9, insofar as the representation of the economic and financial effects of the hedging strategy on foreign exchange rate risk is still substantially guaranteed even without adopting such option.

Furthermore, it shall be noted that as part of the annual and three-year planning process, exchange rate forecasts are made using the best information available on the market. The fluctuation in exchange rates between the time when the forecast is made and the time when the commercial or financial transaction occurs represents the exchange rate risk on future transactions.

From time to time, the Group assesses the need to engage in hedging transactions on future transactions for which it typically uses both forward and optional purchase or sale transactions such as risk reversal (ex. zero cost collar). Hedge accounting in accordance with IFRS 9 is used when the conditions are met.

With reference to foreign currency loans, the Company enters into derivative contracts, cross currency interest rate swaps, to hedge for which hedge accounting is activated when the conditions set out in IFRS 9 are fulfilled.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or the future cash flows of a financial asset or liability will change due to fluctuations in market interest rates.

The Group assesses based on market circumstances whether to enter into derivative contracts, typically interest rate swaps, to hedge for which hedge accounting is activated when the conditions set out in IFRS 9 are fulfilled.

In other conditions being equal, a hypothetical increase or a decrease of 0.50% in the level of interest rates would result, year on year, respectively in a net negative and positive impact on the Income Statement of Euro 505 thousand.

(in thousand of euro)

	+0.50%		-0.50%	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Impact on Net income / (loss)	505	(2,768)	(505)	2,768

The effects on the Company shareholders' 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 17 "Derivative financial instruments".

PRICE RISK ASSOCIATED WITH FINANCIAL ASSETS

The company is exposed to price risk, which is limited to the volatility of financial assets such as listed and unlisted stocks and bonds; these assets are classified as financial assets at fair value recognised as other components of the statement of comprehensive income.

Derivatives hedges are not set up to limit the volatility of these assets.

Financial assets at fair value recognised as other components of the statement of comprehensive income consist of listed securities amounted to Euro 24,892 thousand (Euro 28,449 thousand at December 31, 2018) and those represented by securities indirectly associated with listed shares (Fin. Priv. S.r.l.) amounted to Euro 20,565 thousand (Euro 15,604 thousand at December 31, 2018); these financial assets represent 79% of total financial assets subject to price risk; a +5% price change in the above listed securities, other things being equal, would result in a positive change of Euro 1,245 thousand of the Company's shareholders' equity (positive for Euro 1,422 thousand at December 31, 2018), while a -5% negative change of these listed securities, other things being equal, would result in a negative change of Euro 1,245 thousand of the Company's shareholders' equity (negative for Euro 1,422 thousand at December 31, 2018).

CREDIT RISK

Credit risk represents the Company's exposure to contingent losses resulting from default by commercial and financial counterparties.

The Company's exposure for commercial and financial obligations is mainly towards Group companies.

To limit the risk for commercial obligations towards third parties, the Company has implemented procedures to evaluate its customers' potential and financial solidity, for the monitoring of expected cash flows and taking credit recovery action if necessary. The Company operates only with highly rated financial counterparties for the management of its temporary cash surpluses and constantly monitors its exposure to individual counterparties.

The Company does not hold public debt instruments from any European country, and constantly monitors its net credit exposure to the banking system.

LIQUIDITY RISK

Liquidity risk represents the risk that the financial resources available are insufficient to meet the financial and commercial obligations pursuant to the contractual terms and conditions.

The principal instruments used by the Group to manage liquidity risk are comprised by its annual and three-year financial and cash-pooling plans. These allow complete and fair detection and measurement of incoming and outgoing cash flows. The differences between plans and actual data are constantly analysed.

The Group has implemented a centralised cash pooling system for the management of collection and payment flows in compliance with various local currency and tax laws. Banking relationships are negotiated and managed centrally, in order to ensure coverage of short and medium-term financial needs at the lowest possible cost. The procurement of medium and long-term resources on the capital market is also streamlined through centralised management.

Prudent management of the risk described above requires maintaining an adequate level of cash or cash equivalents and/or highly liquid short-term financial instruments, and the availability of funds through an adequate amount of committed credit facilities and/or recourse to the capital market, while diversifying the products and their maturities to seize the best available opportunities.

At December 31, 2019, the Company had, aside from cash equal to Euro 1,754 thousand (Euro 101,764 thousand at December 31, 2018), unused credit facilities equal to Euro 700,000 thousand (Euro 700,000 thousand at December 31, 2018) maturing Q2 2022.

The **maturities of financial liabilities at December 31, 2019** may be broken down as follows:

(in thousand of euro)

	12/31/2019				
	within 1 year	1 to 2 years	2 to 5 years	over 5 years	Total
Borrowings from banks and other financial institutions	729,738	152,065	3,557,415	42,221	4,481,439
of which financial lease liabilities:	*4,143*	*5,448*	*14,497*	*21,880*	45,968
Trade payables	19,262	-	-	-	19,262
Other payables	33,383	-	-	-	33,383
Derivative financial instruments	1,650	3,354	4,008	142	9,154
Total	**784,033**	**155,419**	**3,561,423**	**42,363**	**4,543,238**

The **maturities of financial liabilities at December 31, 2018** may be broken down as follows:

(in thousand of euro)

	12/31/2018				
	within 1 year	1 to 2 years	2 to 5 years	over 5 years	Total
Borrowings from banks and other financial institutions	295,729	1,316,688	2,859,928	21,029	4,493,374
Trade payables	19,381	-	-	-	19,381
Other payables	48,351	-	-	-	48,351
Derivative financial instruments	(19,608)	(24,403)	(37,148)	(62)	(81,221)
Total	**343,853**	**1,292,285**	**2,822,780**	**20,967**	**4,479,885**

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 pursuant to IFRS 13, reflecting the significance of the inputs used in determining the fair value. The following levels are defined:

- level 1 – unadjusted quotations recorded on an active market for assets or liabilities subject to valuation;
- level 2 – inputs different from the quoted prices referred to at the preceding level, 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 measured at fair value at December 31, 2019, divided into the three levels defined above:

(in thousand of euro)

	Note	Carrying amount at 12/31/2019	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Other financial assets at fair value through income statement					
Non current derivative financial instruments	17	-	-	-	-
Current derivative financial instruments	17	11	-	11	-
Other financial assets at fair value through other comprehensive income					
Equities and shares	12	53,256	24,892	20,565	7,799
Investment funds	12	3,947	-	3,947	-
Derivative hedging instruments					
Non current derivative financial instruments	17	30,269	-	30,269	-
Current derivative financial instruments	17	10,143	-	10,143	-
TOTAL ASSETS		**97,626**	**24,892**	**64,935**	**7,799**
FINANCIAL LIABILITIES					
Financial liabilities at fair value through income statement					
Current derivative financial instruments	17	(5)	-	(5)	-
Derivative hedging instruments					
Non current derivative financial instruments	17	-	-	-	-
Current derivative financial instruments	17	(9,589)	-	(9,589)	-
TOTAL LIABILITIES		**(9,594)**	**-**	**(9,594)**	**-**

At **December 31, 2018, the breakdown** was as follows:

(in thousand of euro)

	Note	Carrying amount at 12/31/2018	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Other financial assets at fair value through income statement					
Non current derivative financial instruments	17	-	-	-	-
Current derivative financial instruments	17	325	-	325	-
Other financial assets at fair value through other comprehensive income					
Equities and shares	12	51,425	28,449	15,604	7,372
Investment funds	12	15,575	-	15,575	-
Derivative hedging instruments					
Non current derivative financial instruments	17	19,403	-	19,403	-
Current derivative financial instruments	17	3,424	-	3,424	-
TOTAL ASSETS		**90,152**	**28,449**	**54,331**	**7,372**
FINANCIAL LIABILITIES					
Financial liabilities at fair value through income statement					
Current derivative financial instruments	17	(44)	-	(44)	-
Derivative hedging instruments					
Non current derivative financial instruments	17	(5,248)	-	(5,248)	-
Current derivative financial instruments	17	(10,565)	-	(10,565)	-
TOTAL LIABILITIES		**(15,857)**	**-**	**(15,857)**	**-**

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

(in thousand of euro)

	12/31/2019	12/31/2018
Opening balance	**7,372**	**10,210**
Decreases	-	(2,857)
Fair value adjustments through other comprehensive income	427	19
Closing balance	**7,799**	**7,372**

These financial assets mainly consist of the equity investment in Istituto Europeo di Oncologia (European Institute of Oncology) (Euro 7,465 thousand).

In the year ended December 31, 2019, there were no transfers from level 1 to level 2 and 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. These instruments, included in level 1, comprise primarily 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 measured by means of techniques that maximise the use of observable and available market data, using widely applied financial measurement techniques:

- 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.

5.2 CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The following are the carrying amounts for each class of financial asset and liability identified by IFRS 9:

(in thousand of euro)

	Note	Carrying amount at 12/31/2019	Carrying amount at 12/31/2018
FINANCIAL ASSETS			
Financial assets at fair value through income statement			
Non-current derivative financial instruments	17	11	325
Financial assets at amortized cost			
Other non-current receivables	13	620	600,544
Current trade receivabels	14	23,775	35,366
Other current receivables	13	2,347,952	1,548,690
Cash and cash equivalents	15	1,754	101,764
Financial assets at fair value through other comprehensive income	12	57,203	67,000
Derivative hedging instruments			
Current derivative financial instruments	17	10,143	3,424
Non-current derivative financial instruments	17	30,269	19,403
Total financial assets		**2,471,727**	**2,376,516**
FINANCIAL LIABILITIES			
Financial liabilities at fair value through income statement			
Current derivative financial instruments	17	5	44
Financial liabilities at amortised cost			
Non-current borrowings from banks and other financial institutions (excl. lease obligations)	19	3,541,694	3,921,509
Current borrowings from banks and other financial institutions (excl. lease obligations)	19	675,542	222,504
Current trade payables	22	19,262	19,380
Other non-current payables	23	212	212
Other current payables	23	32,107	48,351
Lease payables			
Non-current lease payables	19	35,479	-
Current lease payables	19	2,747	-
Derivative hedging instruments			
Current derivative financial instruments	17	-	5,248
Non current derivative financial instruments	17	9,589	10,565
TOTAL FINANCIAL LIABILITIES		**4,316,637**	**4,227,813**

6. CAPITAL MANAGEMENT POLICY

The Company's objective is to maximise the return on net invested capital while maintaining the ability to operate over time, ensuring adequate returns for its shareholders and benefits for the other stakeholders, with progressive deleverage of the financial structure in the short/medium term. In order to achieve these objectives, as well as pursuing satisfactory earnings results and generating cash flows, the Company may adjust its policy regarding dividends and the configuration of the capital.

7. ESTIMATES AND ASSUMPTIONS

The preparation of the Financial Statements requires Directors to apply accounting standards and methodologies which, under certain circumstances, are based on subjective assessments and estimates that are based on historical experience and assumptions that are considered reasonable and realistic from time to time depending on the circumstances. The final results of the items of the financial statements for which said estimates and assumptions were used may differ from those in the financial statements that show the effects of the occurrence of the event subject of the estimate due to the uncertainty that characterises the assumptions and conditions on which the estimates are based.

Below is a brief description of the accounting standards that, in relation to Pirelli & C. S.p.A., involve more than others a higher level of subjectivity by the management in making estimates and for which a change in the conditions underlying the assumptions used could have a significant impact on the financial information.

PIRELLI BRAND (INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIFE)

The Pirelli Brand is an intangible asset with indefinite useful life not subject to amortization, but, pursuant to IAS 36, to impairment test annually or more frequently, if specific events or circumstances occur which may lead to the presumption of impairment.

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

The recoverable value configuration for the purposes of the impairment test at December 31, 2019 is the Fair Value, calculated on the basis of the income approach (Level 3 of the hierarchy of IFRS 13 – Fair Value measurement)

RIGHTS OF USE AND LEASE PAYABLES With regard to the estimates and assumptions used for the determination of lease payables and rights of use, reference is be made to paragraph 3.3 "Impacts deriving from the adoption of IFRS 16 – Leases".

INVESTMENTS IN SUBSIDIARIES Investments are assessed to establish whether there was a decrease in value, to be recognised with a write-down, if there are indications that it will be difficult to recover their net accounting value through use. To establish the presence of said indications, Directors must make subjective assessments on the basis of information available within the Company and the market, as well as historical experience. Moreover, if it is determined that a potential impairment may be generated, the Company calculates this loss using appropriate measurement techniques. The proper identification of elements indicating the existence of a potential impairment loss, and the estimates for calculating the amount of such losses, depend on factors that may vary over time, affecting the assessments and estimates made by Directors.

PROVISIONS FOR RISKS 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 the provisions recorded in the financial statements relating to these risks represents the best estimate at the date made by the directors. Such an estimate entails making assumptions that depend on factors that may change over time and which could therefore have a material impact with respect to the current estimates made by Directors for the preparation of the Company's Financial Statements.

TAXES Significant elements of estimation are necessary in defining the forecasts of current taxes for the year and deferred tax assets and liabilities.

8. PROPERTY, PLANT AND EQUIPMENT

The breakdown of these items is as follows:

(in thousand of euro)

	12/31/2019	12/31/2018
Net Value	**67,368**	**36,627**
- Tangible assets	34,878	36,627
- Rights of use	32,490	-

8.1 TANGIBLE ASSETS

The breakdown and changes of these items are as follows:

(in thousand of euro)

	12/31/2019			12/31/2018		
	Gross Value	Accumulated Depreciation	Net Value	Gross Value	Accumulated Depreciation	Net Value
Land	6,584	-	**6,584**	6,584	-	**6,584**
Buildings	48,974	(24,934)	**24,040**	48,974	(23,439)	**25,535**
Plant and machinery	3,627	(3,380)	**247**	3,627	(3,175)	**453**
Industrial and trade equipment	942	(936)	**6**	942	(933)	**9**
Other assets	14,397	(10,560)	**3,836**	14,430	(10,384)	**4,046**
Assets under construction	165	-	**165**	-	-	-
Total	**74,689**	**(39,811)**	**34,878**	**74,557**	**(37,931)**	**36,627**

(in thousand of euro)

NET VALUE	12/31/2018	Increases	Business combination	Decreases	Depreciation	Devaluation	12/31/2019
Land	**6,584**	-	-	-	-	-	**6,584**
Buildings	**25,535**	-	-	-	(1,495)	-	**24,040**
Plant and machinery	**453**	-	-	-	(206)	-	**247**
Industrial and trade equipment	**9**	-	-	-	(3)	-	**6**
Other assets	**4,046**	-	15	(21)	(203)	-	**3,836**
Assets under construction	-	165		-	-	-	**165**
Total	**36,627**	**165**	**15**	**(21)**	**(1,907)**	**-**	**34,878**

(in thousand of euro)

NET VALUE	12/31/2017	Increases	Business combination	Decreases	Depreciation	Devaluation	12/31/2018
Land	**9,021**	-	-	(2,437)	-	-	**6,584**
Buildings	**27,296**	-	-	(53)	(1,708)	-	**25,535**
Plant and machinery	**661**	-	-	-	(208)	-	**453**
Industrial and trade equipment	**12**	-	-	-	(3)	-	**9**
Other assets	**4,345**	1	-	-	(300)	-	**4,046**
Assets under construction	-	-	-	-	-	-	-
Total	**41,335**	**1**	**-**	**(2,490)**	**(2,219)**	**-**	**36,627**

The item other assets increased during the year, totalling Euro 15 thousand following the acquisition of the business unit from the subsidiary Pirelli Tyre S.p.A. The item mainly refers to hardware.

The decreases for the year refer to the disposal of operating equipment.

Property, plant and equipment in progress at December 31, 2019 amounted to Euro 166 thousand.

Financial expenses on tangible assets were not capitalised.

8.2 RIGHTS OF USE

The net value of the assets for which the Company has stipulated a lease contract is as follows:

(in thousand of euro)

	12/31/2019	01/01/2019
Rights of use buildings	30,327	32,475
Rights of use other assets	2,163	1,786
Net value	**32,490**	**34,261**

At December 31, 2018, there were no financial lease contracts recognised based on IAS 17. For the impacts recorded following the adoption of IFRS 16 at January 1, 2019, refer to the information in note 3.3 “Impacts deriving from the adoption of IFRS 16 – Leases”.

Increases in rights of use in 2019 amounted to Euro 1,277 thousand.

At December 31, 2019, amortisation of user rights recognised in the income statement and included in the item depreciation, amortisation and impairments are as follows:

(in thousand of euro)

	2019
Buildings	3,234
Other assets	789
Total depreciation of right of use	**4,023**

For interest expense recognised in connection with lease contracts, refer to the information in Note 36 "Financial expenses".

For information on costs for lease contracts with a duration of less than twelve months, lease contracts for low unit value goods and lease contracts with variable fees, refer to note 32 "Other costs".

For information on lease payables, refer to note 19 "Borrowings from banks and other financial institutions".

9. INTANGIBLE ASSETS

The items in question and the related changes are detailed as follows:

(in thousand of euro)

	12/31/2018	Increase	Business combination	Decrease	Amortisation	Reclassification	Impairment	12/31/2019
Pirelli Brand - indefinite life	**2,270,000**	-	-	-	-	-	-	**2,270,000**
Software licenses	**833**	-	-	-	(344)	-	-	**489**
Other intangible assets	**2,831**	2,111	1,912	-	(1,979)	-	-	**4,875**
Total	**2,273,664**	**2,111**	**1,912**	**-**	**(2,323)**	**-**	**-**	**2,275,364**

(in thousand of euro)

	12/31/2017	Increase	Business combination	Decrease	Amortisation	Reclassification	Impairment	12/31/2018
Pirelli Brand - indefinite life	**2,270,000**	-	-	-	-	-	-	**2,270,000**
Software licenses	**1,002**	224	-	-	(393)	-	-	**833**
Other intangible assets	**2,964**	1,081	-	-	(1,370)	156	-	**2,831**
Assets under construction	**156**	-	-	-	-	(156)	-	**-**
Total	**2,274,122**	**1,305**	**-**	**-**	**(1,763)**	**-**	**-**	**2,273,664**

The Pirelli Brand (asset with indefinite useful life) for Euro 2,270,000 thousand, originated following the allocation of the merger deficit, generated following the incorporation of the parent company Marco Polo International Holding Italy S.p.A. in 2016. The allocation of the deficit was made consistently with the consolidated financial statements as a result of the completion of the Purchase Price Allocation.

The valuation of the useful life of the brands is based on a series of factors including the competitive environment, market share, history of the brand, life cycles of the underlying product, operational plans and 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 based on its history of over one hundred years of success (created in 1872) and the intention and ability of the Group to continue investing to support and maintain the brand.

The **increases** in the year mainly include charges for the purchase of software applications (Euro 1,701 thousand), systems for personnel management (Euro 367 thousand) and treasury (Euro 43 thousand).

Other intangible assets also include the increase during the year of Euro 1,912 thousand deriving from the transfer of software applications from the subsidiary Pirelli Tyre S.p.A. following the acquisition of the business unit.

No impairment was carried out in 2019.

IMPAIRMENT TEST OF THE PIRELLI BRAND (ASSET WITH INDEFINITE USEFUL LIFE)

The Pirelli Brand, amounting to Euro 2,270,000 thousand, is an intangible asset with indefinite useful life and therefore not subject to amortisation. However, pursuant to IAS 36, it is subject to impairment annually or more frequently, if specific events or circumstances occur that may lead to the presumption of impairment.

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

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

- consensus forecasts of equity analysts with respect to forecast revenues for the periods 2020 - 2022 as more conservative than the 2020-2022 Industrial Plan; the revenue growth rate for 2020 – 2022 is 2.8%;
- an evaluation criterion for the sum of parts that also considers the contribution in terms of royalties from the Prometeon Tyre Group for the use of the Pirelli brand in the Industrial segment;
- royalty rate applied to the revenues of the Consumer High Value and Consumer Standard valuation units taken from the royalty rates implicit in the valuations made by an independent entity relative to the main brands of the listed companies of the Tyre sector and equal to an average royalty rate of 4.46%; with reference to the contribution in terms of royalties from the Prometeon Tyre Group, use was made of the royalties envisaged;
- a discount rate of 8.00%, which includes a premium in relation to wacc determined on the basis of the risk of the specific asset;
- growth rate g in the terminal value assumed to be zero;
- the TAB (Tax Amortisation Benefit), that is the tax benefit which the market participant could benefit in the abstractif 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, 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.

10. INVESTMENTS IN SUBSIDIARIES

At December 31, 2019, this item amounted to Euro 4,647,666 thousand (Euro 4,568,324 thousand at December 31, 2018) and the breakdown is as follows:

(in thousand of euro)

	12/31/2019	12/31/2018
HB Servizi S.r.l.	230	230
Maristel S.p.A.	1,315	1,315
Pirelli Group Reinsurance Company S.A.	6,346	6,346
Pirelli Ltda	9,666	9,666
Pirelli Servizi Amministrazione e Tesoreria S.p.A.	3,238	3,238
Pirelli Sistemi Informativi S.r.l.	1,655	1,655
Pirelli Tyre S.p.A.	4,528,245	4,523,887
Pirelli UK Ltd.	21,871	21,871
Pirelli International Treasury S.p.A.	75,000	15
Servizi Aziendali Pirelli S.C.p.A.	100	101
Total investments in subsidiaries	**4,647,666**	**4,568,324**

Below are the changes during the year:

(in thousand of euro)

	12/31/2019	12/31/2018
Opening balance	**4,568,324**	**4,568,309**
Increases	79,342	15
Closing balance	**4,647,666**	**4,568,324**

The **increases** refer for Euro 74,985 thousand to the capital increase in favor of the subsidiary Pirelli International Treasury S.p.A. and for Euro 4,358 thousand to the acquisition from the subsidiary Pirelli Tyre S.p.A. of the business unit consisting of all staff and business support activities related to Human Resources, Health and Safety, Security, Planning and Controlling, CFO, Legal Affairs, Digital, Communication. The difference between the amount of the fee and the book value of the business unit acquired, equal to Euro 4,4 million, was considered as a contribution in favor of the subsidiary and consequently recorded as an increase in the value of the investment in the subsidiary..

The company checks the recognised values of its investments and the existence of impairment indicators on the basis of as set out in paragraph 3 Accounting standards – Investments in subsidiaries and associates. Following the verification of the indicators, the company on which it was necessary to carry out the test was Pirelli Ltda. The test did not determine the need for any impairment.

Further details are set out in the Annexes to the Explanatory Notes.

11. INVESTMENTS IN ASSOCIATED COMPANIES

At December 31, 2019, this item amounted to Euro 6,375 thousand (Euro 6,375 thousand at December 31, 2018) and the breakdown is as follows:

(in thousand of euro)

	12/31/2019	12/31/2018
Consorzio per le Ricerche sui Materiali Avanzati (CORIMAV)	104	104
Eurostazioni S.p.A. - Roma	6,271	6,271
Total investment in associates	**6,375**	**6,375**

The breakdown of changes is indicated below:

(in thousand of euro)

	12/31/2019	12/31/2018
Opening balance	**6,375**	**10,204**
Increases	-	-
Decreases	-	(249)
Impairment	-	(3,580)
Closing balance	**6,375**	**6,375**

No changes occurred during the year.

Further details are set out in the Annexes to the Explanatory Notes.

12. OTHER FINANCIAL ASSETS AT FAIR VALUE RECOGNISED IN THE OTHER COMPONENTS OF THE STATEMENT OF COMPREHENSIVE INCOME (FVOCI)

Other financial assets at fair value recognised in the other components of the statement of comprehensive income amounted to Euro 57,203 thousand at December 31, 2019 (Euro 67,000 thousand at December 31, 2018).

The breakdown of the item for each security is as follows:

(in thousand of euro)

	12/31/2019	12/31/2018
Listed securities		
RCS Mediagroup S.p.A. - Milano	24,892	28,449
Unlisted securities		
Fin. Priv Srl	20,565	15,604
Fondo Comune di Investimento Immobiliare Anastasia	3,947	15,575
Istituto Europeo di Oncologia S.r.l.	7,465	6,961
Other companies	334	411
Total financial assets at fair value through other comprehensive income	**57,203**	**67,000**

The changes in the year are shown below:

(in thousand of euro)

Opening balance	**67,000**
Decreases	(9,431)
Adjustment to fair value recognised in other comprehensive income	(366)
Closing balance	**57,203**

The **decreases** refer to the partial redemption of units for Euro 9,431 thousand received from Fondo Comune di Investimento Immobiliare - Anastasia in August 2019.

The **fair value adjustments in the other components of the statement of comprehensive income** mainly refer to the investments in Fin.Priv. S.r.l. (positive for Euro 4,961 thousand), in Istituto Europeo di Oncologia (positive for Euro 504 thousand), in RCS Mediagroup S.p.A. (negative for Euro 3,557 thousand), in Fondo Comune di investimento Anastasia (negative for Euro 2,198 thousand) and in Genextra (negative for Euro 13 thousand).

For listed securities, the fair value corresponds to the Stock Exchange listing at December 31, 2019. For unlisted securities and real estate funds, the fair value was estimated according to available information.

13. OTHER RECEIVABLES

The breakdown of other receivables is as follows:

(in thousand of euro)

	12/31/2019			12/31/2018		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Other receivables from subsidiaries	2,554	-	2,554	3,921	-	3,921
Financial receivables from subsidiaries	2,317,507	-	2,317,507	2,112,705	600,000	1,512,705
Guarantee deposits	268	268	-	221	221	-
Other receivables from third parties	11,212	352	10,860	2,221	323	1,898
Receivables from tax authorities for taxes not related to income	9,368	-	9,368	21,976	-	21,976
Financial accrued interest income	6,982	-	6,982	7,415	-	7,415
Financial prepaid expenses	681	-	681	776	-	776
Total other receivables	**2,348,572**	**620**	**2,347,952**	**2,149,235**	**600,544**	**1,548,691**

Financial receivables from subsidiaries mainly include the loan granted to Pirelli Tyre S.p.A. for a total amount of Euro 2,030 million, entirely related to a current portion maturing January 2020 reimbursed at the expiry date and the receivable for interest accrued and not yet paid for Euro 3,453 thousand.

Financial receivables also include transactions with Pirelli International Treasury S.p.A. relating to the interest-bearing current account, regulated at market rates for Euro 284,051 thousand (at December 31, 2018 equal to Euro 561,399 thousand with Pirelli International Plc).

For the purposes of applying accounting standard IFRS 9 in relation to loans to Group companies, the management has made an estimate of the expected credit losses for the 12 months subsequent to the financial statement date. The analysis takes into account qualitative, quantitative, historical and prospective information, to determine whether the intra-group loan has a credit risk at December 31, 2019. Using a probability of default of an investment grade loan and considering the asset refundable grade and the historical solvency of the

Companies, the management of the company concluded that any impairment required by the standard would result in an insignificant amount.

Receivables from the tax authorities for taxes not related to income for Euro 9,368 thousand mainly refer to receivables for VAT, which decreased compared to the previous year.

Financial accrued interest income refer to portions of interest accrued but not yet collected on cross currency interest swap derivative contracts related to the unsecured syndicated financing "Facilities" granted to Pirelli & C. S.p.A.

Prepaid financial expenses relate mainly to the commissions on the revolving and term loan credit line.

The book value of financial receivables and other receivables approximates their fair value.

14. TRADE RECEIVABLES

Trade receivables amounted to Euro 23,775 thousand compared to Euro 35,366 thousand of the previous year and the breakdown is as follows:

(in thousand of euro)

	12/31/2019	12/31/2018
Receivables from subsidiaries	21,486	32,229
Receivables from associates	3	3
Receivables from other companies	2,906	6,104
Total receivables - gross amount	**24,395**	**38,336**
Provision for bad debt	(620)	(2,970)
Total receivables	**23,775**	**35,366**

Below is the breakdown of trade receivables based on the currency in which they are expressed:

(in thousand of euro)

	12/31/2019	% of total trade receivables	12/31/2018	% of total trade receivables
EUR	20,657	85%	34,180	89%
USD (Dollar USA)	-	-	2,083	6%
RUB (Ruble Russia)	619	2%	2,039	5%
CHF	3,119	13%	-	-
Other currencies	-	-	34	-
Total	**24,395**		**38,336**	

Receivables from subsidiaries at December 31, 2019 mainly include the amounts that Pirelli & C. S.p.A. charges for services rendered through Corporate functions. The aforementioned receivables are due within the financial year and do not show overdue balances significant amount.

Receivables from other companies of Euro 2,906 thousand (Euro 6,104 thousand at December 31, 2018), gross of the bad debt provision of Euro 620 thousand, are past due for Euro 2,028 thousand.

Overdue receivables and receivables due have been valued in accordance with the Group policies described in the paragraph relating to credit risk management in the "Financial risk management policy".

Impaired receivables include both significant positions written down separately, and positions with similar characteristics in terms of credit risk, grouped and written down on a collective basis.

The change in the provision for bad debts is shown below:

(in thousand of euro)

	12/31/2019	12/31/2018
Opening balance	**2,970**	**4,205**
Accruals	96	1,930
Decreases/reversals	(2,446)	(3,165)
Closing balance	**620**	**2,970**

Accruals to the provision for bad debts are recognised in the income statement as "Impairment of financial assets" (Note 33).

For trade receivables, the carrying amount is considered to approximate the applicable fair value.

15. CASH AND CASH EQUIVALENTS

At December 31, 2019, they amounted to Euro 1,754 thousand, against Euro 101,764 thousand at December 31, 2018 and refer to balances of bank accounts in Euro repayable on demand.

The credit risk associated with cash and cash equivalents is to be considered limited because the counterparties are represented by leading national and international banking institutions.

It is believed that the value of cash and cash equivalents is in line with their fair value.

16. TAX RECEIVABLES

At December 31, 2019, they amounted to Euro 31,744 thousand (Euro 49,746 thousand at December 31, 2018).

The amount mainly includes:

- receivables from Group companies participating in the tax consolidation for Euro 29,828 thousand (Euro 48,489 thousand at December 31, 2018). The decrease compared to the previous year substantially depends on the lower contribution of the positive taxable result by the subsidiary Pirelli Tyre S.p.A.;
- receivables for IRAP advances paid for Euro 925 thousand, unchanged compared to the previous year.

17. FINANCIAL INSTRUMENTS

The item includes the fair value of derivative instruments. The breakdown is as follows:

(in thousand 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	-	11	-	(5)	-	325	-	(44)
In hedge accounting								
- cash flow hedge:								
Interest rate derivatives	449	-	(8,735)	-	-	-	(2,824)	-
Other derivatives instruments	29,820	10,143	(854)	-	19,403	3,424	(7,741)	(5,248)
Total derivative instruments	**30,269**	**10,154**	**(9,589)**	**(5)**	**19,403**	**3,749**	**(10,565)**	**(5,292)**

The above derivatives are intercompany derivatives stipulated mainly with the Group's treasury company, Pirelli International Treasury S.p.A.

DERIVATIVE FINANCIAL INSTRUMENTS NOT IN HEDGE ACCOUNTING

The value of **exchange rate derivatives** corresponds to the fair value of forward currency purchases/sales outstanding at the closing date of the year. These involve hedges of the Company's commercial transactions for which hedge accounting was not adopted. The fair value is determined by using the forward exchange rate at the reporting date.

DERIVATIVE FINANCIAL INSTRUMENTS IN HEDGE ACCOUNTING

The value of **derivatives on interest rates**, recorded as current assets for Euro 449 thousand and non-current liabilities for Euro 8,735 thousand, refers to the fair value measurement of 2 interest rate swaps forward start contracts and 3 interest rate swaps contracts with the following characteristics:

(in thousand of euro)

Instrument	Description	Notional	Start date	Deadline	
IRS	Term loan in Euro	250,000	June 2019	June 2022	receive fix / pay floating
IRS	Term loan in Euro	62,500	August 2019	August 2023	receive fix / pay floating
IRS	Term loan in USD + CCIRS	100,000	October 2019	June 2022	receive fix / pay floating
IRS forward start	Schuldschein	180,000	July 2020	July 2023	receive fix / pay floating
IRS forward start	Schuldschein	20,000	July 2020	July 2025	receive fix / pay floating
Total		**612,500**			

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

- a future transaction represented by interest flows on a floating rate financial liability that 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 (see Note 19).

The change in fair value for the year for IRS (interest rate swaps), negative at Euro 6,047 thousand, has been entirely suspended in equity, while in the income statement, Euro 572 thousand was reversed to the item "financial expenses" (Note 36), correcting the financial expenses recognised on the liability hedged.

A +0.5% change in the EURIBOR curve, other things being equal, would result in a positive change of Euro 8,095 thousand in the Company's shareholders' equity, while a -0.5% change in the same curve would result in a negative change of Euro 7,883 thousand in the Company's shareholders' equity.

The value of **other derivatives**, recognised as non-current assets for Euro 29,820 thousand, current assets for Euro 10,143 thousand and non-current liabilities for Euro 854 thousand, refers to the fair value measurement of 4 cross currency interest rate swaps with the following characteristics:

(in thousand of USD)

Instrument	Notional	Start date	Deadline	Description
CCIRS	284,037	July 2017	June 2020	pay floating EURIBOR / receive floating LIBOR
CCIRS	681,690	July 2017	June 2022	pay floating EURIBOR / receive floating LIBOR
CCIRS	170,422	July 2019	June 2022	pay fix EURIBOR / receive floating LIBOR
CCIRS	908,920	July 2019	June 2022	pay fix EURIBOR / receive floating LIBOR
	2,045,069			

The objective of these derivatives, for which hedge accounting of the cash flow hedge type was adopted, is to hedge the Company against the risk of fluctuations in cash flows associated with changes in the LIBOR rate and changes in the USD/EUR exchange rate, generated by a liability in USD at variable rate with a notional value of USD 2,045,069 thousand, equivalent to Euro 1,824,419 thousand (see Note 19 "Borrowings from banks and other financial institutions").

The positive change in fair value for the year was suspended in equity for Euro 81,239 thousand (cash flow hedge reserve for Euro 75,888 thousand and cost of hedging reserve for Euro 5,351 thousand), while Euro 34,309 thousand was reversed to the income statement to offset unrealised exchange rate losses recognised on liabilities hedged and Euro 52,022 thousand was instead reversed in the item "financial expenses" (Note 36) correcting the financial expenses recognised on the liability hedged.

Other things being equal, a hypothetical increase and decrease of 0.50% of the EURIBOR and LIBOR curves would have respectively a positive net impact of Euro 10,854 thousand and a negative net impact of Euro 11,050 thousand on the shareholders' equity of the Company.

18. SHAREHOLDERS' EQUITY

Equity amounted to Euro 4,580,445 thousand (Euro 4,492,675 thousand at December 31, 2018).

The statement of changes in equity is shown in the main financial statements.

Equity went from Euro 4,492,675 thousand at December 31, 2018 to Euro 4,580,445 thousand at December 31, 2019. The positive change is essentially due to the net result for the year (positive for Euro 273,242 thousand), offset by the dividend distribution of Euro 177,000 thousand, by the adjustment to the fair value of derivatives designated as cash flow hedges (negative for Euro 8,031 thousand) and to the adjustment to the fair value of financial assets at fair value recognised as other components of the statement of comprehensive income (negative for Euro 366 thousand).

SHARE CAPITAL

The share capital at December 31, 2019, fully subscribed and paid-in, amounted to Euro 1,904,374,935.66 divided into 1,000,000,000 ordinary shares without nominal value and unchanged compared to December 31, 2018.

LEGAL RESERVE

At December 31, 2019, the legal reserve amounted to Euro 380,875 thousand, unchanged compared to December 31, 2018, having already reached the limit set by art. 2430 Civil Code.

SHARE PREMIUM RESERVE

At December 31, 2019, the share premium reserve amounted to Euro 630,381 thousand and unchanged compared to December 31, 2018.

CONCENTRATION RESERVES

At December 31, 2019, concentration reserves amounted to Euro 12,467 thousand and unchanged compared to December 31, 2018.

OTHER RESERVES

At December 31, 2019, other reserves amounted to Euro 92,535 thousand and unchanged compared to December 31, 2018.

IAS RESERVE

At December 31, 2019, the IAS reserves were negative for a value of Euro 3,199 thousand and refer to the reserve for the fair value adjustment of financial assets at fair value recognised in the statement of comprehensive income (positive for Euro 10,638 thousand), to the reserve for the remeasurement of employee benefit obligations (positive for Euro 1,923 thousand) and the cash flow hedge reserve and the cost of hedging reserve, net of the tax effect (negative for Euro 15,760 thousand).

MERGER RESERVE

At December 31, 2019, the merger reserve amounted to Euro 1,022,928 thousand, unchanged compared to December 31, 2018. The reserve was generated following the merger by incorporation of Marco Polo International Holding Italy S.p.A. in Pirelli & C. S.p.A. in 2016.

RESERVE FROM RESULTS CARRIED FORWARD

The reserve from results carried forward amounted to Euro 266,842 thousand compared to a 181,512 at December 31, 2018. The increase is attributable to the residual result carried forward from the previous year.

In accordance with the provisions of article 2427, no. 7-bis of the Italian Civil Code, in the following table each item of equity is indicated analytically, with indication of its origin, possibility of use and distributability, as well as of its use in previous years.

EQUITY ITEMS

(in thousand of euro)

	Amount	Possible use	Available portion	Summary of reserves uses in the last 3 previous years
Share capital	1,904,375			
Surplus reserve	630,381	A, B, C	630,381	-
Legal reserve	380,875	B	380,875	-
Other reserves				
- Concentration reserve	12,467	A, B, C	12,467	-
- Other Reserves	92,535	A, B	92,535	-
- IAS Reserves	(3,199)	-	-	-
- Merger Reserve	1,022,928	A, B, C	1,022,928	175,912
Retained earnings	266,842	A, B, C	266,842	188,439
Total	**4,307,204**		**2,406,028**	**364,351**
Non distributable			473,410	
Residual quota available			1,932,618	

A to increase the share capital
B to cover losses
C to distribute to the shareholders

19. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

The breakdown of the item borrowings from banks and other financial institutions is as follows:

(in thousand of euro)

	12/31/2019			12/31/2018		
	Total	Non-current	Currents	Total	Non-current	Currents
Bonds	1,271,393	1,071,476	199,917	1,269,514	1,269,514	-
Borrowings from banks	2,921,413	2,469,318	452,095	2,851,995	2,651,995	200,000
Lease payables	38,226	35,479	2,747	-	-	-
Other financial obligations	4,222	900	3,322	2,949	-	2,949
Accrued liabilities	20,208	-	20,208	19,555	-	19,555
Total borrowings from banks & other financial institutions	**4,255,462**	**3,577,173**	**678,289**	**4,144,013**	**3,921,509**	**222,504**

The item **bonds** refers to:

- unrated public bonds for a total nominal amount of Euro 753 million of which Euro 553 million, (originally for Euro 600 million and partially repurchased for a total amount of Euro 47 million during the last quarter of 2018) placed on January 22, 2018 with a fixed coupon of 1.375% and an original 5-year maturity, plus a second bond loans issued on March 15, 2018 for a nominal amount of Euro 200 million at a floating rate, with original 2.5-year maturity. 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;
- the floating rate "Schuldschein" loan for a total nominal value of Euro 525 million placed on July 26, 2018. The loan, and entered into by leading market operators, consists of a tranche of Euro 82 million with 3-year maturity, a tranche of Euro 423 million with 5-year maturity and a tranche of Euro 20 million with 7-year maturity.

The carrying amount of bonds was determined as follows:

(in thousand 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 change in the item bonds refers to the amortised cost for the year.

The item **borrowings from banks**, which amounted to Euro 2,921,413 thousand, mainly refers to:

- use of the unsecured loan (Facilities) granted to Pirelli & C. S.p.A. for Euro 1,999,940 thousand, of which Euro 252,095 classified under current borrowings from banks. The nominal refinanced total subscribed to on June 27, 2017, (with a closing date of June 29, 2017) amounted to 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 modified to include the right of the Pirelli Group to extend the maturity of the individual lines of the loan up to 2 years at its discretion with respect to their original contractual 3-year and 5-year maturity;
- Euro 921,473 thousand relating to two bilateral loans disbursed in favor of Pirelli & C. S.p.A. by leading banking institutes, of which nominal Euro 600 million with 5-year maturity ("Bilaterale 600"), Euro 125 million with 4-year maturity at floating rate ("Bilaterale 125") and Euro 200 million with maturity extended to June 2020 (original maturity July 2019) at fixed rate ("Bilaterale 200"), classified under current borrowings from banks;

Below are the changes in borrowings from banks:

(in thousand of euro)

Borrowings from banks at December 31, 2018	**2,851,995**
Reimbursements of unsecured financing (Facilities)	(700,000)
New bilateral borrowings	720,900
Amortised cost for the period	14,182
Translation differences	34,336
Borrowings from banks at December 31, 2019	**2,921,413**

The change in total borrowings from banks for the previous year is shown below:

(in thousand of euro)

Borrowings from banks at December 31, 2017	**2,331,086**
Reimbursements of unsecured financing (Facilities)	(700,000)
Transfer of loan from Pirelli International Plc	986,965
Intesa financing	200,000
Amortised cost for the period	(6,590)
Translation differences	40,534
Borrowings from banks at December 31, 2018	**2,851,995**

Lease payables represent financial liabilities relating to the application of IFRS 16 starting from January 1, 2019.

Below are the changes in lease liabilities:

(in thousand of euro)

IFRS 16 first time adoption impact	**37,250**
Increase in lease obligations	1,277
Remeasurement and early termination	972
Repayment of principal for lease obligations	(1,273)
Lease payables as at 12/31/2019 (IFRS 16)	**38,226**

Non-discounted future payments for lease contracts for which the exercise of extension options is not considered reasonably certain amounted to Euro 13,596 thousand at December 31, 2019 and are not included in this item.

The item **other financial payables** includes for Euro 2,423 thousand the payable to shareholders following the squeeze out operation and for Euro 1,800 thousand the short-term portion of the upfront fee on the "Bilaterale 600" loan, of which Euro 900 thousand short-term and Euro 900 thousand non-current.

The item **accrued liabilities** essentially refers to interest that has accrued on the term loans but has not yet been paid (Euro 10,866 thousand) and to interest accrued on bonds for Euro 9,082 thousand.

For current financial payables, it is maintained that the book value is approximately the fair value. The table below compares the fair value of non-current financial payables with their book value:

(in thousand of euro)

	12/31/2019		12/31/2018	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Bonds	1,071,476	1,084,830	1,269,514	1,252,468
Borrowings from banks	2,469,318	2,492,591	2,651,995	2,686,087
Lease payables	35,479	35,479	-	-
Other financial payables	900	900	-	-
Total borrowings from banks and other financial institutions - non current	**3,577,173**	**3,613,800**	**3,921,509**	**3,938,555**

The unrated public bond issued by Pirelli & C. S.p.A. is listed and its relative fair value measured on the basis of prices at year-end. Therefore, it is classified in level 1 of the hierarchy required by IFRS 13 – Fair Value Measurement. The fair value of the "Schuldschein" loan and borrowings from banks was calculated by discounting each debtor cash flow expected at the market swap rate for the currency and at the reference maturity date, increased by the Group credit rating for similar debt instruments by nature and technical characteristics and is therefore classified as level 2 in the hierarchy required by IFRS 13 – Fair Value Measurement.

The distribution of borrowings from banks and other financial institution by currency of origin of the payable at December 31, 2019 and December 31, 2018 is as follows:

(in thousand of euro)

	12/31/2019	12/31/2018
EUR	2,439,408	2,368,434
USD (Dollar USA)	1,816,054	1,775,579
Total	**4,255,462**	**4,144,013**

At December 31, 2019, there are hedging derivatives for interest rate and exchange rate on payables at variable rate in foreign currency.

The Company's exposure to changes in interest rates on financial payables, both in terms of the type of interest rate and in terms of their renegotiation date (resetting), is divided into:

- variable rate payables for Euro 1,908,335 thousand, the interest rate of which is subject to renegotiation within the first six months of 2020;
- fixed rate payables for Euro 2,303,520 thousand, the interest rate of which is not subject to renegotiation until the natural maturity of the reference debt (Euro 200,000 thousand with maturity in the next 12 months and Euro 2,103,520 thousand with maturity beyond 12 months).

With regard to the existence of financial covenants, it is noted that (i) Group's main bank credit facility (Facility) granted to Pirelli & C. S.p.A. and Pirelli International Plc (currently usable only by, and in its entirety by Pirelli & C.), (ii) the "Schuldschein" loan (iii) the bilateral line of Euro 600 million granted to Pirelli & C. in the first quarter of 2019 ("Bilaterale 600") and (iv) the bilateral line of Euro 125 million granted to Pirelli & C. in the third quarter of 2019 ("Bilaterale 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.

In all the loans indicated above, failure to comply with the financial covenant is identified as an event of default.

Specifically, this event of default may be exercised in accordance with the terms of the relevant contract (i) as part of the Facility only if requested by a number of lending banks that represents at least 66 2/3% of the total commitment and involves early repayment (partial or total) of the loan with simultaneous cancellation of the relative commitment; (ii) as part of the Schuldschein loan, individually and autonomously by each lending bank for its share and entails the early repayment of the loan only for that share; and (iii) as part of both Bilaterale 600 and Bilaterale 125, by the only bank that granted each of the above loans, leading to early repayment for the entire amount disbursed.

It is noted that at December 31, 2019, this parameter is respected.

The Facility, the "Schuldschein" loan and Bilaterale 600 also provide for Negative Pledge clauses, the terms of which are in line 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.

NET FINANCIAL POSITION (ALTERNATIVE PERFORMANCE INDICATOR NOT REQUIRED BY IFRS ACCOUNTING STANDARDS)

The table below shows the breakdown of the net financial position and net financial debt at December 31, 2019 and December 31, 2018, determined in accordance with the provisions of Consob communication DEM/6064293 of July 28, 2006 and in compliance with the ESMA/2013/319 Recommendations.

(in thousand of euro)

	Note	12/31/2019	*of which related parties (note 39)*	12/31/2018	*of which related parties (note 39)*
Current borrowings from banks and other financial institutions without IFRS 16	19	675,542	-	222,504	*7*
Current derivative financial instruments (liabilities)	17	-	-	5,248	*5,248*
Non-current borrowings from banks and other financial institutions without IFRS 16	19	3,541,694	-	3,921,509	-
Non-current derivative financial instruments (liabilities)	17	9,589	*9,589*	10,252	*10,252*
Current lease obligations IFRS 16	19	35,479	-	-	-
Non-current lease obligations IFRS 16	19	2,747	-	-	-
Total gross debt		**4,265,051**		**4,159,513**	
Cash and cash equivalents	15	(1,754)	-	(101,764)	-
Current financial receivables and other assets	13	(2,325,160)	*(2,324,489)*	(1,520,896)	*(1,520,120)*
Derivative financial instruments - assets	17	(10,154)	*(10,143)*	(3,424)	*(3,424)*
Net financial debt *		**1,927,983**		**2,533,429**	
Non-current financial receivables and other assets	13	(268)	-	(600,221)	*(600,000)*
Derivative financial instruments	17	(30,269)	*(30,269)*	(19,403)	*(19,403)*
Total net financial (liquidity)/debt position		**1,897,446**		**1,913,805**	
Lease obligations IFRS 16	19	(38,226)		-	
Total net financial (liquidity)/debt position without IFRS 16		**1,859,220**		**1,913,805**	

* Pursuant to Consob Notice of July 28, 2006 and in compliance with CESR recommendation of February 10, 2005 "Recommendations for the consistent implementation of the European Commission regulation on Prospectuses".

20. PROVISIONS FOR LIABILITIES AND CHARGES

The following is a detail of changes of the item in question:

(in thousand of euro)

	12/31/2018	Increases	Uses	Reversals	Riclassification	Other	12/31/2019
Provision for employees controversies	3,586	1,197	(1,178)	(1,608)	-	-	1,997
Provision for tax risks	1,141	-	-	-	-	-	1,141
Provision for environmental risks	1,922	500	(1,795)	-	-	-	627
Provision for other risks	33,882	1,208	-	(382)	1,631	227	36,566
Provision for liabilities and charges - non current portion	**40,531**	**2,905**	**(2,973)**	**(1,990)**	**1,631**	**227**	**40,331**
Provision for other risks	1,815	-	(173)	(11)	(1,631)	-	-
Provision for liabilities and charges - current portion	**1,815**	**-**	**(173)**	**(11)**	**(1,631)**	**-**	**-**
Closing balance 12/31/2019	**42,346**	**2,905**	**(3,146)**	**(2,001)**	**-**	**227**	**40,331**

Increases mainly refer to provisions for environmental reclamation and labour disputes.

Uses are mainly attributable to the closure of pending disputes relating to occupational diseases and reclamation of abandoned areas.

Reversals of excess funds are mainly related to the adjustment of provisions for labour disputes and remediation of disused areas.

The item **other risks** includes the Euro 33.5 million provision referable to the decision taken by the European Commission – subsequently confirmed by the sentence of the European Union Court of July 12, 2018, against which on September 21, 2018, Pirelli & C.S.p.A. (Pirelli) filed an appeal before the Court of Justice of the European Union – at the conclusion of the antitrust investigation started in relation to allegedly restricting competition in the European energy cable market. This decision provides for a sanction against Prysmian Cavi e Sistemi S.r.l. (Prysmian) as directly involved in the alleged cartel, of which a part (Euro 67 million), Pirelli, despite having been found to not have been involved in said cartel, was held as being jointly liable with Prysmian, based solely on the application of the principle of parental liability, in that during part of the period of the alleged infringement, the capital of Prysmian was directly or indirectly held by Pirelli. The amount set aside of Euro 33.5 million corresponds for the first demand bank guarantee issued by Pirelli – similar to as 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 joint penalty to Pirelli and Prysmian of Euro 67 million.

21. PERSONNEL PROVISIONS

Personnel provisions amounted to Euro 6,311 thousand (Euro 4,175 thousand at December 31, 2018 and the breakdown is as follows:

(in thousand of euro)

	12/31/2019			12/31/2018		
	Total	Non current	Current	Total	Non current	Current
Employee leaving indemnities (TFR)	2,672	2,672	-	1,077	1,077	-
Other benefits	3,639	1,605	2,034	3,098	1,133	1,965
Total employees' benefit obligation	**6,311**	**4,277**	**2,034**	**4,175**	**2,210**	**1,965**

The increase compared to the previous year is mainly due to the increase in severance pay and seniority bonuses following the acquisition of the business unit of the subsidiary Pirelli Tyre S.p.A. consisting of all the staff and business support activities related to Human Resources, Health and Safety, Security, Planning and Controlling, CFO, Legal Affairs, Digital, Communication.

EMPLOYEES' LEAVING INDEMNITY (TFR)

The changes for the employee leaving indemnity (TFR) are the following:

(in thousand of euro)

	12/31/2019	12/31/2018
Opening balance	**1,077**	**1,385**
Movements through income statement:		
- current service cost	1,800	934
- interest expense	23	9
Remeasurements recognised in equity:		
-actuarial (gains) or losses arising from changes in financial assumption	96	8
-Increase related to business combination	1,411	-
Indemnities, advance payments, relocations, payment to funds	(1,735)	(1,259)
Total employees' leaving indemnity (TFR)	**2,672**	**1,077**

The amounts recognised in the income statement are included in the item "Personnel Expenses" (Note 30).

Net actuarial gains accrued in 2019, recognised directly in equity, amounted to Euro 96 thousand and are essentially related to the change in the economic parameters of reference (discount rate and inflation rate).

In accordance with national legislation, the amount due to each employee accrues based on the service provided and is paid when the employee leaves the company. The treatment due to the termination of the employment relationship is calculated based on its duration and the taxable remuneration of each employee. The liability, annually revalued on the basis of the official cost of living and statutory interest rate, is not associated with any accrual condition or period, nor with any financial funding obligation; therefore, there is no activity at the service of the provision.

The discipline was supplemented by Legislative Decree no. 252/2005 and by Law no. 296/2006 (Finanziaria 2007) which, for companies with at least 50 employees, has established that the portions accrued since 2007 be allocated, on the employees' option, either to the INPS Treasury Fund or to supplementary pension schemes, assuming the nature of "Defined contribution plan". In any case, for all companies, the revaluations of the amounts outstanding at the option dates are still accounted for under staff severance indemnities as well as, for companies with less than 50 employees, also the portions accrued and not allocated to supplementary pensions.

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

	2019
Discount rate	0.7%
Inflation rate	1.0%

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

	2018
Discount rate	1.5%
Inflation rate	1.5%

Hired employees at December 31, 2019 amounted to 353 units (151 units at December 31, 2018). The increase is essentially due to the acquisition by the Company of the business unit of the subsidiary Pirelli Tyre S.p.A. consisting of all the staff and business support activities related to Human Resources, Health and Safety, Security, Planning and Controlling, CFO, Legal Affairs, Digital, Communication.

In other conditions being equal, a hypothetical change of 0.25% in the discount rate would result in a decrease in liabilities equal to 1.84%, in the case of an increase (1.80% at December 31, 2018), and an increase in liabilities of 1.88%, in the case of a decrease (1.83% at December 31, 2018).

OTHER EMPLOYEE BENEFITS

The breakdown of other benefits is as follows:

(in thousand of euro)

	12/31/2019			12/31/2018		
	Total	Non current	Current	Total	Non current	Current
Long-term incentive plans	-	-	-	411	411	-
Jubilee awards	1,605	1,605	-	722	722	-
Other benefits	2,034	-	2,034	1,965	-	1,965
Total	**3,639**	**1,605**	**2,034**	**3,098**	**1,133**	**1,965**

On December 31, 2018, the item Long-term incentive plans included the amount allocated for the three-year monetary incentive plan Long-term incentive 2018-2020 for Group management and related to the 2018-2020 objectives contained in the 2017-2020 Industrial Plan. At the presentation of the 2020-2022 Industrial Plan on February 19, 2020, the Board of Directors approved the adoption of a new monetary incentive plan - Long-term incentive (LTI) - intended for all Group management (to date approximately 270 participants) - related to the objectives of the plan. At the same time, the BoD - with effect from December 31, 2019 - resolved to close early and without any disbursement, not even pro-quota, the previous plan adopted in 2018 and related to the objectives of the 2018-2020 period.

Other benefits for Euro 2,034 thousand refer to the portion of the third installment of the retention plan at December 31, 2019 that will be paid during the first half of 2020. The plan was approved by the Board of Directors on February 26, 2018, and is intended for Executives with strategic and tax responsibilities (to a selected number of senior Managers and Executives whose contribution for the implementation of the Strategic Plan is considered particularly significant.

22. TRADE PAYABLES

The breakdown of trade payables is as follows:

(in thousand of euro)

	12/31/2019	12/31/2018
Payables to subsidiaries	4,562	2,392
Payables to associates	102	60
Payables to other companies	14,598	16,929
Total trade payables	**19,262**	**19,381**

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

23. OTHER PAYABLES

The breakdown of other payables is as follows:

(in thousand of euro)

	12/31/2019			12/31/2018		
	Total	Non-current	Current	Total	Non-current	Current
Payables to subsidiaries	11,515	-	11,515	25,944	-	25,944
Payables to social security and welfare institutions	3,193	-	3,193	1,905	-	1,905
Payables to employees	7,213	-	7,213	8,275	-	8,275
Other payables	9,593	211	9,382	9,088	211	8,877
Accrued liabilities	271	-	271	3,343	-	3,343
Deferred income	533	-	533	7	-	7
Total other payables	**32,318**	**211**	**32,107**	**48,562**	**211**	**48,351**

Payables to subsidiaries mainly refer to receivables related to VAT consolidation.

Payables to pension and social security institutions mainly consist of contributions to be paid to the INPS (National Social Welfare Institute) and INAIL (National Institute for Insurance against Industrial Accidents).

Payables to employees refer to the remuneration to be paid to employees.

Other payables include liabilities for compensation to be paid to directors and auditors, for withholding taxes on income from self-employed and employed work.

For **other current payables** it is considered that the carrying value approximates their fair value.

24. DEFERRED TAX PROVISIONS

The deferred tax provision amounted to Euro 538,902 thousand at December 31, 2019 (Euro 527,807 thousand at December 31, 2018).

The breakdown of the deferred tax provision gross of offsetting is as follows:

(in thousand of euro)

	12/31/2019	12/31/2018
Deferred tax assets	**101,909**	**113,005**
- of which within 12 months	64,050	55,649
- of which over 12 months	37,859	57,356
Provision for deferred tax liabilities	**(640,811)**	**(640,811)**
- of which within 12 months	(1,842)	-
- of which over 12 months	(638,969)	(640,811)
Total	**(538,902)**	**(527,806)**

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

(in thousand of euro)

	12/31/2019	12/31/2018
Deferred tax assets		
Provision for risk and charges	665	1,897
Property, plant and equipment	65	65
Employees provision	1,484	864
Provision for bad debt	120	713
Tax losses carried forward	24,080	50,339
ACE Benefit	54,501	43,498
Interests	16,010	13,180
Derivatives	4,984	2,448
Total deferred tax assets	**101,909**	**113,005**
Provision for deferred tax liabilities		
Brand Pirelli	(633,330)	(633,330)
Exchange differences not realised	(7,481)	(7,481)
Total provision for deferred tax liabilities	**(640,811)**	**(640,811)**
Total	**(538,902)**	**(527,806)**

At December 31, 2019, the amount of unrecognised deferred tax assets relating to unlimited carryforward tax losses was equal to Euro 30,048 thousand (Euro 31,335 thousand at December 31, 2018), while those relating to temporary differences was equal to Euro 25,856 thousand (unchanged compared to December 31, 2018).

25. TAX PAYABLES

These amounted to Euro 17,617 thousand (Euro 16,436 thousand at December 31, 2018) and mainly include payables to subsidiaries that adhere to the tax consolidation, which arose following the transfer of withholding taxes incurred abroad (WHT).

26. COMMITMENTS AND RISKS

COMMITMENTS FOR LEASE CONTRACTS

At December 31, 2019, the total of future undiscounted payments for lease contracts not yet in force and for which no financial payable was recognized amounted to Euro 14,400 thousand, mainly referring to office lease contracts.

DISPUTES AGAINST PRYSMIAN BEFORE THE COURT OF MILAN.

Pending the decision of the Community proceeding pursuant to Note 20 "Provision for liabilities and charges", in November 2014, Pirelli & C. S.p.A. (Pirelli) commenced legal action before the Court of Milan in order to obtain an assessment and the declaration by Prysmian Cavi e Sistemi S.r.l. to hold Pirelli harmless from any claim regarding 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 22 – against which, on September 21, 2018, Pirelli filed an appeal before the Court of Justice of the European Union.

Prysmian appeared in the aforementioned judgment, requesting the rejection of Pirelli's claims, and to be indemnified by Pirelli in relation to the consequences deriving from or related to the Decision of the European Commission. The judgment was suspended pending a final ruling of the EU judges.

On the basis of accurate analyses provided by external counsel, Pirelli believes that the full and final liability for any breach must be borne exclusively by the company directly involved, since it was not involved in committing the alleged irregularities.
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 the assessment and declaration of the obligation of Prysmian Cavi e Sistemi S.r.l. to indemnify and release it from any charge, expense, cost and/or damage resulting from claims of private and/or public third parties (including authorities other than the European Commission) relating, connected and/or consequential to the facts covered by the Decision of the European Commission, as well as the consequent conviction of Prysmian Cavi e Sistemi S.r.l. to reimburse any charge, expense, cost or damage incurred or suffered by Pirelli.

On this occasion, Pirelli also requested to ascertain the liability of Prysmian Cavi e Sistemi S.r.l. and Prysmian S.p.A. in relation to certain illegal conduct connected to the aforementioned alleged anti-competitive agreement, carried out by the same and, as a result, the conviction to compensation for all damages suffered and being suffered by Pirelli.

Lastly, Pirelli requested the ascertainment and declaration of the joint liability of Prysmian S.p.A. in relation to the amounts that will be paid both in this new judgment and in the one in November 2014 and that will not be settled by Prysmian Cavi e Sistemi S.r.l.

OTHER DISPUTES IN RELATION TO THE EUROPEAN COMMISSION DECISION

In November 2015, Prysmian S.p.A. notified Pirelli of proceedings for the recovery of damages before the High Court of Justice of London against Prysmian and other recipients of the European Commission Decision of April 2, 2014 by National Grid and Scottish Power, companies that claim to have been injured by the alleged cartel. Specifically, Prysmian S.p.A. submitted a plea to obtain from Pirelli and Goldman Sachs, based on the role of parent companies during the period of the cartel, to hold it harmless in respect of any obligations to pay any damages claims (to date unquantified) by National Grid and Scottish Power. Due to the aforementioned pending legal action before the Court of Milan, Pirelli challenged the lack of jurisdiction of the High Court of Justice of London claiming that, that any decision on the merits should be assigned to the Court previously referred to. In April 2016, the High Court of Justice, at the request of Pirelli and Prysmian S.p.A., suspended the proceedings until the final passing of judgment that will define the Italian judgment already pending.

In April 2019, Terna S.p.A. – Rete Elettrica Nazionale (Terna) summoned Pirelli, three Prysmian Group companies and another recipient of the aforementioned European Commission Decision, before the Court of Milan, to obtain compensation for the damage allegedly suffered as a result of the alleged anti-competitive conduct, quantified by the plaintiff at Euro 199.9 million.

Lastly, also in April 2019, the Electricity and Water Authority of Bahrain, the GCC Interconnection Authority, the Kuwait Ministry of Electricity and Water and the Oman Electricity Transmission Company, served a summons against Pirelli, some Prysmian Group companies and others recipients of the aforementioned European Commission Decision, jointly agreeing with each other to obtain compensation for the damage allegedly suffered as a result of the alleged anti-competitive conduct. The 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 believes that the full and final liability for any breach must be borne exclusively by the company directly involved, since it was not involved in committing the alleged irregularities. In consequence of the above, the risk assessment related to the disputes described above is such as not to have to request the allocation of any specific provision in the Financial Statements at December 31, 2019, also considering their initial status.

INCOME STATEMENT

27. REVENUES FROM SALES AND SERVICES

Revenues from sales and services amounted to Euro 51,992 thousand for 2019 compared to Euro 38,719 thousand in 2018 and the breakdown is as follows:

(in thousand of euro)

	2019	2018
Revenue from services to subsidiaries	50,108	37,054
Revenue from services to other companies	1,884	1,665
Total revenues from sales and services	**51,992**	**38,719**

Revenues from subsidiaries refer to services provided by the central functions.

28. OTHER REVENUES

Other revenues amounted to Euro 110,180 thousand in 2019 (Euro 112,179 thousand in 2018) and the breakdown is as follows:

(in thousand of euro)

	2019	2018
Other income from subsidiaries	106,613	102,110
Other revenues from third parties	3,567	10,069
Other income from other companies	**110,180**	**112,179**

Other revenues from subsidiaries mainly include royalties paid by Group companies for the use of the brand (Euro 71,730 thousand in 2019 compared to Euro 69,562 thousand in 2018). They also include other revenues deriving from the charge-back of costs to Group companies and revenues for sub-leases and related accessory charges.

Other revenues from other companies mainly include royalties paid by other companies for the use of the Pirelli brand (Euro 1,645 thousand in 2019 compared to Euro 1,409 thousand in 2018).

29. RAW MATERIALS & SUPPLIES USED

They amounted to Euro 225 thousand in 2019 (Euro 210 thousand in 2018) and include purchases of advertising material, fuels and various materials.

30. PERSONNEL EXPENSES

Personnel expenses amounted to Euro 48,229 thousand (Euro 34,130 thousand in 2018) and the breakdown is as follows:

(in thousand of euro)

	2019	2018
Wages and salaries	33,886	23,744
Social security and welfare contributions	8,568	4,982
Employee leaving indemnities	1,933	973
Retirement and similar obbligations	533	241
Other costs	3,309	4,190
Total	**48,229**	**34,130**

The increase compared to the previous year is mainly attributable to the acquisition of the business unit of the subsidiary Pirelli Tyre S.p.A., consisting of all staff and business support activities relating to Human Resources, Health and Safety, Security, Planning and Controlling, CFO, Legal Affairs, Digital, Communication.

The average staff headcount is the following:

- Executives 80
- Employees 270
- Workers 7

31. DEPRECIATION, AMORTISATION AND IMPAIRMENTS

The breakdown of the item is as follows:

(in thousand of euro)

	2019	2018
Amortisation - intangible assets	2,324	1,764
Depreciation - property, plant and equipment (excl. Depreciation of Right of Use)	1,907	2,220
Depreciation of right of use	4,023	-
Total depreciation, amortisation and impairments	**8,254**	**3,984**

The increase in the item “depreciation, amortisation and impairments” is mainly due to the adoption of IFRS 16 starting from January 1, 2019.

32. OTHER COSTS

The breakdown of other costs is the following:

(in thousand of euro)

	2019	2018
Advertising	38,625	36,243
Consultancy and collaboration services	11,204	10,101
Accruals to provisions (net of reversals)	77	(786)
Legal and notarial expenses	835	671
Travel expenses	4,013	11,119
Remuneration of Directors and supervisory bodies	7,086	8,449
Membership fees and contributions	2,418	2,251
Short term leasing contract	980	-
Low value leasing contract	208	-
Variable leasing contract	14	-
Rental and lease instalments	-	10,854
IT expenses	6,327	5,729
Energy, gas and water expenses	1,351	1,332
Security service	2,474	2,861
Insurance premiums	2,594	3,056
Patents and trademarks expenses	1,198	845
Cleaning and property ordinary maintenance expenses	750	689
Property maintenance	683	2,220
Bank charges for IPO	-	163
Other	8,681	9,247
Total other costs	**89,518**	**105,044**

** 2019 figures include IFRS 16 impact.*

The decrease in the item leases and rentals is mainly attributable to the application of IFRS 16 in 2019.

33. NET IMPAIRMENT OF FINANCIAL ASSETS

The item, negative for Euro 97 thousand, mainly includes the net impairment of trade receivables. At December 31, 2018, the net write-down of trade receivables amounted to Euro 1,930 thousand.

34. RESULT FROM EQUITY INVESTMENTS

34.1. PROFITS FROM INVESTMENTS

They amounted to Euro 2 thousand in 2019 (Euro 4,007 thousand in 2018) and the breakdown is as follows:

(in thousand of euro)

	2019	2018
Fair value adjustment of investment in Mediobanca S.p.A.	-	3,780
Other gains on equity investments	2	227
Total	**2**	**4,007**

The item relating to 2019 refers to the disposal of 1,014 Servizi Aziendali Pirelli S.c.p.A.shares to Pirelli International Treasury S.p.A. The decrease compared to the previous year refers to the positive impact of Euro 3,780 thousand relating to the investment in Mediobanca S.p.A., disposed of on January 11, 2018.

34.2. LOSSES FROM INVESTMENTS

There were no losses from investments in 2019 (Euro 3,580 thousand in 2018).

In 2018, the value, equal to Euro 3,580 thousand, referred for Euro 1,351 thousand to the impairment of the investment in Focus Investments S.p.A. and for Euro 2,229 thousand to the impairment of the investment in Fenice S.r.l.

34.3 DIVIDENDS

They amounted to Euro 268,903 thousand in 2019 compared to Euro 284,517 thousand in 2018 and the breakdown is as follows:

(in thousand of euro)

	2019	2018
From subsidiaries:		
- Pirelli Tyre S.p.A. - Italy	250,000	270,000
- Pirelli Group Reinsurance Company SA - Switzerland	13,342	5,025
- Pirelli Servizi Amministrazione e Tesoreria S.p.A. - Italia	200	500
- Pirelli Sistemi Informativi S.r.l. - Italy	300	5,800
From associates:		
- Fenice Srl - Italy	-	2,225
From other financial assets:		
- RCS S.p.A. - Italy	1,482	-
- ECA Ltd - United the Kingdom	10	10
- Fin. Priv. S.r.l. - Italy	957	957
- Genextra S.p.A. - Italy	178	-
- Fondo Anastasia - Italy	2,434	-
Total	**268,903**	**284,517**

35. FINANCIAL INCOME

The breakdown of the item is as follows:

(in thousand of euro)

	2019	2018
Interest	39,723	15,419
Other financial income	32	5,108
Net gains on exchange rates	519	-
Total financial income	**40,274**	**20,527**

Interest mainly refers to interest accrued on loans granted in 2019 to the subsidiary Pirelli Tyre S.p.A.

Net exchange rate gains of Euro 519 thousand refer to the adjustment to the year-end exchange rate of the items expressed in the currency other than the functional one still in effect at the closing date of the Financial Statements and the net profits on items closed during the year.

36. FINANCIAL EXPENSES

The breakdown of the item is as follows

(in thousand of euro)

	2019	2018
Interest	59,712	51,416
Commissions	2,736	1,228
Interest expenses on lease obligations	1,421	-
Net interest on employee benefit obligations	36	25
Net losses on exchange rates	-	308
Net losses on derivative financial instruments	120	401
Total financial expenses	**64,025**	**53,378**

Interest and other financial expenses for a total of Euro 59,712 thousand mainly include:

- Euro 95,689 thousand for the bank loan lines held by Pirelli & C. S.p.A.;
- Euro 15,212 thousand of financial expenses related to bonds, of which Euro 9,869 thousand related to unrated bonds and Euro 5,343 thousand related to the "Schuldschein" loan, both issued by Pirelli & C. S.p.A.;
- net of Euro 51,517 thousand for net interest income on the Cross Currency Interest Rate Swap and Interest Rate Swaps to adjust the flow of interest expense of the bank lines and bonds referred to in the previous points.

For further details, refer to as reported in Note 25 "Derivative financial instruments";

Net expenses on derivatives refer to forward purchases/sales of foreign currencies to hedge the payables in foreign currency of the Company, in accordance with the Group foreign exchange risk management policy. For transactions outstanding at the end of the year, the fair value is determined using the forward exchange rate at the reporting date. 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 34,399 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 40,292 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.

37. TAXES

The breakdown of taxes is as follows:

(in thousand of euro)

	2019	2018
Current taxes	(26,120)	21,608
Deferred taxes	13,882	(26,279)
Total income taxes	**(12,238)**	**(4,671)**

Current taxes for the year 2019 recorded a positive effect of Euro 26,120 thousand compared to a negative effect of Euro 21,608 thousand in the previous year and mainly include income from tax consolidation. The change compared to the previous year is attributable to the fact that current taxes for 2018 recorded a negative effect of expenses deriving from tax consolidation relating to previous years, essentially due to the reduction in the taxable income of the subsidiary Pirelli Tyre thanks to the benefit deriving from the application of the Patent Box facilitated tax regime.

Deferred tax assets include the use of deferred tax assets on past tax losses, partially offset by the recognition of deferred tax assets on the ACE benefit.

The table below shows the reconciliation of the effective tax rate with the theoretical rate of the Parent Company:

(in thousand of euro)

	2019	2018
A) Profit before taxes	**261,004**	**257,691**
B) Theoretical taxes	**62,641**	**61,846**
Main causes that give rise to changes between theoretical and effective taxes:		
Tax incentives	(5,736)	(3,482)
Dividends and gains from investments not subject to taxation	(60,755)	(65,571)
Non-deductible costs	1,305	2,209
Uses losses previous years not activated	(1,007)	-
Deferred tax assets on previous tax losses and other temporary differences	(8,686)	-
Taxes relating to previous years	-	327
C) Effective taxes	**(12,238)**	**(4,671)**
Theoretical tax rate (B/A)	24%	24%
Effective tax rate (C/A)	-4.7%	-1.8%

TAX CONSOLIDATION

It shall be noted that starting from 2004, the Company exercised the option for consolidated taxation as consolidator, pursuant to article 117 and following of the TUIR, with regulation of relations arising from adhesion to consolidation through a special Regulation, which involves a common procedure for the application of laws and regulations.

Said regulation was updated in subsequent years as a result of amendments made within the companies participating in the agreement and the related shareholding structure, as well as in light of the corrective and supplementary interventions of the relevant legislation.

The above amendments particularly concerned the remuneration of the tax losses used by the companies adhering to the consolidation. The adoption of the consolidation makes it possible to compensate, with regard to the parent company Pirelli & C. S.p.A., the taxable income or loss of the same parent company with those of its resident subsidiaries which have exercised the option, given that the tax losses accrued during periods prior to the introduction of Group taxation can be used by those companies which are eligible.

38. NON-RECURRING EXPENSES AND INCOME

Pursuant to Consob Communication no. DEM / 6064293 of July 28, 2006, no non-recurring events were recognised in 2019.

With regard to 2018, the impact of non-recurring events on the operating result was equal to a total of Euro 1,025 thousand in expenses, while the impact on the net result was negative for Euro 8,312 thousand.

39. TRANSACTIONS WITH RELATED PARTIES

Transactions between Pirelli & C. S.p.A. and the subsidiaries mainly concern:

- services (technical, organizational, general) provided by the headquarters to subsidiaries;
- royalties for the use of patents for Group companies benefiting from them.

All the transactions listed above are part of the ordinary management of relations between the Parent Company and its subsidiaries.

Transactions with related parties also included the fees paid to Directors and Key Managers.

The statement below shows a summary of the Statement of Financial Position and the Income Statement that include transactions with related parties and their impact:

(in thousand of euro)

	12/31/2019	of which related parties	% share	12/31/2018	of which related parties	% share
BALANCE SHEET						
Non current assets						
Other receivables	620	-	0.0%	600,544	*600,000*	99.9%
Derivative financial instruments	30,269	*30,269*	100.0%	19,403	*19,403*	100.0%
Current assets						
Trade receivables	23,775	*21,725*	91.4%	35,366	*32,352*	91.5%
Other receivables	2,347,952	*2,327,043*	99.1%	1,548,691	*1,524,042*	98.4%
Tax receivables	31,744	*29,830*	94.0%	49,746	*48,490*	97.5%
Derivative financial instruments	10,154	*10,154*	100.0%	3,749	*3,749*	100%
Non-current liabilities						
Derivative financial instruments	9,589	*9,589*	100.0%	10,565	*10,565*	100%
Current liabilities						
Payables to banks and other financial lenders	678,289	*252*	0.0%	222,504	*7*	0.0%
Trade payables	19,262	*4,771*	24.8%	19,381	*2,987*	15.4%
Other payables	32,107	*11,895*	37.0%	48,351	*26,178*	54.1%
Tax payables	17,617	*17,388*	98.7%	16,436	*16,207*	98.6%
Derivative financial instruments	5	*5*	100.0%	5,292	*5,292*	100%

(in thousand of euro)

	2019	of which related parties	% share	2018	of which related parties	% share
INCOME STATEMENT						
Revenues from sales and services	51,992	*50,823*	97.8%	38,719	*37,364*	96.5%
Other income	110,180	*106,726*	96.9%	112,179	*102,184*	91.1%
Personnel expenses	(48,229)	*(5,571)*	11.6%	(34,130)	*(2,186)*	6.4%
Other costs	(89,518)	*(22,315)*	24.9%	(105,044)	*(20,169)*	19.2%
Income on equity investments	2	2	100.0%	-	-	0.0%
Losses on equity investments	-	-	0.0%	(3,580)	*(3,580)*	100.0%
Dividends	268,903	*263,842*	98.1%	284,517	*283,549*	99.7%
Financial income	40,274	*39,706*	98.6%	20,527	*18,666*	90.9%
Financial expenses	(64,025)	*51,507*	-80.4%	(53,378)	*(6,838)*	12.8%

TRANSACTIONS WITH RELATED PARTIES

The tables below shows the main equity transactions with related parties for the years ended December 31, 2019 and December 31, 2018.

(in thousand of euro)

	Subsidiaries	Associates	Other related parties	Total 31 December 2019
Trade receivables	21,486	3	236	21,725
Other current receivables	2,327,043	-	-	2,327,043
Tax receivables	29,830	-	-	29,830
Derivative financial instruments (current assets)	10,154	-	-	10,154
Derivative financial instruments (non current assets)	30,269	-	-	30,269
Borrowings from banks and other financial institutions (current liabilities)	252	-	-	252
Trade payables	4,562	102	107	4,771
Other payables	11,698	-	197	11,895
Tax payables	17,388	-	-	17,388
Derivative financial instruments (current liabilities)	5	-	-	5
Derivative financial instruments (non-current liabilities)	9,589	-	-	9,589

(in thousand of euro)

	Subsidiaries	Associates	Other related parties	Total 31 December 2018
Trade receivables	32,229	3	120	32,352
Other current receivables	1,524,042	-	-	1,524,042
Other non current receivables	600,000	-	-	600,000
Tax receivables	48,490	-	-	48,490
Derivative financial instruments (current assets)	3,749	-	-	3,749
Derivative financial instruments (non current assets)	19,403	-	-	19,403
Borrowings from banks and other financial institutions (current liabilities)	7	-	-	7
Trade payables	2,393	60	535	2,987
Other payables	25,944	-	234	26,178
Tax payables	16,207	-	-	16,207
Derivative financial instruments (current liabilities)	5,292	-	-	5,292
Derivative financial instruments (non-current liabilities)	10,565	-	-	10,565

Trade receivables amounted to Euro 21,725 thousand (Euro 32,352 thousand at December 31, 2018) and mainly refer to receivables for services/provisions provided to Group companies (Euro 15,175 thousand from Pirelli Tyre S.p.A., Euro 3,084 thousand from Pirelli Group Reinsurance Company SA, Euro 1,088 thousand from Limited Liability Company Pirelli Tyre Russia, Euro 596 thousand from Pirelli Tyre Co. Ltd., Euro 400 thousand from Pirelli Tyre Trading (Shanghai Co. Ltd., Euro 321 thousand from Pirelli Tire LLC).

Other related parties mainly include trade relations with the Prometeon group for Euro 234 thousand.

Other current receivables amounted to Euro 2,327,043 thousand (Euro 1,524,042 thousand at December 31, 2018) and mainly refer for Euro 2,033,454 thousand to the loans including interest accruals granted to Pirelli Tyre S.p.A., Euro 284,050 thousand to the intra-group current account with Pirelli International Treasury S.p.A., Euro 6,982 thousand to the accrued asset towards Pirelli International Treasury S.p.A. on the hedging transactions of the Cross Currency Interest Rate Swap in place at December 31, 2019, Euro 2,524 thousand to the VAT receivables transferred to the consolidation (Euro 1,999 thousand from Pirelli Industrie Pneumatici S.r.l., Euro 320 thousand from Pirelli Sistemi Informativi S.r.l., Euro 170 thousand from Pirelli Servizi Amministrazione e Tesoreria S.p.A., Euro 35 thousand from Servizi Aziendali Pirelli S.C.p.A.).

Tax receivables amounted to Euro 29,830 thousand (Euro 48,490 thousand at December 31, 2018) and refer to receivables from Group companies that adhere to tax consolidation (mainly Euro 23,458 thousand from Pirelli Tyre S.p.A., Euro 3,579 thousand from Pirelli Industrie Pneumatici S.r.l., Euro 2,529 thousand from Pirelli International Treasury S.p.A.).

Derivative financial instruments (current assets) for Euro 10,154 thousand (Euro 3,749 thousand at December 31, 2018) refer to hedging transactions with Pirelli International Treasury S.p.A.

The amount mainly refers for Euro 10,143 thousand to the fair value measurement of the cross currency interest rate swap.

Derivative financial instruments (non-current assets) refer for Euro 29,820 thousand (zero amount at December 31, 2018) refer to the hedging transaction of the cross currency interest rate swap with Pirelli International Treasury S.p.A. and for Euro 449 thousand the interest rate swap hedging transaction carried out with Pirelli International Treasury S.p.A..

Borrowings from banks and other financial institution (current) amounted to Euro 252 thousand (Euro 7 thousand at December 31, 2018) and mainly refer to the accrued liability to Pirelli International Treasury S.p.A. on the hedging transactions of the existing interest rate swap at December 31, 2019.

Trade payables amounted to Euro 4,771 thousand (Euro 2,987 thousand at December 31, 2018) and mainly refer to payables for the provision of services. These payables mainly refer for Euro 2,842 thousand to Pirelli Tyre S.p.A., Euro 1,250 thousand to HB Servizi S.r.l.

Trade payables to associated companies refer to Consorzio per la Ricerca di Materiali Avanzati (Consortium for the Research of Advanced Materials CORIMAV) while those to other related parties refer to the existing relationship with TP Trading (Beijing) Co. Ltd..

Other payables amounted to Euro 11,895 thousand (Euro 26,178 thousand at December 31, 2018) and mainly refer to payables with Group companies that adhere to the VAT consolidation. The main ones are: Euro 11,126 thousand to Pirelli Tyre S.p.A., Euro 124 thousand to HB Servizi S.r.l.

Tax payables amounted to Euro 17,388 thousand (Euro 16,207 thousand at December 31, 2018) and refer to payables to subsidiaries that adhere to tax consolidation (Euro 15,945 thousand Pirelli Tyre S.p.A., Euro 1,362 thousand Pirelli International Treasury S.p.A.).

The amount of Euro 5 thousand (Euro 5,292 thousand at December 31, 2018) of **derivative financial instruments** (current liabilities) refers to hedging transactions with Pirelli International Treasury S.p.A.

The amount of Euro 9,589 thousand (Euro 10,565 thousand at December 31, 2018) of **derivative financial instruments** (non-current liabilities) refers to the fair value measurement of the Cross Currency Interest Rate Swap (Euro 854 thousand) and IRS (Euro 8,735 thousand) with Pirelli International Treasury S.p.A.

TRANSACTIONS WITH RELATED PARTIES

The tables below show the main financial transactions with related parties for the years 2019 and 2018.

(in thousand of euro)

	Subsidiaries	Associates	Other related parties	Total 2019
Revenues from sales and services	50,108	-	715	50,823
Other income	106,613	-	113	106,726
Personnel expenses	-	-	(5,571)	(5,571)
Other costs	(14,399)	(270)	(7,646)	(22,315)
Dividends	263,842	-	-	263,842
Financial income	39,706	-	-	39,706
Financial expenses	51,507	-	-	51,507

(in thousand of euro)

	Subsidiaries	Associates	Other related parties	Total 2018
Revenues from sales and services	37,054	-	310	37,364
Other income	102,110	-	74	102,184
Personnel expenses	-	-	(2,186)	(2,186)
Other costs	(10,579)	(261)	(9,328)	(20,168)
Losses from investments	-	(3,580)	-	(3,580)
Dividends	281,325	2,224	-	283,549
Financial income	18,666	-	-	18,666
Financial expenses	(6,838)	-	-	(6,838)

Revenues from sales and services amounted to Euro 50,823 thousand in 2019 (Euro 37,364 thousand in 2018) and mainly refer to service contracts. The main transactions with subsidiaries are: Euro 48,630 thousand with Pirelli Tyre S.p.A., Euro 388 thousand with Pirelli Sistemi Informativi S.r.l., Euro 375 thousand with Pirelli Servizi Amministrazione e Tesoreria S.p.A. Transactions with other related parties refer to the service/provisions contract with Prometeon Tyre Group S.r.l.

Other income for Euro 106,726 thousand in 2019 (Euro 102,184 thousand in 2017) mainly refer to: royalties (Euro 69,323 thousand with Pirelli Tyre S.p.A., Euro 2,500 thousand with Limited Liability Company Pirelli Tyre Russia); other recoveries (Euro 25,901 thousand from Pirelli Tyre S.p.A., Euro 3,084 thousand from Pirelli Group Reinsurance Company SA, Euro 903 thousand from Pirelli Tire LLC, Euro 596 thousand from Pirelli Tyre Co.Ltd.); lease contracts (Euro 2,305 thousand with Pirelli Tyre S.p.A., Euro 309 thousand with Pirelli Servizi Amministrazione e Tesoreria S.p.A., Euro 398 thousand from Pirelli Sistemi Informativi S.r.l.).

The amount recognised under related parties for Euro 113 thousand mainly refers to service contracts with Prometeon Tyre Group S.r.l. - O.U. Holding (Euro 87 thousand) and Marco Tronchetti Provera & C. S.p.A. (Euro 20 thousand).

The item **personnel expenses** includes the emoluments related to key managers.

Other costs for Euro 22,315 thousand in 2019 (Euro 20,168 thousand in 2018) mainly refer to charges for services and miscellaneous costs (Euro 5,000 thousand HB Servizi S.r.l., Euro 3,587 thousand Pirelli Sistemi Informativi S.r.l., Euro 3,445 thousand Pirelli Tyre S.p.A., Euro 1,210 thousand Pirelli Servizi Amministrazione e Tesoreria S.p.A., Euro 422 thousand Pirelli Trading (Beijing) Co. Ltd).

In the item associates, the amount shown refers to relations with the Consortium for Research on Advanced Materials – Corimav.

The item other related parties includes transactions with TP Trading (Beijing) Co. Ltd. for Euro 111 thousand, and the remuneration of directors and key managers for Euro 7,234 thousand.

Dividends for Euro 263,842 thousand in 2019 (Euro 283,549 thousand in 2018) refer to dividends collected during the year (Euro 250,000 thousand from Pirelli Tyre S.p.A., Euro 300 thousand from Pirelli Sistemi Informativi S.r.l., Euro 13,342 thousand from Pirelli Group Reinsurance Company SA and Euro 200 thousand from Pirelli Servizi Amministrazione e Tesoreria S.p.A.).

Financial income for Euro 39,706 thousand in 2019 (Euro 18,666 thousand in 2018) mainly refers to interest income on receivables from Pirelli Tyre S.p.A. (Euro 39,695 thousand).

Financial expense were positive for Euro 51,507 thousand in 2019 (negative for Euro 6,838 thousand in 2018) and mainly refers to net interest income on Cross Currency Interest Rate Swap.

BENEFITS TO KEY MANAGERS

At December 31, 2019, remuneration payable to key managers amounted to Euro 12,806 thousand. The portion relating to employee benefits was recognized in the Income Statement item "personnel expenses" for Euro 5,571 thousand. The difference, equal to Euro 7,235 thousand and mainly related to directors' fees, is recognized in the Income Statement item "other costs". Benefit include Euro 1,332 thousand related to Employee leaving indemnities (Euro 1,398 thousands at December 31,2018) and short term benefit for Euro 3,919 thousands (Euro 4,115 thousands at December 31,2018).

40. OTHER INFORMATION

DIRECTORS' AND AUDITORS' FEES

The fees due to Directors of Pirelli & C. S.p.A. amounted to Euro 4,420 thousand in 2019 and Euro 4,440 thousand in 2018. The fees due to the Statutory Auditors for the function performed at Pirelli & C. S.p.A. amounted to Euro 275 thousand in 2019 (Euro 275 thousand in 2018).

INDEPENDENT AUDITORS' FEES

Pursuant to applicable regulations, the following table shows the fees pertaining to 2019 for the auditing activities and other services rendered by the Auditing Company PricewaterhouseCoopers S.p.A.:

(in thousand 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	
Independent certification services (1)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	277	
Services other than auditing	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	-	
				348

(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

There is no information to be highlighted pursuant to the legislation in question referring to Pirelli & C. S.p.A. for the year 2019.

Any information relating to the companies controlled by Pirelli & C. S.p.A. are included in the consolidated financial statements.

41. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to Consob Communication no. 6064293 of July 28, 2006, the Company certifies that no atypical and/or unusual transactions as defined in said Communication were carried out in 2019.

42. 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.

On **February 19, 2020,** Pirelli presented the 2020-2022 Industrial Plan with vision 2025 to the financial community. For further details, refer the section of the Directors' Report "Foreseeable evolution in the three-year period 2020-2022". On the same date, the Board of Directors approved the adoption of a new monetary incentive plan - Long Term Incentive (LTI) - intended for all Group management (currently around 270 participants) - related to the objectives of the plan. The New LTI Plan, as in the past, is also fully self-financed, as the related expenses are included in the economic data of the Industrial Plan. The New LTI Plan foresees the following objectives:

- Group Total Shareholder Return (TSR) relating to the Tier 1 peers panel, with an overall target weight of 40% of the LTI bonus;
- Group Cash Flow (before dividends), with target weight of 40% of the LTI bonus;
- Positioning of Pirelli in selected global sustainability indicators, with a target weight of 20% of the LTI bonus.

At the same time, the Board of Directors - with effect from December 31, 2019 - resolved to close early and without any disbursement, even pro-quota, the previous plan adopted in 2018 and related to the objectives of the 2018-2020 period.

Amongst others, the Executive Vice President and CEO of Pirelli & C. Marco Tronchetti Provera, the General Manager of Operations Andrea Casaluci and the managers qualified by the Board as "executives with strategic responsibility" participate in the New LTI Plan. The New LTI Plan is also aimed at Senior Managers (including the Director Giovanni Tronchetti Provera, as Senior Manager) and Group Executives (executives of Italian companies or employees of foreign Group companies with positions or roles equivalent to an Italian executive).

MOVEMENTS OF INVESTMENTS IN SUBSIDIARIES FROM 12/31/2018 TO 12/31/2019

(in thousand of euro)

	12/31/2018				CHANGES		12/31/2019			
	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct	Number of shares	(€/ thousand)	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct
INVESTMENTS IN SUBSIDIARIES										
ITALIA										
Unlisted:										
Pirelli Servizi Amministrazioni e Tesoreria S.p.A.	2,047,000	3,237	100	100	-	-	2,047,000	3,237	100	100
Maristel S.p.A.	1,020,000	1,315	100	100	-	-	1,020,000	1,315	100	100
Pirelli International Treasury S.p.A.	15,000	15	100	30	22,500	74,985	37,500	75,000	100	30
Pirelli Sistemi Informativi S.r.l.	1 share	1,655	100	100	-	-	1 share	1,655	100	100
Pirelli Tyre S.p.A.	558,154,000	4,523,888	100	100	-	4,357	558,154,000	4,528,245	100	100
Servizi Aziendali Pirelli S.C.p.A.	94,978	101	100	90	(1,014)	(1)	93,964	100	100	90
HB Servizi S.r.l.	1 share	230	100	100	-	-	1 share	230	100	100
Total investments in Italian subsidiaries		**4,530,442**				**79,341**		**4,609,783**		

	12/31/2018				CHANGES		12/31/2019			
	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct	Number of shares	(€/ thousand)	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct
FOREIGN COMPANIES										
Brazil										
Pirelli Ltda	13,999,991	9,666	100	100	-	-	13,999,991	9,666	100	100
Prometeon Tyre Group Industria Brasile Ltda	1	0	-	-	-	-	1	0	-	-
Pirelli Latam Participações Ltda	1	0	-	-	-	-	1	0	-	-
UK										
Pirelli UK ltd.	163,991,278	21,871	100	100	-	-	163,991,278	21,871	100	100
Switzerland										
Pirelli Group Reinsurance Company S.A.	300,000	6,346	100	100	-	-	300,000	6,346	100	100
Total investments in foreign subsidiaries		**37,883**				-		**37,883**		
Total investments in subsidiaries		**4,568,324**				**79,341**		**4,647,666**		

MOVEMENTS OF INVESTMENTS IN SUBSIDIARIES FROM 12/31/2018 TO 12/31/2019

(in thousand of euro)

	12/31/2018				CHANGES		12/31/2019			
	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct	Number of shares	(€/ thousand)	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct
INVESTMENTS IN ASSOCIATES										
ITALY										
Unlisted:										
Consorzio per le Ricerche sui Materiali Avanzati (CORIMAV)	1 share	104	100	100	-	-	1 share	104	100	100
Eurostazioni S.p.A.	52,333,333	6,271	32.7	32.7	-	-	52,333,333	6,271	32.7	32.7
Focus Investments S.p.A.	111,111	-	8.3	8.3	-	-	111,111	-	8.3	8.3
Total unlisted companies		**6,375**				-		**6,375**		
Total investments in associates - Italy		**6,375**				-		**6,375**		
Total investments in associates		**6,375**				-		**6,375**		

MOVEMENTS OF OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPRENSIVE INCOME FROM 12/31/2018 TO 12/31/2019 (CONTINUE)

(in thousand of euro)

	12/31/2018				CHANGES		12/31/2019			
	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct	Number of shares	(€/ thousand)	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct
INVESTMENTS IN OTHER COMPANIES										
ITALIAN LISTED COMPANIES										
RCS Mediagroup S.p.A.	24,694,918	28,449	4.7	4.7	-	(3,556)	24,694,918	24,892	4.7	4.7
Total other Italian listed companies		**28,449**				**(3,556)**		**24,892**		
Total other listed companies		**28,449**				**(3,556)**		**24,892**		

MOVEMENTS OF OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPRENSIVE INCOME FROM 12/31/2018 TO 12/31/2019 (CONTINUE)

(in thousand of euro)

	12/31/2018				CHANGES		12/31/2019			
	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct	Number of shares	(€/ thousand)	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct
ITALIAN UNLISTED COMPANIES										
Aree Urbane S.r.l. (in liquidation)	1 share	-	0.3	0.3	-	-	1 share	-	0.3	0.3
C.I.R.A. - Centro Italiano di Ricerche Aerospaziali S.c.p.A.	30	-	0.1	0.1	-	-	30	-	0.1	0.1
Alitalia Compagnia Aerea Italiana S.p.A.	1,162,098,622	-	1.4	1.4	-	-	1,162,098,622	-	1.4	1.4
CEFRIEL - Società Consortile a Responsabilità limitata	1 share	-	4.9	4.9	-	-	1 share	-	4.9	4.9
Consorzio DIXIT (in liquidation)	1 share	-	14.3	14.3	-	-	1 share	-	14.3	14.3
MIP Politecnico di Milano- Graduate School of Business - Società consortile per azioni	12,000	-	2.9	2.9	-	-	12,000	-	2.9	2.9
Consorzio Milano Ricerche	1 share	-	9.0	9.0	-	-	1 share	-	9.0	9.0
Società Generale per la Progettazione Consulenze e Partecipazioni (ex Italconsult) S.p.A.	1,100	-	3.7	3.7	-	-	1,100	-	3.7	3.7
F.C. Internazionale Milano S.p.A.	55,805,625	-	0.4	0.4	-	-	55,805,625	-	0.4	0.4
Fin. Priv. S.r.l.	1 share	15,604	14.3	14.3	-	4,961	1 share	20,565	14.3	14.3
Istituto Europeo di Oncologia S.r.l.	1 share	6,961	6.1	6.1	-	504	1 share	7,465	6.1	6.1
Nomisma - Società di Studi Economici S.p.A.	959,429	258	3.3	3.3	-	22	959,429	280	3.3	3.3
Tiglio I S.r.l.	1 share	70	0.6	0.6	-	(54)	1 share	16	0.6	0.6
Genextra S.p.A.	592,450	39	0.6	0.6	-	(13)	592,450	26	0.6	0.6
Total other Italian unlisted companies		**22,932**				**5,420**		**28,352**		

MOVEMENTS OF OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPRENSIVE INCOME FROM 12/31/2018 TO 12/31/2019

(in thousand of euro)

	12/31/2018				CHANGES		12/31/2019			
	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct	Number of shares	(€/ thousand)	Number of shares	Carrying amount (€/ thousand)	% of total investments	of which direct
FOREIGN COMPANIES										
Libia										
Libyan-Italian Joint Company - ordinary shares B	300	32	1.0	1.0	-	(32)	300	-	1.0	1.0
Belgium										
Euroqube S.A. (in liquidation)	67,570	13	18.0	18.0	-	(2)	67,570	12	18.0	18.0
UK										
Eca International	100	-	2.8	2.8	-	-	100	-	2.8	2.8
Total other foreign companies		**45**				**(33)**		**12**		
OTHER PORTFOLIO SECURITIES										
Fondo Comune di Investimento Immobiliare - Anastasia	53 share	15,575	-	-	-	(11,628)	53 share	3,947	-	-
TOTAL AVAILABLE-FOR-SALE FINANCIAL ASSETS		**15,575**				**(11,628)**		**3,947**		
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPRENSIVE INCOME		**67,000**				**(9,797)**		**57,203**		

LIST OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (PURSUANT TO ART. 2427 OF THE CIVIL CODE)

(in thousand of euro)

	Legal address	Carrying amount	Share %	Share capital	Attributable equity	Attributable net income (loss)
INVESTMENTS IN SUBSIDIARIES - ITALY						
Pirelli Servizi Amministrazioni e Tesoreria S.p.A.	Milan	3,237	100%	2,047	3,344	159
Maristel S.p.A.	Milan	1,315	100%	50	3,430	1,421
Pirelli Sistemi Informativi S.r.l.	Milan	1,655	100%	1,010	2,631	344
Pirelli Tyre S.p.A.	Milan	4,528,245	100%	558,154	1,708,524	364,810
Servizi Aziendali Pirelli S.c.p.a.	Milan	100	91.3%	104	329	46
HB Servizi S.r.l	Milan	230	100%	10	246	(63)
Pirelli International Treasury S.p.A.	Milan	75,000	30%	125,000	77,628	2,628
Total investments in subsidiaries - Italy		**4,609,783**				
INVESTMENTS IN FOREIGN SUBSIDIARIES						
Switzerland						
Pirelli Group Reinsurance Company S.A.	Lugano	6,346	100%	2,764	11,100	2,291
Brasil						
Pirelli Ltda	Sao Paulo	9,666	100%	3,090	1,894	(258)
UK						
Pirelli UK Ltd.	London	21,871	100%	192,749	15,921	(693)
Total investments in foreign subsidiaries		**37,883**				
Total investments in subsidiaries		**4,647,666**				
INVESTMENTS IN ASSOCIATES - ITALY						
Consortium for the Reserach into Advanced Materials (CORIMAV)	Milan	104	100%	104	104	-
Eurostazioni S.p.A. **	Rome	6,271	32.7%	16,000	6,398	112
Focus Investments S.r.l.	Milan	-	8.3%	*	*	*
Total investments in associates - Italy		**6,375**				
Total investments in associates		**6,375**				

* Data not yet available
** Balance sheet at July 31, 2019

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

Dear Shareholders,

The Board of Statutory Auditors (which, pursuant to legislative decree 39/2010, also acts as the Internal Control and Audit Committee), pursuant to Article 153 of legislative decree 58/1998 ("**TUF**") and the applicable provisions of the Italian Civil Code, is called on to report to the Shareholders' Meeting, convened to approve the financial statements, on the supervisory activities carried out during the financial year and on any omissions and misconduct it might have detected. The Board of Statutory Auditors may also make proposals regarding the financial statements and their approval and other matters under its responsibility.

First, it should be noted that the Board of Statutory Auditors, as of the date of drafting and publication of this Report of the Board of Statutory Auditors to the Shareholders' Meeting ("**Report**"), has received constant updates on the actions to monitor the situation and the social, economic and financial effects for the Group and Pirelli & C. S.p.A. ("**Pirelli & C.**" or the "**Company**") deriving from the spread of the Covid-19 virus ("**Coronavirus**") since January 2020. The considerations made are set out in a specific paragraph in this Report.

During the year, the Board of Statutory Auditors has carried out its supervisory activities as required by the law in force, taking account of the provisions of European Regulation 537/2014, the standards of conduct for the Boards of Statutory Auditors of listed companies recommended in the document issued by the "Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili" (the Italian national association of chartered accountants and auditors) last updated in April 2018, and the Consob provisions on company controls and the activities of the board of statutory auditors and the indications contained in the current Corporate Governance Code for listed companies, to which Pirelli & C. has adhered.

As well as through the attendance of all or some of the Statutory Auditors at meetings of the Board of Directors and its committees, this also took place through the constant exchange of information between the Board of Statutory Auditors and the relevant administrative, audit and compliance departments, and with the Supervisory Body created pursuant to legislative decree no. 231 of 8 June 2001, as well as with the members of the boards of statutory auditors of the principal subsidiaries and with the firm appointed as external auditor.

APPOINTMENT AND COMPOSITION OF THE BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors in office at the date of this report was appointed by the Shareholders' Meeting held on 15 May 2018.

The Board of Statutory Auditors is composed by Standing Auditors Francesco Fallacara (Chairman), Fabio Artoni, Antonella Carù, Luca Nicodemi and Alberto Villani, and Alternate Auditors Elenio Bidoggia, Franca Brusco and Giovanna Oddo.

Pursuant to article 148, paragraph 3, of the TUF, and the provisions of the Corporate Governance Code for listed companies, to which Pirelli & C. has resolved to adhere, the Board of Statutory Auditors verified that as of 31 December 2019 its members had retained the requirements of independence they had been ascertained to possess at the time of their appointment (see section “Self-assessment process for the Board of Statutory Auditors”).

COMMENTS ON THE 2019 FINANCIAL STATEMENTS AND ON TRANSACTIONS OF MAJOR IMPORTANCE CARRIED OUT DURING THE YEAR

It should be noted that Company's financial statements have been drawn up based on the IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, in force on 31 December 2019 and in accordance with the instructions issued in implementation of article 9 of legislative decree 38/2005. The financial statements also include the notice required by law 124/2017 (art. 1, paragraphs125-129).

Also during the 2019 financial year, the Board of Statutory Auditors was continuously updated about the process of implementing accounting standard IFRS 16 and held discussions with the Revenue Agency about it signing up to the Cooperative Compliance Regime.

The principal risks and uncertainties are summarised in the Directors' Report on Operations, and there is a section on the outlook for the coming year.

The Company's financial statements are composed by the Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Explanatory Notes.

The financial statements are accompanied by the Directors' Report on Operations, and include the Report on the corporate governance and share ownership of Pirelli & C. – prepared pursuant to Article 123-bis of the TUF – as well as the Report on responsible management of the value chain (consolidated non-financial disclosure pursuant to legislative decree no. 254, of 30 December 2016), drawn up by the Company in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) - Comprehensive option - and the principles of inclusiveness, materiality and compliance with the AA1000 Standard. The financial statements also include the Remuneration Report, composed by the 2020 Remuneration Policy and the Report on Compensation Paid for year 2019.

The 2019 separate financial statements and consolidated financial statements of Pirelli & C. include statements of compliance by the CEO and by the Manager responsible for the preparation of the corporate financial documents, as required by prevailing legislation.

Pirelli's 2019 consolidated financial statements present the following summary data:

Revenues	5,323.1 million euro
Operating income (EBIT)	742.7 million euro
Adjusted EBIT	€917.3 million
Consolidated net profit	€ 457.7 million euro

The consolidated net financial position was negative by 3,024.1 million euro (3,507.2 million euro including 483.1 million euro deriving from accounting standard IFRS 16) with respect to 3,180.1 at the end of 2018.

Parent company Pirelli & C. closed the financial year with positive net income to the amount of 273.2 million euro (262.4 million euro in 2018).

Events of major importance are accounted for in detail in the Directors' Report on Operations, and in the financial statements. The following events, in particular, should be noted:

- on **8 April 2019** the Federal Regional Court of the first region (T.R.F.-1 based in Brasilia) passed a ruling that recognised the right of the Brazilian subsidiary Pirelli Pneus Ltda. to exclude the ICMS tax (State tax on transactions relating to the circulation of goods and the provision of services for interstate and intercity transport and communication) from the basis for calculating the PIS and COFINS social security contributions for the 2003-2014 period. Following this ruling, as announced to the market on **1 April 2019**, in the second quarter a positive impact on the net result of around 102 million euro was recognised in the income statement;
- on **13 May 2019** Pirelli announced the reorganisation of its production in Brazil to improve competitiveness in the country through the creation of a hub for High Value Car, Motorcycle and Motorsport tyres in Campinas where the production of motorcycle tyres now carried out in Gravataì will be transferred. There is an investment plan for the modernisation and reconversion of the production plants from Standard to High Value and the continuous improvement of the mix and quality of the factories in Campinas (San Paolo) and Feira de Santana (Bahia). The resources for the reorganisation mainly derive from the Patent Box tax agreement signed in October 2018 which, as anticipated at the time, were assigned to focus further on the High Value segment and a more rapid reduction of the Standard segment.

SIGNIFICANT EVENTS THAT OCCURRED AFTER THE CLOSURE OF THE FINANCIAL YEAR

The most significant events that occurred after the closure of the financial year are detailed in the Directors' Report on Operations, and in the financial statements.

Note, in particular, that on **19 February 2020** Pirelli & C. presented the 2020-2022 Business Plan with a vision through to 2025 to the financial community. On the same date the Board of Directors approved the adoption of a new monetary incentive plan - Long Term Incentive (“**LTI Plan**”) - intended for the whole management of the Group (at present around 270 participants) – and at the same time resolved on the early closure - effective as of 31 December 2019 - with no disbursement, not even pro-quota, of the previous plan adopted in 2018 and linked to the objectives of the 2018-2020 period.

The Board of Statutory Auditors also points out that, as indicated by the directors during the drafting of the financial statements, some instability factors that should not be underestimated have recently arisen resulting from the spread of the Coronavirus which, in the early months of 2020, initially struck the People's Republic of China and then spread to other countries, including Italy.

The Company has implemented actions to mitigate the risk of contagion at the production sites and its offices. With regard to this matter, the Directors' Report on Operations reports the following: “Pirelli sells its products globally in over 160 countries and has industrial sites located in different countries, some of which have been considerably affected by Covid-19 (SARS-CoV-2).

Sensitivity analyses linked to the effects of the spread of Covid-19 prepared on the basis of hypotheses and preliminary estimates have been carried out. The nature of these hypotheses means that they contain elements of uncertainty and are subject to variations, even significant ones, due to the ongoing changing scenario and reference context which could also lead to a significant alteration of the normal market dynamics and, more generally, the business operating conditions.

The negative impact currently expected in terms of Adjusted EBIT in the first quarter of 2020 is expected to be reabsorbed during the year. Should the crisis drag on, Pirelli will implement additional mitigation measures.

Pirelli is following the developments of the spread of the Coronavirus and is in constant contact with national and international organisations. The company has immediately adopted control and prevention measures for all its staff throughout the world, with particular attention in China where all the expatriate workers have returned to their country of origin with their families.”

The effects of the Coronavirus, based on the provisions of international accounting standard IAS 10 "Events after the Reporting period", should be considered as within the scope of non-adjusting events.

For such events, the aforementioned accounting standard states that an entity must indicate the following for each non-adjusting events category:

1) the nature of the event;
2) an estimate of its financial effects or an indication that this estimate cannot be made on the date on which the draft financial statements were prepared (IAS 10.21).

This information is provided in the Directors' Report on Operations at 31 December 2019 (Risk and Uncertainty Factors paragraph) and in the explanatory notes of the consolidated financial statements (“note 45 – Significant events occurring after financial year end”).

UNUSUAL OR EXCEPTIONAL TRANSACTIONS

We are unaware of any atypical or unusual transactions, as defined by Consob in Decision DEM/6064293 of 28 July 2006.

INTRAGROUP OR RELATED PARTY TRANSACTIONS

Pursuant to article 2391-bis of the Italian Civil Code and Consob resolution 17221 of 12 March 2010, containing the "Regulations on Related Party Transactions", subsequently amended by Consob Resolution 17389 of 23 June 2010, the Board of Directors of Pirelli & C., on 31 August 2017, unanimously approved the "Procedure for Related-Party Transactions" with effect from 4 October 2017, when listing of the Company's ordinary shares started on the Mercato Telematico Azionario (the screen-based "Main Market") organised and managed by Borsa Italiana S.p.A.

In line with the information set out in the listing prospectus, on 6 November 2017 the Board of Directors of Pirelli & C., subject to the favourable opinion of the relevant Committee, comprised exclusively of Independent Directors (and entrusted with this duty under Article 4 of the aforementioned Regulations with a specific resolution passed by the Board of Directors) unanimously confirmed the text of the "Procedure for Related-Party Transactions" approved before listing.

It should be noted that, pursuant to article 4, paragraph 6 of the aforementioned Regulations, the Procedure adopted by the Company (i) is coherent with the principles contained in said Regulations, and (ii) is published on the Company's website www.pirelli.com).

During the 2019 financial year there were both intragroup and non-intragroup related-party transactions.

The intragroup transactions, the effects of which are reported in the financial statements, are ordinary in that they are essentially made up of the reciprocal provision of services (technical, organisational, general) provided by the headquarters to the subsidiaries and charging royalties for the use of patents to the Group companies that benefit from them. They were regulated applying normal conditions determined using standard parameters that reflect the actual use made of the services, and were carried out in the interests of the Company, since they were aimed at rationalising the use of the Group's resources.

The non-intragroup related-party transactions that we reviewed were also of an ordinary nature (since they were part of normal business operations or related financial activities) and/or concluded at market or standard equivalent terms and were in the interest of the Company. These transactions were reported to us periodically by the Company.

We attended the meetings of the Related-Party Transactions Committee during which the Committee expressed a favourable opinion of some related party transactions of "lesser importance", after having considered the interest of the Company in the completion of the transaction and the expediency and substantial correctness of their conditions.

Regarding such transactions, we have always expressed the view that they were in the interests of the Company.

The Board of Statutory Auditors attended the meetings of the Related Party Transactions Committee and, on 14 February 2019, attended the meeting of the Company's Board of Directors which approved the redrafting of some of the terms of the licence agreements with Prometeon Tyre Group S.r.l. and Aeolus Tyre Co. Ltd (companies with the same parent company as the Company), the effects of which - included in the 2018 results and in the consolidated forecast data announced to the market on 14 February 2019 - had already been communicated to the market when the draft 2018 consolidated preliminary results were announced. It should be noted that, to ensure maximum transparency to the market, the Company prudentially decided to voluntarily publish an Information Document for these transactions, drafted pursuant to article 5 of the Regulations on Related Party Transactions approved by Consob with resolution 17221 of 12 March 2010 (as subsequently amended) and to article 18 of the Procedure for Related-Party Transactions adopted by the Company. The Information Document was published on 20 February 2019. On this occasion, the activities within the purview of the Board of Statutory Auditors were supported by a respected independent expert.

The effects of the aforementioned transactions for the 2019 financial year are fully reflected in the financial statements.

We have monitored compliance with the Procedure for Related-Party Transactions adopted by the Company and the correctness of the process followed by the Board of Statutory Auditors and the competent Committee for the qualification of related parties, and have nothing to report.

The transactions with related parties are detailed in the notes to the Company's separate and consolidated financial statements, including information on the consequent effects on the Income Statement and the Statement of Financial Position. The Statutory Auditors deem the information on transactions with related parties provided in the financial statements to be adequate.

IMPAIRMENT TEST PROCEDURE

It should be noted that, as suggested in the joint Banca d'Italia/Consob/ISVAP document of 3 March 2010, the Board of Directors, independently, and before the formal approval of the financial statements by the Board of Directors (which occurred at the meeting on 2 March 2020), resolved that the impairment test procedure complied with the prescriptions of international accounting standard IAS 36, after said procedure had been approved by the Audit, Risks, Sustainability and Corporate Governance Committee and the Board of Statutory Auditors.

Specifically, the Company carried out an impairment test on the goodwill allocated to the group of Consumer Business cash generating units and to the Pirelli brand.

Information on the assessment process conducted with the assistance of a highly qualified expert, and on its outcomes, is provided in the explanatory notes to the financial statements.

The Board of Statutory Auditors considered the procedure adopted by the Company adequate and the relative information comprehensive.

SUPERVISORY ACTIVITY PURSUANT TO LEGISLATIVE DECREE 39/2010 - EXTERNAL AUDITOR

The Board of Statutory Auditors, in collaboration with the Audit, Risks, Sustainability and Corporate Governance Committee and pursuant to changes to the regulations introduced by legislative decree 135/2016, supervised:

- the financial reporting process;
- the effectiveness of the internal control, internal audit and risk management systems;
- the external audit of the annual and consolidated accounts;
- the independence of the external auditor, in particular with regard to the provision of non-auditing services;
- the results of the external audit with specific reference to the additional report pursuant to article 11 of European Regulation 537/2014.

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SUPERVISING THE FINANCIAL REPORTING PROCESS

The Board of Statutory Auditors, having verified that there are adequate rules and processes governing the "formulation" and "dissemination" of financial information, considers that the financial reporting information process is adequate, and believes that there are no issues to raise with the Shareholders' Meeting in this regard.

In addition to the annual and half-year reports, the Company voluntarily publishes the additional periodic financial information specified in article 82-*ter* of Consob Regulation 11971/99 ("interim reports on operations") for the periods that end on 31 March and 30 September each year.

SUPERVISING THE NON-FINANCIAL REPORTING PROCESS

The Board of Statutory Auditors has monitored compliance with the provisions contained in legislative decree 254/2016 with reference to the non-financial declaration (the "**NFD**"), also verifying that there are adequate rules and processes governing the process of "formulating" and "disseminating" non-financial information, and considers that the non-financial reporting information process is adequate, and believes that there are no issues to raise with the Shareholders' Meeting in this regard.

In particular, the Board of Statutory Auditors acknowledged that the Company has adopted a structured system to monitor the content of the NFD which includes: (i) a dedicated operating rule to ensure adequate reporting of information of a non-financial nature; (ii) a control system to ensure greater assurance that the principal non-financial information is reported correctly; (iii) checks of the data of a non-financial nature in the NFD, after appropriate highlighting and verification; (iv) signature of a letter of attestation by the senior management on the non-financial data included in the paragraphs on this subject in the financial statements.

The Company did not avail itself of its right pursuant to article 3, paragraph 8, of legislative decree 254/2016 to omit information concerning imminent developments and transactions being negotiated.

SUPERVISING THE EFFECTIVENESS OF THE INTERNAL CONTROL, INTERNAL AUDIT AND RISK MANAGEMENT SYSTEMS, AND THE EXTERNAL AUDIT OF THE ANNUAL SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

The Board of Statutory Auditors, together with the Audit, Risks, Sustainability and Corporate Governance Committee, met with the Head of Internal Audit once every quarter. At those meetings, information was provided on the results of the audits designed to ascertain the adequacy and operational effectiveness of the Internal Control System, compliance with the laws and the business procedures and processes, as well as on the implementation of the related improvement plans. The Board of Directors also received the Audit Plan for the financial year, its final results and the risk analysis, expressing a favourable opinion of their approval by the Board, where requested. During the meetings it was also constantly updated about the application of the "Whistleblowing" procedure in the Pirelli Group.

Furthermore, every six months it received the reports of the Audit, Risks, Sustainability and Corporate Governance Committee and the Supervisory Body on the activities they had undertaken.

The Board of Statutory Auditors also took note of the report made by the Manager responsible for the preparation of the corporate financial documents who, when the draft financial statements were being approved, confirmed the adequacy and appropriateness of the powers and resources conferred on him by the Board of Directors, and also confirmed that he had been given direct access to all the information necessary to produce accounting data, without needing to obtain any authorisation. The Board of Statutory Auditors also acknowledged that the Manager Responsible had reported that he had participated in the internal flows of information for accounting purposes and had approved all corporate procedures which impacted the Company’s profitability, financial position and/or assets and liabilities.

Accordingly, the Board of Statutory Auditors expresses a positive opinion of the adequacy of the internal control and risk governance system as a whole, and has no issues to raise with the Shareholders’ Meeting in this regard.

The Board of Statutory Auditors also met with the external auditor at least once every quarter. No fundamental issues or significant shortcomings in the internal control system related to the financial reporting process arose in these meetings, also with regard to the provisions set out in article 19, paragraph 3 of legislative decree 39/2010.

In particular, it should be noted that the Board of Statutory Auditors found that the controls specified in law 262/2005 on the financial statements as at 31 December 2019 evidenced that the administrative-accounting procedures had been applied correctly. The prescribed controls on the application of the control framework for the NFD evidenced that the internal procedures had also been applied correctly.

The Board of Statutory Auditors considered that no "significant shortcomings" in the internal control system for the financial reporting process and the NFD emerged in the letter of recommendations to the management drafted by the external auditor.

The firm appointed to undertake the external audit of the accounts of the Company is PricewaterhouseCoopers S.p.A. ("**PWC**"). The appointment as external auditor of the accounts was made by the Shareholders' Meeting, on the reasoned proposal of the control body, in its meeting on 1 August 2017, for the nine year period 2017/2025, pursuant to the applicable provisions for listed companies (the appointment was effective from 4 October 2017, the date Company's shares were admitted to trading). PWC was also appointed as external auditor of the accounts of the principal Pirelli Group companies in Italy and abroad.

Pursuant to article 14 of legislative decree 39/2010 and article 10 of Regulation EU 537/3014, PWC issued its Reports on the separate and consolidated financial statements as at 31 December 2019 on 20 March 2020. On the same date, the auditing firm issued its Additional report for the internal control and audit committee, drafted pursuant to article 11 of Regulation EU 537/3014. On the same date, 20 March 2020, PWC issued its Report on the consolidated non-financial declaration pursuant to article 3, paragraph 10 of legislative decree 254/2016.

The texts of the aforementioned reports - drafted in accordance with the applicable legal provisions - do not contain any elements to bring to the attention of the Shareholders' Meeting.

SUPERVISING THE INDEPENDENCE OF THE EXTERNAL AUDITOR, IN PARTICULAR WITH REGARD TO THE PROVISION OF NON-AUDITING SERVICES

The Board of Statutory Auditors monitored the independence of the external auditor and in particular received periodic evidence of non-audit work assigned to PWC, also by virtue of specific regulatory provisions.

Regarding the independence of the external auditor, a structured procedure has been issued at Group level. In line with the provisions of legislative decree 39/2010, this sets out that no Pirelli Group company may assign tasks other than the external audit of the accounts to companies that are members of the network of the appointed external auditor without the prior express authorisation of the Board of Statutory Auditors, which, with the assistance of the Chief Financial Officer and Board Secretary, has the responsibility of checking that the proposed assignment is not of a type listed among those not permitted by article 5 of Regulation EU 537/2014, and that in any event, given its characteristics, said assignment has no impact on the independence of the external auditor.

In a letter dated 20 March 2020, PWC confirmed its independence pursuant to art. 6, paragraph 2) of Regulation EU 537/2014 and paragraph 17, letter a) of International Audit Standard (IAS) 260.

During the 2019 financial year, PWC and its network carried out the activities summarised below for the Group. These activities were the object of assignments approved by the Board of Statutory Auditors where they do not relate to tasks assigned before the Company was listed:

EXTERNAL AUDITOR FEES 2019

(thousands of euros)	Entity supplying the service	Beneficiary	Partial fees	Total fees	
Auditing	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	71		
	PricewaterhouseCoopers S.p.A.	Subsidiary company	894		
	Network PricewaterhouseCoopers	Subsidiary company	1.632	**2,597**	*79%*
Certification services (1)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	277		
	PricewaterhouseCoopers S.p.A.	Subsidiary company	354		
	Network PricewaterhouseCoopers	Subsidiary company	3	**634**	*19%*
Non-audit services	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	-		
	PricewaterhouseCoopers S.p.A.	Subsidiary company	-		
	Network PricewaterhouseCoopers	Subsidiary company	55	**55**	*2%*
				3,286	*100%*

(1) the "Certification services " item indicates amounts paid for other services which entail issuing an audit report as well as amounts paid for so-called certification services insofar as synergic with the external auditing of the accounts.

The Board of Statutory Auditors considers the fees mentioned above to be adequate to the size, complexity and characteristics of the work carried out, and also considers that the non-audit assignments (and their fees) are not such as to have an impact on the independence of the external auditor.

In this latter regard, it should be noted that the Board of Directors, after having obtained the assessment of the Audit, Risks, Sustainability and Corporate Governance Committee, was in agreement with the Statutory Auditors' opinion.

We would like to remind you that pursuant to Regulation EU no. 537/2014 of 16 April 2014, as of 1 January 2020 the Board of Statutory Auditors of Public-Interest Entities (PIE), as the Internal Control and Audit Committee, is required to monitor the assignments other than auditing attributed to the external auditor in order to comply with the limit of 70% of the average fees paid in the last three financial years for the external audit. The Company has confirmed to the Board of Statutory Auditors that it has launched a procedure to comply with the aforementioned standard.

ORGANISATIONAL STRUCTURE

The Board of Statutory Auditors considered the Company's organisational structure to be adequate for the needs of the Company and appropriate to ensure that the principles of correct administration are respected.

The Report on corporate governance and the share ownership of Pirelli & C. describes in detail the types of powers conferred on the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera and indicates the matters reserved to the competence of the Board of Directors of Pirelli & C..

It should be noted that on 2 March 2020 the Board of Directors confirmed its preceding assessments regarding the absence of a subject that exercises direction and coordination of the Company pursuant to article 2497 of the Italian Civil Code, without prejudice to the right of the parent company to include Pirelli within its own consolidation perimeter for accounting purposes.

REMUNERATION OF THE DIRECTORS, GENERAL MANAGER AND KEY MANAGERS WITH STRATEGIC RESPONSIBILITIES

During the year, the Board of Statutory Auditors has expressed the opinions required by law regarding proposals for the remuneration of directors holding special offices, pursuant to the provisions of article 2389 of the Italian Civil Code.

In particular, the Board of Statutory Auditors, at the Board of Directors meeting on 26 February 2019, expressed its positive assessment of: (i) the 2018 variable incentive paid to the Internal Audit Director and the structure of the variable incentive of the Head of the Internal Audit Department for the 2019 financial year, (ii) payment of the 2018 MBO incentives and the 2019 MBO Plan, (iii) the review of the non-compete agreements signed with the General Manager of Operations and Managers with strategic responsibilities, (iv) the review of the remuneration of the General Manager of Operations, (v) the approval of the Remuneration Report (composed by the Remuneration Policy for the 2019 financial year and the 2018 Report), as well as the Directors' Report to the Shareholders' Meeting.

At the Board of Directors meeting of 14 May 2019, the Board of Statutory Auditors expressed its favourable opinion, subject to appointment by the ordinary Shareholders' Meeting called for 15 May 2019 of Ning Gaoning as Director and Chairman of the Board of Directors of the Company, of the proposal to appoint Ning Gaoning as a member of the Appointments and Successions Committee and, in line with the resolution of the Board of Directors passed on 31 August 2017, to attribute him (i) a gross annual fee of 60 thousand euro for the office of Board Director; (ii) a gross annual fee of 400 thousand euro for the office of Chairman of the Board of Directors; and (iii) a gross annual fee of 30 thousand euro for the office of member of the Appointments and Successions Committee.

At the meeting of the Board of Directors on 19 February 2020, the Board of Statutory Auditors expressed its favourable opinion of (i) payment of the 2019 STI (MBO) incentives on the basis of the preliminary data (later confirmed during approval of the final results at the Board of Directors meeting of 2 March 2020) and the 2020 STI (MBO) Plan; (ii) the closure of the 2018-2020 LTI Plan with no disbursement, not even pro-quota, and the launch of the new 2020-2022 LTI Plan to support the 2020-2022 Strategic Plan (with the inclusion of a new sustainability objective – with 10% weighting – relating to Pirelli's rating in the CDP index).

At the Board of Directors' meeting of 2 March 2020 the Board of Statutory Auditors expressed its favourable opinion, in addition to the above, of the approval of the Remuneration Report (composed by the 2020 Remuneration Policy and the Report on Compensation Paid in 2019), as well as the relative Directors' Reports to the Shareholders' Meeting on compensation.

For more details see the Report on the Remuneration Policy and on Compensation Paid.

FURTHER ACTIVITIES OF THE BOARD OF STATUTORY AUDITORS AND INFORMATION REQUIRED BY CONSOB

In exercising its duties, the Board of Statutory Auditors, as prescribed in article 149 of the TUF, monitored:

- observance of the law and the deed of incorporation;
- compliance with the principles of correct administration;
- the adequacy, for those aspects within its remit, of the organisational structure of the Company, the internal control system and the administrative-accounting system, and of the reliability of the latter to correctly represent operations;
- how the corporate governance rules contained in the codes of behaviour which the Company, in a notice to the public, declares that it complies with are actually implemented. In this respect, it should be noted that, pursuant to article 123-bis of the TUF, the Company has, also for the 2019 financial year, drafted its annual Report on corporate governance and the share ownership of Pirelli & C. which provides information on (i) the corporate governance practices actually applied by the Company, over and above the obligations specified in the legal or regulatory provisions, (ii) the principal features of the risk and internal control systems that exist in relation to the financial reporting process, including the consolidate financial reports, (iii) how the Shareholders' Meeting functions, including its principal powers and shareholders' rights and how they are exercised, (iv) the composition and operation of the administration and control bodies and their committees, and the other information specified in article 123-bis of the TUF;
- the adequacy of the instructions imparted by the Company to its subsidiaries pursuant to article 114, paragraph 2 of legislative decree 58/1998, having ascertained that the Company is able to promptly and regularly fulfil the disclosure obligations set out in law and in the EU regulations, as prescribed in the aforementioned article, also by collecting information from the heads of the organisational departments, and periodic meetings with the external auditor, to exchange relevant data and information. In this regard, we have no particular comments to make.

It should also be noted that the Directors' Report on Operations includes a paragraph containing a description of the principal features of the internal control and risk management system in relation to the financial reporting process, including the reporting of consolidated financial information.

The Board of Statutory Auditors notes:

- that the Directors' Report on Operations complies with the current laws, reflecting the resolutions made by the administrative body and the results in the financial statements, and contains adequate information on operations during the year and on intra-group transactions. The section containing the report on transactions with related parties has been included in the explanatory notes to the financial statements, in compliance with the IFRS standards;
- that the explanatory notes comply with the current standards, indicating the criteria used in determining

the balance sheet items and in the value adjustments, and that the separate and consolidated financial statements of the Company appear to have been drafted in accordance with the structure and frameworks imposed by the current standards. In application of Consob's provisions, the effects of relations with related parties on the Company's profitability, financial position, assets and liabilities and cash flows;

- that Directors and/or Senior Managers of the Parent Company are members of the Boards of Directors of the principal subsidiary companies to guarantee coordinated direction and an adequate flow of information, also supported by suitable accounting information.

It should also be noted that the Board of Statutory Auditors:

- received information from the Directors at least once every quarter concerning their activity and the transactions carried out by the Company having the greatest impact on its strategy, earnings, financial position and equity, and that it received this information in compliance with the specific procedure approved by the Board of Directors. The Board of Statutory Auditors can give reasonable assurance that the resolved and executed transactions comply with the law and the Articles of Association, and are not manifestly imprudent, reckless or in conflict of interest, or in violation of the resolutions passed by the Shareholders' Meeting, or capable of compromising the integrity of the company's assets;
- received from the Supervisory Body, of which Statutory Auditor Ms. Antonella Carù is a member, information about the results of its own control activity, which did not reveal anomalies or misconduct;
- held periodic meetings with representatives of the external auditor in order to exchange important data and information for the performance of its duties, as prescribed in article 150, paragraph 3 of the TUF. In this regard, it should be noted that no important data and information were identified which would require a mention in this report;
- obtained information from the corresponding bodies of the main subsidiaries with regard to their management and control systems and their general operating performance (pursuant to paragraphs 1 and 2 of article 151 of the TUF);
- received the annual report from the Company's Data Protection Officer which showed the Company is fully compliant with privacy legislation.

During the 2019 financial year the Board of Statutory Auditors did not receive any complaints or reports pursuant to article 2408 of the Italian Civil Code.

With regard to the external auditor, the Board of Statutory Auditors noted that PricewaterhouseCoopers S.p.A.:

- issued its report pursuant to article 14 of legislative decree 39/2010 and article 10 of Regulation EU 537/201 on 20 March 2020. This containing its unqualified opinion stating that the separate and consolidated financial statements provide a truthful and accurate representation of the equity and financial position of Pirelli and of the Group as at 31 December 2019, and of the economic results and cash flow for the financial year that closed on that date, in compliance with applicable accounting standards, and provided evidence of key aspects of their audit;

- issued a coherence opinion indicating that the Directors' Report on Operations accompanying the separate and consolidated financial statements as at 31 December 2019, and some specific information contained in the Report on corporate governance and the share ownership of Pirelli & C., as laid down in article 123-bis, paragraph 4, of the TUF have been drafted in compliance with current legislation;
- as regards possible significant errors in the Directors' Report on Operations, stated that, based on the knowledge and understanding of the company and its market that it had acquired in the course of the audit activities, it had no matters to raise;
- confirmed the Company's statement regarding the fact that no other assignments have been given to persons or entities with on-going relationships with the external auditor itself;
- on 20 March 2020, provided the Board of Statutory Auditors with the Additional Report referred to in article 11 of Regulation EU 537/2014, indicating that there were no significant shortcomings in the internal control system in relation to the financial reporting process that needed to be brought to the attention of persons responsible for "governance" activities;
- on 20 March 2020, pursuant to article 3, paragraph 10 of legislative decree 254/2016, issued the Report on the responsible management of the value chain (consolidated non-financial declaration pursuant to legislative decree no. 254, of 30 December 2016), concluding that no elements had come to PWC's attention that led it to believe that the group's NFD for the year to 31 December 2019 had not been drawn up, in all significant aspects, in accordance with the requirements set out in legislative decree 254/2016 and the GRI Standards;
- annexed to the Additional report, the external auditor provided the Board of Statutory Auditors, pursuant to article 6 of Regulation EU 537/2014, with a statement from which no situations emerge that could compromise the independence of the external auditor (for more details concerning the provision of non-auditing services, see the section entitled "supervising the independence of the external auditor, in particular with regard to the provision of non-auditing services" in this report).

The Board of Statutory Auditors also took note of the Transparency Report drafted by the external auditor and published on its web site, pursuant to article 18 of legislative decree 39/2010.

Furthermore, with regard to the corporate bodies, the Board of Statutory Auditors noted that:

- the current Board of Directors - the mandate of which expires with the Shareholders' Meeting called to approve the financial statements for the year to 31 December 2019 - is composed of 15 Directors, 14 of whom qualified as non-executive directors and, of these, 8 deemed to possess the requirements of independence specified in the Corporate Governance Code and the TUF. During 2019, it met 7 times.

At the date of this report:

- the Audit, Risk, Sustainability and Corporate Governance Committee is composed of four Directors, all independent. During 2019, it met 5 times;
- the Remuneration Committee is composed of four Directors, a majority of whom independent (the Chairman is an independent Director). During 2019, it met 4 times;
- the Related-Party Transactions Committee is composed of three Directors, all independent. During 2019 it met 12 times;
- the Appointments and Successions Committee is composed of four Directors, one of whom is the executive Director. It did not meet during 2019;
- the Strategies Committee is composed of seven Directors, of whom two are independent. During 2019 it met once.

The Board of Statutory Auditors has always attended the meetings of the Board of Directors and the board committees, also in its capacity as internal control and audit committee pursuant to article 19 of legislative decree 39/2010.

The Board of Statutory Auditors also attended the ordinary Shareholders' Meeting that in 2019 was held on 15 May.

The percentage attendance figures of the single members of the Board of Statutory Auditors at the meetings of the above bodies are provided in the Report on corporate governance and the share ownership of Pirelli & C..

Finally, the Statutory Auditors acknowledge:

- that they have monitored fulfilment of the requirements linked to the "Market Abuse" and "Investor Protection" regulations on the subject of corporate information and internal dealing, with particular reference to the handling of inside information and the procedure for the dissemination of press releases and information to the public;
- that they periodically ascertained, upon their appointment and most recently in their meeting on 21 February 2020, as recommended by the Borsa Italiana Corporate Governance Code, that members possess the same independence requirements - where applicable - as those requested for the directors in the aforementioned Code;
- that they have found that the criteria and procedures to ascertain the independence requirements adopted by the Board of Directors to annually check the independence of its members are correctly applied, and have no comments to make on this point;
- that they have determined that the Director's report on the Company's financial statements describes the principle risks and uncertainties to which the Company is exposed;
- that, with reference to the provisions of article 15 of Consob Regulation 20249 of 28 December 2017 concerning market discipline, they have ascertained that the organisation of the company and the procedures adopted enable Pirelli to ensure that the companies it controls and which are constituted in and

regulated by the laws of States that are not members of the European Union subject to respecting the aforementioned Consob provisions, have administrative-accounting systems appropriate to regularly provide the senior management and external auditor of the Company with the information on its profitability, financial position and assets and liabilities needed to draw up the consolidated financial statements. On 31 December 2019, the subsidiaries set up in and regulated by the laws of States that are not members of the European Union and deemed to have significant importance under article 15 of Consob Market Regulation are: Comercial e Importadora de Pneus Ltda (Brazil), Limited Liability Company Pirelli Tyre Russia (Russia), Pirelli Comercial de Pneus Brasil Ltda (Brazil), Pirelli Neumaticos s.a. De c.v. (Mexico), Pirelli Neumaticos S.a.i.c. (Argentina), Pirelli Pneus Ltda (Brazil), Pirelli Otomobil Lastikleri a.s. (Turkey), Pirelli Tire Llc (United States) and Pirelli Tyre co. Ltd (China).

During the course of its supervisory activities, and on the basis of the information obtained from the external auditor, no omissions, misconduct, irregularities or significant facts were found which are worthy of being reported or mentioned in this report.

The activities described above, conducted both collectively and individually, have been documented in the minutes of the 12 meetings of the Board of Statutory Auditors held during 2019.

SELF-ASSESSMENT OF THE BOARD OF STATUTORY AUDITORS

In 2019, the Board of Statutory Auditors – in continuity with the previous financial year and as recommended by the rules of conduct for listed companies issued by the Italian national association of chartered accountants and auditors – conducted a self-assessment with the assistance of the independent consulting firm Spencer Stuart.

This self-assessment was carried out through individual interviews, based on a questionnaire containing questions on the suitability, size, composition and operation of the Board of Statutory Auditors in order to attest that the body is operating correctly and effectively and that its composition is adequate.

The Board of Statutory Auditors can report that the self-assessment provided a broadly positive picture of the composition and operation of the control body. In particular, the Board of Statutory Auditors considered that its current size, of 5 standing members, introduced before listing on the stock exchange, is perfectly adequate for the effective execution of the tasks the Statutory Auditors are required to undertake in a company of Pirelli's size.

Furthermore, the Board of Statutory Auditors particularly appreciated the Induction and training activities organised by the Company for Directors and Statutory Auditors, and hopes that such activities - which provide further opportunities for the different corporate bodies to meet and exchange knowledge - might also continue in the current year.

PROPOSALS TO THE SHAREHOLDERS' MEETING

FINANCIAL STATEMENTS AT 31 DECEMBER 2019

The Board of Statutory Auditors expresses its favourable opinion on the approval of the Financial Statements at 31 December 2019 and has no objections to raise regarding the proposal made for the allocation of the profits.

REMUNERATION REPORT

Please note that the Board of Statutory Auditors expressed a favourable opinion of the Remuneration Policy for the 2020 financial year subject to the binding vote of the Shareholders' Meeting and the Report on Compensation Paid in the 2019 financial year subject to the advisory vote of the Shareholders' Meeting.

LTI INCENTIVE PLAN

Please note that the Board of Statutory Auditors expressed a favourable opinion of the 2020-2022 Long-Term Incentive Plan, within the scope of its remit.

OTHER ISSUES SUBMITTED TO THE SHAREHOLDERS' MEETING FOR APPROVAL

Regarding the other issues submitted to you for approval (appointment of the Board of Directors, "Directors and Officers Liability Insurance" Policy and bylaw amendments), the Board of Statutory Auditors has no comments to make.

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Pursuant to article 144-quinquiesdecies of the Issuer's Regulation, duly approved by Consob with resolution 11971/99, as subsequently amended and supplemented, the list of offices held by members of the Board of Statutory Auditors in the companies listed in Book V, Title V, Chapters V, VI and VII of the Italian Civil Code is published by Consob on its website (www.consob.it).

It should be noted that article 144-quaterdecies of the Issuer's Regulation (Consob reporting obligations) establishes that a person who is a member of the controlling body of just one issuer is not subject to the reporting obligations provided by the said article, and therefore, in that case, they do not appear in the lists published by Consob.

The Company lists the main positions held by the members of the Board of Statutory Auditors in its Report on corporate governance and the Share Ownership of Pirelli & C..

The Board of Statutory Auditors here acknowledges that all its members were in full compliance of the aforementioned regulatory provisions laid down by Consob governing the "maximum number of positions to be held".

Milan, 20 March 2020

Mr Francesco Fallacara

Mr Fabio Artoni

Ms Antonella Carù

Mr Luca Nicodemi

Mr Alberto Villani