CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In thousands of euro)

	Note	12/31/2018	of which related parties (note 45)	12/31/2017	of which related parties (note 45)
Property, plant and equipment	10	3,092,927		2,980,294	
Intangible assets	11	5,783,338		5,893,704	
Investments in associates and J.V.	12	72,705		17,480	
Other financial assets	13	-		229,519	
Other financial assets at fair value through other comprehensive income	13	68,781		-	
Other financial assets at fair value through income statement	13	-		-	
Deferred tax assets	14	74,118		111,553	
Other receivables	16	225,707	*12,576*	204,051	*12,007*
Tax receivables	17	16,169		27,318	
Derivative financial instruments	28	20,134		878	
Non-current assets		**9,353,879**		**9,464,797**	
Inventories	18	1,128,466		940,668	
Trade receivables	15	627,968	*15,667*	652,487	*62,731*
Other receivables	16	416,651	*55,418*	400,538	*36,482*
Securities held for trading		-		33,027	
Other financial assets at fair value through income statement	19	27,196		-	
Cash and cash equivalents	20	1,326,900		1,118,437	
Tax receivables	17	41,393	-	35,461	*60*
Derivative financial instruments	28	98,567		27,770	
Current assets		**3,667,141**		**3,208,388**	
Assets held for sale	40	**10,677**		**60,729**	
Total Assets		**13,031,697**		**12,733,914**	
Equity attributable to owners of the Group:	21,1	**4,468,121**		**4,116,758**	
Share capital		1,904,375		1,904,375	
Reserves		2,132,140		2,035,991	
Net income (loss)		431,606		176,392	
Equity attributable to non-controlling interests:	21,2	**82,806**		**60,251**	
Reserves		72,040		60,936	
Net income (loss)		10,766		(685)	
Total Equity	21	**4,550,927**		**4,177,009**	
Borrowings from banks and other financial institutions	24	3,929,079		3,897,089	
Other payables	26	83,287		74,435	
Provisions for liabilities and charges	22	138,327		127,124	
Provisions for deferred tax liabilities	14	1,081,605		1,216,635	
Employee benefit obligations	23	224,312		274,037	
Tax payables	27	2,091		2,399	
Derivative financial instruments	28	16,039		54,963	
Non-current liabilities		**5,474,740**		**5,646,682**	
Borrowings from banks and other financial institutions	24	800,145		559,168	
Trade payables	25	1,604,677	*191,605*	1,673,642	*197,954*
Other payables	26	436,752	*7,436*	565,254	*16,437*
Provisions for liabilities and charges	22	33,876		45,833	
Employee benefit obligations	23	5,475		-	
Tax payables	27	65,503	-	48,416	*9,895*
Derivative financial instruments	28	59,602		17,910	
Current liabilities		**3,006,030**		**2,910,223**	
Total Liabilities and Equity		**13,031,697**		**12,733,914**	

CONSOLIDATED INCOME STATEMENT

(In thousands of euro)

	Note	2018	of which related parties (note 45)	2017	of which related parties (note 45)
Revenues from sales and services	30	**5,194,471**	*8,962*	**5,352,283**	*10,833*
Other income	31	483,205	*108,536*	628,533	*230,618*
- of which non-recurring events		-		-	
Changes in inventories of unfinished, semi-finished and finished products		201,416		140,258	
Raw materials and consumables used (net of change in inventories)		(1,818,199)	*(12,704)*	(1,859,837)	*(46,536)*
Personnel expenses	32	(1,067,579)	*(14,133)*	(1,034,647)	*(11,004)*
- of which non-recurring events		*(15,410)*		*(2,578)*	
Amortisation, depreciation and impairment	33	(414,523)		(371,457)	
Other costs	34	(1,858,162)	*(290,380)*	(2,184,660)	*(374,951)*
- of which non-recurring events		*(7,798)*		*(70,076)*	
Net impairment loss on financial assets	35	(21,273)	*(9,000)*	-	
Increase in fixed assets for internal work		3,700		3,110	
Operating income (loss)		**703,056**		**673,583**	
Net income (loss) from equity investments	36	(4,980)		(6,855)	
- share of net income (loss) of associates and j.v.		*(11,560)*	*(11,560)*	*(8,252)*	*(8,252)*
- gains on equity investments		*4,007*		*5,997*	
- losses on equity investments		*(1,603)*		*(14,434)*	
- dividends		*4,176*		*9,834*	
Financial income	37	139,730	*3,120*	128,540	*35,320*
Financial expenses	38	(336,041)	*(25)*	(491,150)	*(41,070)*
- of which non-recurring events		*(2,149)*		*(61,244)*	
Net income (loss) before tax		**501,765**		**304,118**	
Tax	39	(52,964)		(40,848)	
- of which non-recurring events		*60,607*		*103,881*	
Net income (loss) from continuing operations		**448,801**		**263,270**	
Net income (loss) from discontinued operations	40	(6,429)	*(10,642)*	(87,563)	*(9,547)*
Total net income (loss)		**442,372**		**175,707**	
Attributable to:					
Owners of the parent company		431,606		176,392	
Non-controlling interests		10,766		(685)	
Total earnings/(loss) per share (in euro per share)	41	**0.432**		**0.206**	
Earnings/(loss) per share related to continuing operations (in euro per share)		0.438		0.309	
Earnings/(loss) per share related to discontinued operations (in euro per share)		(0.006)		(0.103)	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In thousands of euro)

		2018	2017
A	**Total Net income (loss)**	**442,372**	**175,707**
Other components of comprehensive income:			
	B - Items that may not be reclassified to income statement:		
	- Net actuarial gains (losses) on employee benefits	28,727	(14,656)
	- Tax effect	(6,986)	(9,291)
	- Fair value adjustment of other financial assets at fair value through other comprehensive income	(8,642)	-
	Total B	**13,099**	**(23,947)**
	C - Items reclassified / that may be reclassified to income statement:		
	Exchange differences from translation of foreign financial statements		
	- Gains / (losses) for the period	(78,150)	(166,763)
	- (Gains) / losses reclassified to income statement	-	80,208
	Fair value adjustment of other financial assets available for sale:		
	- Gains / (losses) for the period	-	40,486
	- (Gains) / losses reclassified to income statement	-	1,439
	Fair value adjustment of derivatives designated as cash flow hedges:		
	- Gains / (losses) for the period	107,496	(59,757)
	- (Gains) / losses reclassified to income statement	(118,747)	45,265
	- Tax effect	548	2,983
	Cost of hedging:		
	- Gains / (losses) for the period	20,056	-
	- (Gains) / losses reclassified to income statement	(6,798)	-
	- Tax effect	(1,446)	-
	Share of other comprehensive income related to associates and JVs net of tax	(3,221)	(2,915)
	Total C	**(80,262)**	**(59,054)**
D	**Total other comprehensive income (B+C)**	**(67,163)**	**(83,001)**
A+D	**Total comprehensive income (loss)**	**375,209**	**92,706**
	Attributable to:		
	- Owners of the parent company	363,500	93,793
	- Non-controlling interests	11,709	(1,087)
	Attributable to owners of the parent company:		
	- Continuing operations	369,929	*101,148*
	- Discontinued operations	(6,429)	*(7,355)*
	Total attributable to owners of the parent company	**363,500**	**93,793**

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

(In thousands of euro)

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

(In thousands of euro)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 12/31/2017

(In thousands of euro)

	ATTRIBUTABLE TO THE PARENT COMPANY					Non controlling interests	TOTAL
	Share Capital	Translation reserve	Total IAS Reserves *	Other reserves/ retained earnings	Total attributable to the Parent Company		
Total at 12/31/2016	**1,342,281**	**(204,778)**	**(61,629)**	**2,058,211**	**3,134,085**	**140,773**	**3,274,858**
Other components of comprehensive income	-	(86,153)	3,554	-	(82,599)	(402)	(83,001)
Net income (loss)	-	-	-	176,392	176,392	(685)	175,707
Total conprehensive income (loss)	**-**	**(86,153)**	**3,554**	**176,392**	**93,793**	**(1,087)**	**92,706**
Share capital increase	558,994	-	-	630,381	1,189,375	-	1,189,375
Annulment of treasury shares	3,100	-	-	(3,100)	-	-	-
Dividends paid	-	-	-	-	-	(7,446)	(7,446)
Disposal of 38% Pirelli Industrial to Cinda fund	-	70,307	(5,085)	(63,704)	1,518	264,500	266,018
Assignment of Pirelli Industrial to Marco Polo	-	-	(6,958)	(282,480)	(289,438)	(326,679)	(616,117)
Acquisition of non-controlling interests (Brazil)	-	-	-	(12,843)	(12,843)	(9,580)	(22,423)
Other	-	-	(147)	415	268	(230)	38
Total at 12/31/2017	**1,904,375**	**(220,624)**	**(70,265)**	**2,503,272**	**4,116,758**	**60,251**	**4,177,009**

(In thousands of euro)

	BREAKDOWN OF IAS RESERVES *				
	Reserve for fair value adjustment of available-for-sale financial assets	Reserve for cash flow hedge	Reserve for actuarial gains/losses	Tax effect	Total IAS reserves
Balance at 12/31/2016	**(19,282)**	**1,038**	**(44,023)**	**638**	**(61,629)**
Other components of comprehensive income	39,010	(14,492)	(14,656)	(6,308)	3,553
Assignment of Pirelli Industrial	-	-	(602)	(11,441)	(12,043)
Other changes	(318)	-	171	-	(147)
Balance at 12/31/2017	**19,410**	**(13,454)**	**(59,110)**	**(17,111)**	**(70,265)**

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of euro)

		Note	2018	of which related parties (note 45)	2017	of which related parties (note 45)
	Net income (loss) before taxes		501,765		304,118	
	Reversals of amortisation, depreciation, impairment losses and restatement of property, plant and equipment and intangible assets	33	414,523		371,457	
	Reversal of Financial expenses	38	336,041		491,150	
	Reversal of Financial income	37	(139,730)		(128,540)	
	Reversal of Dividends	36	(4,176)		(9,834)	
	Reversal of gains/(losses) on equity investments	36	(2,404)		8,437	
	Reversal of share of net income from associates and joint ventures	36	11,560		8,252	
	Taxes paid		(119,042)		(135,500)	
	Change in Inventories	18	(199,919)		(109,768)	
	Change in Trade receivables	15	(23,388)	*47,064*	73,644	*90,561*
	Change in Trade payables	25	104,663	*(6,350)*	447,385	*86,227*
	Change in Other receivables/Other payables		(151,425)	*(29,341)*	(39,423)	*70,469*
	Change in Provisions for employee benefit obligations and Other provisions		(57,227)		(102,010)	
	Other changes		(12,915)		(41,734)	
A	**Net cash flows provided by / (used in) operating activities**		**658,326**		**1,137,634**	
	Investments in property, plant and equipment	10	(458,092)		(470,381)	
	Disposal of property, plant and equipment/intangible assets		16,223		73,505	*61,000*
	Investments in intangible assets	11	(11,640)		(18,969)	
	Acquisition of investments in subsidiaries		-		(15,639)	
	Acquisition of minorities		(49,722)	*(31,230)*	-	
	Repayment of share capital and reserves from associates		-		8,556	*8,556*
	Disposals (Acquisition) of investments in associates and JV		(65,222)	*(65,222)*	17,183	
	Disposals (Acquisition) of financial assets		-		(2,465)	
	Caçula purchase from Brasilian controlled distribution		(1,393)		-	
	Dividends/reserves received from associates		2,674	*2,674*	-	
	Disposals (Acquisition) of other non current financial assets at fair value through income statement - Other financial assets		152,808		-	
	Dividends received		4,176		9,834	
B	**Net cash flows provided by / (used in) investing activities**		**(410,188)**		**(398,376)**	
	Increase in equity		-		1,189,375	
	Other changes		4,500		-	
	Change in Financial payables		168,952		(2,060,304)	
	Change in Financial receivables/Other current financial assets at fair value through income statement - Assets held for trading		(31,761)		218,037	*190,000*
	Financial income / (expenses)		(168,406)		(280,832)	
	Dividends paid		(8,366)		(12,742)	
C	**Net cash flows provided by / (used in) financing activities**		**(35,081)**		**(946,466)**	
D	**Net cash flows provided by (used in) discontinued operations**		**37,101**	*43,530*	**(135,597)**	
E	**Total cash flows provided / (used) during the period (A+B+C+D)**		**250,158**		**(342,805)**	
F	**Cash and cash equivalents at the beginning of the year**		**1,109,640**		**1,523,928**	
G	**Exchange differences from translation of cash and cash equivalents**		**(55,946)**		**(71,483)**	
H	**Cash and cash equivalents at the end of the period (E+F+G) (°)**		**1,303,852**		**1,109,640**	
(°)	**of which:**					
	cash and cash equivalents	20	1,326,900		1,118,437	
	bank overdrafts		(23,048)		(8,797)	

Explanatory Notes

1. GENERAL INFORMATION

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

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

The registered Head Office of the Company is located in Milan, Italy at address Viale Piero e Alberto Pirelli n. 25, 20126 Milan.

As of October 4, 2017 Pirelli & C. S.p.A. has been listed on the Mercato Telematico Azionario (MTA or screen-based stock exchange) which is organised and managed by Borsa Italiana S.p.A.

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

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

Pirelli & C. S.p.A. is directly controlled by Marco Polo International Italy S.r.l. a company which was established as a result of the total non-proportional demerger of Marco Polo International Italy S.p.A. which took place during August 2018. Marco Polo International Italy S.r.l. - is in turn therefore indirectly controlled by China National Chemical Corporation ("ChemChina"), a state-owned enterprise (SOE) governed by Chinese law with registered office in Beijing, and which reports to the Central Government of the People's Republic of China.

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

On February 26, 2019 the Board of Directors authorised the publication of these consolidated Financial Statements.

2. BASIS OF PRESENTATION

FINANCIAL STATEMENTS

The consolidated Financial Statements at December 31, 2018 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, which are accompanied by the Directors' Report on Operations.

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

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

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

The Group has opted for the presentations of tax effects, as well as the reclassifications to the Income Statement of gains/losses which were recognised in equity in previous financial years, directly in the Statement of Comprehensive Income and not in the Explanatory Notes.

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

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

DISCONTINUED OPERATIONS

As a result of the assignment which took place in March 2017 by Pirelli & C. S.p.A. to Marco Polo International Holding Italy S.p.A., of the TP Industrial Holding S.p.A. shares, the company into which almost all of Pirelli's Industrial assets were merged, in continuity with the 2017 financial year some residual activities in China and Argentina relative to the Industrial business, qualified as "discontinued operations".

Pursuant to the provisions of IFRS 5, the results for the financial year for the "discontinued operations" were reclassified to the Income Statement as a single item, "net income (loss) related to discontinued operations". The separation process for Argentina was completed during the month of June 2018, while for China separation was completed at the end of 2018.

SCOPE OF CONSOLIDATION

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

Subsidiaries are defined as all the companies over which the Group, at the same time, holds:

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

The Financial Statements of subsidiaries are included in the consolidated Financial Statements as of the date when control is assumed until such time as when control ceases to exist. The equity and the net income (loss) and attributable to non-controlling interests were separately reported respectively in the consolidated Statement of Financial Position and consolidated Income Statement, and the consolidated statement of Comprehensive Income.

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

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

A joint venture is an agreement for the joint control of an entity whereby the parties that have joint control, have rights to the net assets of said entity. Joint ventures are distinguished from joint operations in that they are configured as agreements that give the parties of the agreement, which have joint control of the initiative, the rights to individual assets and the obligations for individual liabilities which are subject to the agreement. In the case of joint operations, it is mandatory that the assets, liabilities, costs and revenues subject to the agreement be recognised in accordance with the applicable accounting standards. The Group does not currently have any agreements in place for joint operations.

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

- Disposal on June 27, 2018 of a 100% stake in the company TP Trading (Beijing) Co., Ltd;
- Disposal on August 27, 2018 of a 97.88% stake in the company Ecosil - Industria Quimica do Brasil Ltda.;
- Constitution on October 26, 2018 of the company Pirelli International Treasury S.p.A.;
- Acquisition on October 31, 2018 of a 100% stake in the company JMC Pneus Comercio Importação e Exportação Ltda.;
- Acquisition on October 9, 2018 of a 49% investment stake in a Joint Venture which, through the company Jining Shenzhou Tyre Co., owns a new Consumer tyre manufacturing plant in China.

INFORMATION ON SUBSIDIARIES

The consolidated Financial Statements include the assets and liabilities of approximately 96 legal entities. The following is a list of the significant subsidiaries:

	Headquarter	12/31/2018		12/31/2017	
		% group	% non-controlling interest	% group	% non-controlling interest
Pirelli Tyre Co. Ltd	Yanzhou (China)	90.00%	10.00%	90.00%	10.00%
Pirelli Deutschland GmbH	Breuberg/Odenwald (Germany)	100.00%		100.00%	
Pirelli Tyre S.p.A.	Milano (Italy)	100.00%		100.00%	
Pirelli Industrie Pneumatici S.r.l.	Settimo Torinese (Italy)	100.00%		100.00%	
Pirelli Neumaticos S.A. de C.V.	Silao (Mexico)	100.00%		100.00%	
Pirelli International plc	Burton on Trent (United Kingdom)	100.00%		100.00%	
Pirelli Pneus Ltda	Santo Andrè (Brazil)	100.00%		100.00%	
Pirelli Comercial de Pneus Brasil Ltda	Sao Paulo (Brazil)	100.00%		100.00%	
Pirelli UK Tyres Ltd	Burton on Trent (United Kingdom)	100.00%		100.00%	
Pirelli Tire LLC	Rome (USA)	100.00%		100.00%	
S.C. Pirelli Tyres Romania S.r.l	Slatina (Romania)	100.00%		100.00%	
Limited Liability Company Pirelli Tyre Russia	Moscow (Russia)	65.00%	35.00%	99.98%	0.02%

The complete list of subsidiaries is contained in the annex *"Scope of consolidation - list of companies included in consolidation using the line by line method"*.

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

CONSOLIDATION PRINCIPLES

For consolidation purposes, the Financial Statements of the companies included in the scope of consolidation prepared at the reporting date of the Financial Statements of the Parent Company were adjusted to conform to the IAS/IFRS standards as applied by the Group.

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

The differences arising from the conversion of the initial equity at period-end exchange rates have been recognised in the reserve for translation differences, together with the difference arising from the translation of the result for the period at period-end exchange rates instead of the average exchange rate. The reserve for translation differences was reversed to the Income Statement at the time of the disposal of the company which generated the reserve.

The criteria for consolidation may be summarised as follows:

- subsidiaries are consolidated using the line-by-line method on the basis of which:
  - the assets and liabilities, revenues and expenses of the Financial Statements of subsidiaries are assumed in their entirety, regardless of the percentage of investment held;
  - the carrying amount of investments is eliminated against the related share of equity;
  - the financial and operating transactions between companies consolidated on a line-by-line basis, including dividends distributed within the Group, are eliminated;
  - non-controlling interests are appropriately reported under equity, and similarly, the share of gain or loss attributable to non-controlling interests is shown separately in the Income Statement;
  - at the time of disposal of the subsidiary and the consequent loss of control, in determining the gain or loss arising from the disposal, any goodwill that can be allocated to the subsidiary is taken into account;
  - in the case of a shareholding acquired after the assumption of control, any difference between the purchase cost and the corresponding share of equity acquired is recognised in equity; similarly, the effects deriving from the disposal of non-controlling interests without loss of control are also recognised in equity.

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

3. ADOPTED ACCOUNTING STANDARDS

Pursuant to Regulation No. 1606 issued by the European Parliament and the European Council in July 2002, the consolidated Financial Statements of the Pirelli & C. Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) in force as issued by the International Accounting Standards Board (IASB) and approved by the European Union at December 31, 2018, as well as the provisions issued in the implementation of Article 9 of Legislative Decree no. 38/2005. The term IFRS signifies the IFRS international accounting standards in force as issued by the International Accounting Standards Board (IASB) and approved by the European Union at December 31, 2018, as well as all the revised International Accounting Standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC).

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

- derivative financial instruments;
- securities held for trading (until December 31, 2017);
- financial assets available for sale (until December 31, 2017);
- financial assets at fair value through other comprehensive income (as of January 1, 2018);
- financial assets at fair value through the Income Statement (as of January 1, 2018).

BUSINESS COMBINATIONS

Corporate acquisitions are accounted for under the acquisition method.

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

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

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

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

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

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

INTANGIBLE ASSETS
Intangible assets with definite useful lives are measured at cost, net of any accumulated amortisation and impairment.

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

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

GOODWILL
Goodwill is an intangible asset with an indefinite useful life and is therefore not subject to amortisation. Goodwill is subjected to evaluation at least on an annual basis in order to identify any impairment, or whenever there are any indications of impairment, and as such, it is allocated to the cash generating units for this purpose. For the purposes of this verification, goodwill is allocated to the cash generating units (CGUs) or group of CGUs in compliance with the maximum aggregation limit which cannot exceed that of the operating sector of business identified pursuant to IFRS 8. The criteria used in the allocation of goodwill coincides with the sole sector of activity in which the Group operates, being Consumer Activities, and takes into consideration the minimum level at which goodwill is monitored, for the purposes of internal management control.

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

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

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

TECHNOLOGY
The value of Technology refers mainly to product technology, process technology as well as product development technology identified during the Purchase Price Allocation. It is recognised in the Financial Statements at fair value at the date of acquisition, and is amortised on the basis of its useful life.

RESEARCH AND DEVELOPMENT COSTS
Research costs for new products and/or processes are expensed as they are incurred.

There were no development costs that satisfied the requisites for capitalisation as provided for by IAS 38.

PROPERTY, PLANT AND EQUIPMENT
Property, plant and equipment are recognised at their purchase or production cost, including any directly attributable incidental expenses.

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

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

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

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

Depreciation rates were as follows:

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

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

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

Improvements to third-party (leasehold) assets are classified as property, plant and equipment, in keeping with the nature of the cost incurred. The depreciation period corresponds to the remaining useful life of the asset or the residual period of the lease agreement, whichever is shorter.

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

Any dismantling costs are estimated and added to the cost of the property, plant and equipment with a corresponding accrual to the provision for liabilities and charges when the conditions for accruing the provision are met. They are then depreciated for the duration of the remaining useful life of their respective assets.

Assets acquired under finance lease agreements, through which essentially all the risks and rewards of ownership are transferred to the Group, are recognised as property, plant and equipment at their fair value or, if lower, at the current value of the minimum lease payments, with a corresponding entry for the relevant financial payable. The lease payment is separated into two components; as a financial expense which is recognised in the Income Statement, and as the reimbursement of capital and is recorded as a reduction of the financial payable.

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

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

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

IMPAIRMENT OF ASSETS

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS Whenever there are specific indicators of impairment, at least on an annual basis, intangible assets with an indefinite useful life, including goodwill and both property, plant and equipment and intangible assets, are subjected to an impairment test.

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

The recoverable amount of an asset is either its fair value less the costs of sale, or its value in use, whichever is higher, where the latter is the current value of estimated future financial flows arising from the use of the asset plus those deriving from its disposal at the end of its useful life, net of taxes, plus the application of a discount rate, net of taxes, which reflects the current market assessment of the time value of money and the risks specific to the asset. It is not necessary to estimate both amounts in order to verify the absence of any impairment as it is sufficient that one of the two configured amounts is higher than the carrying amount.

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

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

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

In the presence of indications that any impairment recognised in previous financial years for property, plant and equipment or intangible assets other than goodwill, may no longer exist or may have been reduced, the recoverable amount is estimated again. If it results as higher than the net carrying amount, then the net carrying amount is increased up to, but not exceeding, the recoverable amount.

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

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

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

Any loss due to a reduction of value recorded for goodwill on the interim (half year) Financial Statements cannot be restated in subsequent financial years.

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Following the application of the equity method, in the presence of the indication of an impairment, the value of investments in associates and joint ventures must be compared with the recoverable amount (the so-called impairment test). The recoverable amount corresponds to the higher amount between the fair value less the costs of the sale, and the value in use.

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

For the purposes of determining the value in use of an associate or joint venture, an estimate is made of the share owned of the current value of future cash flows which are estimated will be generated by the associate or joint venture, including financial flows deriving from the operating activities of the associate or joint venture, and the amount that will be received for the final disposal of the investment (known as the Discounted Cash Flow – asset side).

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

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

The reversal of an impairment loss on investments in associates and joint ventures is recognised in the Income Statement.

FINANCIAL ASSETS AVAILABLE FOR SALE (IAS 39 UNTIL DECEMBER 31, 2017)

This item includes investments in entities other than subsidiaries, associates and joint ventures, and other securities not held for trading. These are included in the Statement of Financial Position under the item *"Other financial assets"*.

They are measured at fair value, if this can be reliably determined.

Gains and losses deriving from changes in fair value are recognised in a specific equity reserve.

When a reduction in fair value has been recognised directly in equity and there is objective evidence that the asset was impaired, the losses recognised up to that time in equity are reversed in the Income Statement.

A prolonged (meaning more than 12 months) or significant (meaning more than 50% for securities issued by entities operating in banking sector and more than one-third for securities issued by entities operating in other sectors) reduction in the fair value of equity securities and as compared with their cost is considered an indicator of impairment.

Any impairment of a financial asset available for sale recognised in the Income Statement may be restated in the Income Statement, with the exception of any impairment detected for stock securities classified as available for sale, which instead may not be restated with effect on the Income Statement.

Financial assets available for sale, whether debt or equity instruments for which fair value is not available, are accounted for at cost, reduced by any impairment losses based on the best market information available at the reporting date.

The acquisitions and sales of financial assets available for sale are recorded at the settlement date.

OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI) – IFRS 9 AS OF JANUARY 1, 2018

The equity instruments for which the Group - at the time of their initial recognition or at transition - exercised the irrevocable option to present the gains and losses deriving from the changes in fair value in equity (FVOCI), fall within this evaluation category. They have been classified as non-current assets under the item "Other financial assets at fair value through other comprehensive income".

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

They were subsequently carried at their fair value, and any gains and losses deriving from any changes in fair value were recognised in a specific equity reserve. This reserve will not be reversed to the Income Statement. In the event of sale of the financial asset, the amount suspended in equity is reclassified to retained earnings.

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

OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT (FVPL) - IFRS 9 AS OF JANUARY 1, 2018;

The items which fall within this evaluation category are:

- → The equity instruments for which the Group - at the time of the initial recognition or at transition - did not exercise the irrevocable option to present the gains and losses deriving from the changes in fair value as equity. These changes have been classified as non-current assets under the item *"Other financial assets at fair value through income statement";*
- → The Group's asset management business model provides that the sale of debt instruments and the cash flows associated with the financial asset represent the payment of the outstanding capital. The items classified as current assets under item *"Other financial assets at fair value through income statement";*
- → derivatives, with the exception of those designated as hedging instruments, which have been classified as *"Derivative financial instruments".*

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

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

INVENTORIES

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

RECEIVABLES

Receivables are initially recognised at their fair value, which normally corresponds to the consideration agreed or to the present value of the amount that will be collected. They are subsequently measured at amortised cost, which is reduced in the case of impairment. Amortised cost is calculated by using the effective interest rate method, which is equivalent to the discount rate that, when applied to future cash flows, renders the present value of such cash flows equal to the initial fair value.

Receivables in currencies other than the functional currency of the individual companies are adjusted to the financial year-end exchange rates and also recorded in the Income Statement. Receivables are derecognised when the right to receive cash flows is extinguished, when all the risks and rewards connected with holding the receivable essentially have been transferred, or in cases when the receivable is considered definitively irrecoverable after all the necessary recovery procedures have been completed. When the receivable is de-recognised, the relative provision is also reversed if the receivable had previously been impaired.

IMPAIRMENT OF RECEIVABLES (IAS 39 UNTIL DECEMBER 31, 2017)

Impairment losses on receivables are calculated according to the counter-party default risk, which is determined by taking the available information on the solvency of the counter-party, plus their historical data, into consideration. The carrying amount of receivables is reduced indirectly by the recognition of a provision. Significant individual positions that are objectively detected to be partially or wholly uncollectable are subject to individual impairment. The amount of the impairment loss takes into account the estimate of future recoverable flows and the applicable date of collection, recovery costs and expenses, and the fair value of guarantees, if any. Any positions that are not subject to individual impairment are included in groups with similar characteristics in terms of credit risk, and are collectively impaired based on percentages which increase as the expired time period increases. This collective impairment procedure is also applied to receivables not yet due. The impairment percentages are determined on the basis of historical experience as well as statistical data.

When the conditions that brought about the impairment of receivables no longer exist, the impairment losses recorded for previous financial years are are restated as credits to the Income Statement, up to but not exceeding the amortised cost that would have been determined had no impairment loss been recognised.

IMPAIRMENT OF RECEIVABLES (IFRS 9 AS OF JANUARY 1, 2018)

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

For financial receivables, the calculation of the impairment is made with reference expected losses for the next 12 months. These calculations are based on a matrix which includes the credit ratings of customers provided by independent assessors. In the event of any significant increase in credit risk subsequent to the original date of the receivable, the expected loss is calculated for the entire life of the receivable. The Group assumes that the credit risk of a financial instrument has not increased significantly after initial recognition, if it is determined that the financial instrument has a low credit risk at the reporting date of the financial statements.

The Group assesses whether there has been a significant increase in credit risk when the customer's credit rating, as attributed by independent assessors, undergoes a change that shows an increase in the probability of default.

The Group considers that a financial asset is in default when internal or external information indicates that it is unlikely that the Group will receive the full amount of the expired contractual amount due (e.g. when the receivables have been referred to the legal department).

PAYABLES

Payables are initially recognised at their fair value, which normally corresponds to the consideration agreed or to the present value of the amount that will be paid. They are subsequently valued at the amortised cost. Amortised cost is calculated by using the effective interest rate method, which is equivalent to the discount rate that, when applied to future cash flows, renders the present value of such cash flows equal to the initial fair value. Payables in currencies other than the functional currency of the individual companies are adjusted to the financial year-end exchange rates and are also recorded in the Income Statement. Payables are de-recognised from Financial Statements when the specific contractual obligation is extinguished.

In the event of a change in a financial liability that does not entail its cancellation, the gain or loss resulting from the change is calculated by discounting the change in the contractual cash flows using the original effective interest rate, and is immediately recognised in the Income Statement.

FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT (IAS 39 UNTIL DECEMBER 31, 2017)

This category includes securities mainly purchased to be sold in the short term and classified under current assets as *"Securities held for trading"*, financial assets which at the time of their initial recognition were designated at fair value to the Income Statement, classified as "Other financial assets", and derivatives (except those designated as effective hedging instruments), classified as "Derivative financial instruments".

These were carried at fair value with a corresponding entry in the Income Statement. Additional costs are expensed in the Income Statement.

The acquisitions and sales of financial assets available for sale are recorded at the settlement date.

CASH AND CASH EQUIVALENTS

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

CONTINGENT ASSETS

Any contingent assets, which arise as a result of past events and whose generation is linked to the occurrence or otherwise of unpredictable future events, are not recognised in the Financial Statements, unless revenue is virtually certain.

PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges include accruals for current obligations (legal or implicit) deriving from a past event, the fulfilment of which will likely require the necessary use of resources, and whose amounts can be estimated in a reliable manner.

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

If the effect of discounting is significant, provisions are stated at their current value.

A provision for restructuring is recognised only if, in addition to meeting the requisite conditions for provisions for liabilities and charges, there exists a detailed formal restructuring plan so that any third parties involved can maintain a valid expectation that the restructuring will take place.

EMPLOYEE BENEFITS

Employee benefits paid after termination of the employment relationship under defined benefit plans and other long-term benefits are subject to actuarial measurements. The liability recognised in the Financial Statements is the present value of the Group's obligation, net of the fair value of any plan assets.

For defined benefit plans, the actuarial gains and losses deriving from adjustments based on past experience and any changes in the actuarial assumptions are fully recognised in equity for the financial year in which they occur.

For other long-term benefits, the actuarial gains and losses are immediately recognised in the Income Statement.

The provision for employees' leaving indemnities (TFR) for Italian companies with at least 50 employees, is considered a defined benefit plan only for the portions accrued prior to January 1, 2007 (and not yet paid at the reporting date), whereas the portions accrued subsequent to that date are considered a defined contribution plan.

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

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGING INSTRUMENTS (IAS 39 UNTIL DECEMBER 31, 2017)

In accordance with the provisions of IAS 39, financial hedging instruments are accounted for in accordance with the methods established for hedge accounting only when:

→ at the commencement of hedging there is the formal designation and documentation of the hedging relationship between the derivative hedging instrument and the hedged item;
→ it is expected that hedging will be highly effective
→ its effectiveness can be reliably measured;
→ hedging is highly effective throughout the various financial reporting periods to which it is designated.

These derivative instruments are measured at fair value.

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

→ *Fair value hedge* – if a derivative financial instrument is designated as a hedge against exposure to changes in the fair value of an asset or liability attributable to a specific risk, the gain or loss resulting from any subsequent changes in the fair value of the hedging instrument is recognised in the Income Statement. For the portion attributable to the hedged risk, the gain or loss on the hedged item modifies the carrying amount of that item (basis adjustment), and it too is recognised in the Income Statement;
→ *Cash flow hedge* – if a derivative instrument is designated as a hedge against exposure to the variable financial flows of an asset or liability recognised in the Financial Statements, or against a highly probable future transaction, the effective portion of the change in the fair value of the hedging instrument is recognised directly in equity, while the ineffective portion is immediately recognised in the Income Statement. The amounts recognised directly in equity are reclassified to the Income Statement for the financial year in which the hedged item produced an effect on the Income Statement.

When a hedging instrument reaches maturity or is sold, terminated, exercised, or no longer meets the conditions to be designated as a hedging instrument, or if designation is voluntarily revoked then hedge accounting is discontinued.

The fair value adjustments accumulated in equity remain suspended in equity until the hedged item manifests an impact on the Income Statement. Subsequently they are reclassified to the Income Statement for the financial years during which the acquired financial asset or the assumed financial liability manifests an impact on the Income Statement.

When the hedged item is no longer expected to have any impact on the Income Statement, the fair value adjustments accumulated in equity are immediately recognised in the Income Statement.

For the derivative instruments that do not satisfy the prerequisites established by IAS 39 for adoption of hedge accounting, please refer to the section *"Financial assets at fair value through the Income Statement"*.

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

DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGING INSTRUMENTS (IFRS 9 AS OF JANUARY 1, 2018)

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

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

These derivative instruments are measured at fair value.

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

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

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

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

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

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

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

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

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

INCOME TAXES

Current taxes are determined on the basis of a realistic forecast of the charges payable under the current tax regulations of the country.

The Group periodically evaluates the choices made in determining taxes in reference to situations in which the tax legislation in force lends itself to interpretation and, if deemed appropriate, accounts for provisions for risks determined on the basis of the taxes it expects to pay to the tax authorities. The interest and penalties accrued on these taxes are recognised under Income tax in the Income Statement.

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

Deferred tax assets on tax losses carried forward, as well as on temporary differences, are only recognised when there is a likelihood of future recovery during the time frame covered by the forecasts of the business plans.

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

Current and deferred tax assets and liabilities are compensated when the income taxes are levied by the same taxation authority and when there is a legally enforceable right to offset. Deferred tax assets and liabilities are determined at the tax rates that are expected to be applicable to taxable income in the respective jurisdictions in which the Group operates, for the financial years during which the temporary differences will arise or be extinguished.

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

Deferred taxes are not discounted.

Deferred tax assets and liabilities are credited or debited to equity if they refer to items that have been credited or debited directly in equity during the financial year or during previous financial years.

EQUITY

TREASURY SHARES Treasury shares are deducted from equity.

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

COSTS OF CAPITAL TRANSACTIONS Costs that are directly attributable to the capital transactions of the Parent Company are recorded as reductions in equity.

SHARE-BASED PAYMENT TRANSACTIONS (CASH SETTLED)

The additional monetary benefits (cash settled) granted to certain Group executives have been recognised under *"Personnel Provisions"* (other long-term benefits) with a corresponding entry for *"Personnel Expenses"*. This cost is estimated at fair value and is accounted for over the duration of the plan according to the degree of maturity of the vesting condition at the reporting date. The estimate is reviewed with each financial statement up until the settlement date.

RECOGNITION OF REVENUES (IAS 18 UNTIL DECEMBER 31, 2017)

Revenue is measured at the fair value of the amount received for the sale of products or provision of services.

RECOGNITION OF REVENUES (IFRS 15 AS OF JANUARY 1, 2018)

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

PRODUCT SALES (IAS 18 UNTIL DECEMBER 31, 2017)

Revenue from sales of products is recognised when all the following conditions are met:

- the significant risks and rewards of ownership of the goods are transferred to the buyer;

- the effective control over the goods and the normal continuing level of activities associated with ownership have ceased;
- the value of revenue can be reliably determined;
- it is likely that the financial benefits deriving from the sale will be enjoyed by the enterprise;
- the costs incurred or to be incurred can be reliably determined.

In cases where the nature and extent of involvement of the seller are such to cause that the risks and rewards of ownership are not in fact transferred, then the recognition date of the revenues is deferred until the date on which the transfer can be considered to have taken place.

PRODUCT SALES (IFRS 15 AS OF JANUARY 1, 2018)
Revenues from product sales are recognised when the performance obligations towards customers have been met. Performance obligations are deemed to have been met when the control of goods has been transferred to the customer, i.e., generally when the goods have been delivered to the customer.

Retrospective discounts are applied to product sales based on the achievement of the objectives defined within the framework of commercial agreements. Revenues from sales are recognised net of these discounts, and in using this method, are estimated on the basis of historical experience for the expected value and amounts that are not expected to be de-recognised.

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

PROVISION OF SERVICES
(IAS 18 UNTIL DECEMBER 31, 2017)
Revenue from the provision of services is recognised only when the results of the transaction can be reliably estimated, with reference to the state of completion of the transaction at the reporting date.

The results of a transaction can be reliably estimated only when all the following conditions have been satisfied:

- the amount of revenue can be determined reliably;
- it is likely that the business will enjoy the financial benefits of the transaction;
- the stage of completion of the transaction at the reporting date can be reliably measured;
- the costs incurred for the transaction and the costs to be incurred to complete it can be reliably determined.

PROVISION OF SERVICES
(IFRS 15 AS OF JANUARY 1, 2018)
Revenues for services are recognised when the service rendered has been completed.

FINANCIAL INCOME AND EXPENSES Financial income and expenses are recognized on an accrual basis.

ROYALTIES Royalties are recognised over time, as provided for by the content of the relevant agreement, which provides for the transfer to the customer of the rights of access to intellectual property. The amounts for royalties are estimated using the output method, and the royalties invoiced for each period, directly correlate with the value transferred to the customer.

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

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

Earnings (losses) per share - diluted: Diluted earnings per share the income (loss) attributable to the Group by the weighted average number of outstanding shares during the financial year excluding treasury shares. For the purposes of calculating the diluted earnings per share, the weighted average number of shares outstanding is adjusted based on the assumption of all the assignees rights for the financial year which could potentially have a dilutive effect, while the Group's net income is adjusted to take into account of any effects, net of taxes, for the financial year pertinent to the aforesaid of rights

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

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

FOREIGN CURRENCY TRANSACTIONS
Foreign currency transactions are recorded at the prevailing exchange rates on the date of the transaction. Monetary foreign currency assets and liabilities are translated at the prevailing exchange rates at the reporting date. Exchange rate differences arising from the settlement or extinction of monetary items or their translation at rates, other than those of their initial recognition at the beginning of the financial year or to those of previous financial year-end, are recognised in the separate consolidated Income Statements.

Whenever the conditions set out in IAS 21.15 for the designation of inter-company monetary items such as Net Investment in Foreign Operations are met, in accordance with the provisions of IAS 21.32, the exchange rate differences as of the date of the designation are recognized directly in the Consolidated Statement of Comprehensive Income.

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

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

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

The financial statements of companies prepared in currencies other than the Euro, operating in high-inflation countries, have been translated into Euro by applying the period-end exchange rates to the items of both the Statement of Financial Position and the Income Statement.

During the course of the third quarter of 2018, the inflation rate accumulated over the past three years in Argentina exceeded 100%. This, together with other characteristics of the country's economy, has led the Group to adopt, as of July 1, 2018, the accounting standard IAS 29 - Financial Reporting in Hyperinflationary Economies for the Argentine subsidiary Pirelli Neumaticos S.A.I.C.

NON-CURRENT ASSETS HELD FOR SALE
AND GROUPS UNDER DISPOSAL
Non-current assets and disposal groups are classified as held for sale if their carrying amount is recoverable mainly through their sale rather than through their continuous use. This occurs if the non-current asset or disposal group is available for sale under current conditions and the sale is highly probable, or if a binding program for sale has already begun, or activities to find a buyer have already commenced and it is expected that the sale will be completed within one year following their classification date.

In the consolidated Statement of Financial Position, the non-current assets held for sale and the current and non-current assets/liabilities of the disposal group are presented as a separate item from other assets and liabilities, and their totals are reflected in current assets and liabilities, respectively.

Non-current assets classified as held for sale and disposal groups are measured at the lower between carrying amount and fair value less costs to sell.

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

DISCONTINUED OPERATIONS
A discontinued operation is a component that has been disposed of or classified as held for sale and represents an important independent business unit or geographical area of activity, and pertains to a single, coordinated disposal programme.

On the consolidated Income Statement for the period, the Net income (loss) of the discontinued operations, as well as the gain or loss resulting from fair value measurement net of the costs of sale or from disposal of the assets or disposal groups constituting the discontinued operation are combined in a single item at the end of the Income Statement separately from the result for continuing operations.

It is to be noted that with regard to transactions between the Industrial business, which qualifies as a "discontinued operation" and the other activities of the Pirelli Group ("continuing business"), for the Income Statement it was decided to opt for the so called "post disposal" treatment. In particular, with reference to transactions of a continuous commercial nature, it was decided to represent these transactions in the Income Statement data for the continuing business, and consequently a result was recorded that takes these components into account, as well as the recognition of the relative inter-eliminations within the item "discontinued operations".

The cash flows for discontinued operations are shown separately in the Statement of Cash Flows.

The aforesaid information is also presented for the comparative period.

3.1 ACCOUNTING STANDARDS AND INTERPRETATIONS APPROVED AND IN FORCE AS OF JANUARY 1, 2018

In accordance with the IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, the IFRS effective as of January 1, 2018 are as follows:

- IFRS 15 - Revenue from Contracts with Customers:
  The impacts deriving from the application of this standard, which replaces the previous IAS 18, are described in Note 3.3 *"Impacts deriving from the adoption of IFRS 15 and IFRS 9"* which includes the impacts resulting from the first application of each principle.

- IFRS 9 – Financial Instruments:
  IFRS 9 replaces the previous IAS 39 standard as regards

the classification and measurement of financial assets and liabilities, and the impairment of financial assets and hedge accounting. Refer to Note 3.3 *"Impacts deriving from the adoption of IFRS 15 and IFRS 9"* for the impacts resulting from the first application of this principle.

→ Amendments to IFRS 2 – Share-based payments and Classification and Measurement of Share-based Payment Transactions
The aim of these amendments is to clarify the accounting treatment of certain share-based payments. There were no impacts on the Group's Financial Statements arising from the application of these amendments;

→ IFRIC 22 - Foreign Currency Transactions and Advance Considerations
The aim of this interpretation is to determine the exchange rates to be used in the conversion of advance payments paid or received in foreign currency. In the presence of paid or received advance payments, the exchange rate to be used to convert assets, liabilities, revenues or costs recognised at a later date is the same used to convert the advance payment. There were no impacts on the Group's Financial Statements.

→ Amendments to IAS 40 - Transfers of Investment Property
These changes further clarify the situations in which it is possible to reclassify a real estate asset from within or from outside the category of Investment Property. these changes were not applicable to the Group's Financial Statements.

→ Improvements to the IFRS 2014-2016 cycle (issued by the IASB in December 2016):
The IASB has issued a series of amendments to 3 current principles, which particularly concern the following aspects: clarification regarding the scope of application of IFRS 12 Disclosure of Interests in Other Entities - in the presence of entities falling within the scope of IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations; the evaluation of associates and joint ventures at fair value in the presence of investment entities in IAS 28 - Investment in Associates; and the elimination of short-term exemptions for those who adopt the IFRS for the first time in IFRS 1 - First Time Adoption of the IFRS. The amendments to IAS 28 and IFRS1 were not applicable to the Group, while the amendments to IFRS 12 would only have been applicable only in the presence of entities classified under the scope of IFRS 5. There were no impacts on the Group's Financial Statements arising from the application of these amendments.

→ Amendments to IFRS 4 - Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
These changes govern the implementation of the new standard IFRS 9 - Financial Instruments, if IFRS 4 is also applicable, which is subject to further amendments. These changes were not applicable to the Group.

3.2 INTERNATIONAL ACCOUNTING STANDARDS AND/OR INTERPRETATIONS THAT HAD BEEN ISSUED BUT HAD NOT YET ENTERED INTO FORCE DURING 2018

Pursuant to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors - the new standards and interpretations that had been issued but had not yet come into force, or had not yet been endorsed by the European Union at December 31, 2018, and which were therefore not applicable, along with any expected impacts on the consolidated Financial Statements.

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

→ Amendments to IFRS 10 and IAS 28 - Sales or contributions of Assets between an Investor and its Associate/Joint Venture
The IASB issued these amendments to eliminate any inconsistency between IFRS 10 and IAS 28, stating that if the assets sold/transferred constitute a business as defined by IFRS 3, the possible gains or losses must be fully recognised, and any gains or losses recognised pro-rata only for the pertinent portion.

These amendments, which came into force have been deferred indefinitely, and have not yet been endorsed by the European Union. No effects are expected on the Financial Statements due to the future application of these amendments since the current accounting treatment adhered to by the Group is already compliant.

→ 16 IFRS – Leases
The new leasing standard, which will replace the current IAS 17, provides a new definition for the term lease, and introduces a criterion based on the control (right of use) of an asset in order to distinguish lease contracts from contracts for the provision of services, by specifying discriminating factors, such as the identification of the asset, the right to replace it, the right to substantially obtain all the financial benefits deriving from the use of the asset and, lastly, the right to direct the use of the asset underlying the contract.

For the lessee the standard establishes a single model for the recognition and evaluation of lease contracts which provides for the recognition of the asset subject to a lease, even an operating lease as an equity asset with a corresponding entry under financial debt, for an amount equal to the present value of future payments. The concept of operating leases has disappeared. To the contrary, this standard does not include significant amendments for lessors.

This standard, approved by the European Union, will be applicable as of January 1, 2019. The Group will apply the new standard as of the date of entry into force.

The Group has completed the preliminary project for assessing the impacts deriving from the application of the new standard on the transition date (January 1, 2019). This process was carried out in several phases, including the complete mapping of the contracts potentially suitable for containing a lease, and the analysis of the same in order to understand the main clauses relevant to IFRS 16.

The Group availed itself of the practical expedient provided for by the standard 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 process for the implementation of the standard is in the phases of being completed. It foresees the setting up of the IT infrastructure for the accounting management of the standard, plus the alignment of administrative processes and controls to protect the critical areas which the standard impacts. The completion of this process is expected within the first quarter of 2019.

The Group has chosen to apply the standard retrospectively, recording the effect deriving from the application of the standard under equity as at January 1, 2019 (modified retrospective method). In particular, the Group will account for lease contracts previously classified as operating leases as follows:

→ 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;
→ a right of use equal to the value of the financial liability at the transition date, net of any accruals and deferrals relative to the lease and recognised in the Statement of Financial Position at the closing date of these financial statements.

The following table shows the estimated impacts from the adoption of IFRS 16 at the transition date:

(In millions of euro)

NON CURRENT ASSET	
Property, property and equipment	
- Leased lands	16.3
- Leased buildings	376.5
- Leased plant and machinery	38.3
- Leased industrial and commercial equipment	3.6
- Leased office furniture and IT material	1.4
- Leased cars, light vehicles and similar	20.3
- Leased heavy goods vehicles, lift trucks, internal transportation vehicles	39.6
Total	**496.0**
CURRENT ASSET	
Other receivables	(1,6)
Total	**494,4**

(In millions of euro)

NON CURRENT LIABILITIES	
Borrowings from banks and other financial institutions	422.0
Provision for liabilities and charges	2.6
CURRENT LIABILITIES	
Borrowings from banks and other financial institutions	74.8
Other payables	(5.0)
Total	**494.4**

The value of non-current assets relative to operating lease contracts was increased due to the balance of prepaid expenses and accrued income recognised at December 31, 2018 to the amount of euro 1.6 million (included under item other current payables) and decreased due to the balance of any accrued expenses and deferred income recognised at December 31, 2018 to the amount of euro 5.0 million (included under item other current liabilities)

In adopting IFRS 16, the Group decided to avail itself of the exemption granted by the standard in relation to short-term leases (contracts with a duration of less than 12 months) for all asset classes. For these contracts, the introduction of IFRS 16 will not entail the recognition of the financial liability of the lease and the related right of use. Instead the lease payments will be recorded in the Income Statement on a straight-line basis for the duration of the respective contracts.

The Group also intends to avail itself of the exemption granted by the standard with regard to lease contracts for which the underlying asset is configured as a low-value asset, i.e., lease contracts for which the unit value of the underlying assets is not greater than euro 8 thousand when new.

Contracts for which the exemption was applied fall mainly within the following categories:

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

The Group intends to use the practical expedient as provided for by IFRS 16 with for the separation of non-lease components for cars. The non-lease components on these assets will not be separated and accounted for separately from the lease components, but will be considered together with the latter in determining the financial liability of the lease and the relative right of use.

Furthermore, with reference to the rules for transition, the Group intends to avail itself of the following practical expedients available in the case of opting for the modified retrospective method:

→ the classification of contracts that expire within 12 months from the date of transition as a short-term leases. For these contracts, lease payments will be recorded in the Income Statement on a linear basis;
→ use of the information present at the transition date for the determination of the lease term, with particular reference to the exercise of extension and early closure options.

The transition to IFRS 16 introduces some elements of professional judgement as well as the use of assumptions and estimates in relation to the lease term and the definition of the incremental borrowing rate. The standards are summarised as follows:

→ the Group has decided not to apply IFRS 16 for contracts containing a lease that has 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 Group 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 Group, 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 Group 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 Group includes 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 Group, specific assessments are contractually conducted (for example, the Group is already negotiating a new contract or has already given notice to the lessor);
→ incremental borrowing rate: the Group decided to use the incremental borrowing rate as the discount rate to discount lease contract payments. This rate consists of the *risk free rate* of the country in which the contract is negotiated and is based on the duration of the contract. It is then adjusted on the basis of the Group's credit spread and local credit spread.

Reconciliation of the commitments for minimum future payments due for non-cancellable operating leases
The following table provides reconciliation between the future commitments of lease contracts, which are disclosed in paragraph 10, and the expected impact from the adoption of the IFRS 16 as of January 1, 2019:

(In million of euro)

Minimum future payments due for non-cancellable operating leases 12/31/2018 (IAS 17)	**517.9**
Effects of extension option excercize	155.8
Short term contracts at 1/1/2019	(9.2)
Low value asset contracts	(12.1)
Service component	0.4
Finance lease liabilities at 31/12/2018	0.2
Discounting effects	(156.1)
Finance liabilities for lease contracts at 1/1/2019 (IFRS 16)	**496.9**

→ IFRIC 23 – Accounting for uncertainties in Income Taxes
This interpretation clarifies the criteria to be applied for the recognition and measurement of current and deferred tax assets/pre-paid tax in the event of uncertainty regarding tax treatments, i.e. situations in which it is not certain that a specific treatment will be accepted by the tax authorities (e.g. the deductibility of certain costs or the exemption of certain income), but also uncertainty regarding the determination of taxable income, the tax bases for assets and liabilities, tax losses and the tax rates to be applied.

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

This interpretation, approved by the European Union will be applicable as of January 1, 2019. No impacts on the Group financial statements are foreseen.

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

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

These amendments, which will come into force as of January 1, 2019, have not yet been approved by the European Union. With regard to the change relating to financial assets, assessments are under-way to verify their applicability to the Group; the change in the accounting treatment of financial liabilities in the event of changes which do not lead to their accounting elimination is applicable to the Group but had no impact as the Group already applies this accounting treatment.

→ Amendments to IAS 28 - Investments in Associates and Joint Ventures: Long-term interests in associates and joint ventures.
These amendments have clarified that, in the event that investments in associates and joint ventures are not evaluated using the equity method (IAS 28) they must be evaluated in accordance with the provisions of IFRS 9.

This amendment, approved by the European Union, became applicable as of January 1, 2019. There were no impacts on the Group's Financial Statements in that investments in associates and joint ventures are evaluated using the equity method.

→ Improvements to IFRS 2015-2017 (issued by the IASB in December 2017).
The IASB issued a series of changes to 4 principles in force, including, in particular, to the following aspects:

→ IFRS 3 - Business combinations: the attainment of control of a business that is classified as a joint operation must be accounted for as a business combination in phases, and the previously held investment must be re-measured at fair value at the date of acquisition of control.
→ IFRS 11 – Joint arrangements: in the case of the attainment of the joint control of a business which is classified as a joint operation, the previously held investment must be re-measured at fair value.
→ IAS 12 - Income taxes: the accounting treatment of the tax effects of dividends on financial instruments classified as equity must follow that of the transactions or events which generated the distributable dividend.
→ IAS 23 – Borrowing costs: in the event that the specific financing relating to a qualifying asset is still in place at the time when the asset is ready for use or sale, the same becomes part of general generic financing.

These amendments, which will come into force as of January 1, 2019, have not yet been approved by the European Union. Any impacts on the Group's Financial Statements are however currently being analysed.

→ Amendments to IAS 19 - Employee Benefits
These 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 as a result of the asset ceiling.

These amendments, which will come into force as of January 1, 2019, have not yet been approved by the European Union. Any impacts on the Group's Financial Statements are however currently being analysed.

→ Amendments to IFRS 3 Business Combinations
These amendments have introduced a new definition for the term *"business"*, as the current one is too complex resulting in too many transactions qualifying as a business combination.

These amendments, which will come into force as of January 1, 2020, have not yet been approved by the European Union. No impacts on the Group financial statements are foreseen.

→ Amendments to IAS 1 - Presentation of Financial Statements, and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors
In addition to clarifying the concept of materiality, these amendments focus on the definition of a coherent and unique concept of materiality amongst the various accounting standards and incorporate the guidelines included in IAS 1 for intangible assets.

These amendments, which will come into force as of January 1, 2020, have not yet been approved by the European Union. No impacts on the Group financial statements are foreseen.

3.3 IMPACTS DERIVING FROM THE ADOPTION OF IFRS 15 AND IFRS 9

The table below shows the effects on the Statement of Financial Position at opening on January 1, 2018 following the first application of IFRS 15 and IFRS 9:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In thousands of euro)

	Note	12/31/2017	IFRS 15 1st adoption	IFRS 9 1st adoption	01/01/2018
Property, plant and equipment	10	2,980,294			2,980,294
Intangible assets	11	5,893,704			5,893,704
Investments in associates and J.V.	12	17,480			17,480
Other financial assets	13	229,519		*(229,519)*	-
Other financial assets at fair value through other comprehensive income	13	-		*80,492*	80,492
Other financial assets at fair value through income statement	13	-		*149,027*	149,027
Deferred tax assets	14	111,553		*517*	112,070
Other receivables	16	204,051		*(633)*	203,418
Tax receivables	17	27,318			27,318
Derivative financial instruments	28	878			878
Non-current assets		**9,464,797**	**-**	**(116)**	**9,464,681**
Inventories	18	940,668			940,668
Trade receivables	15	652,487			652,487
Other receivables	16	400,538		*(907)*	399,631
Securities held for trading		33,027		*(33,027)*	-
Other financial assets at fair value through income statement	19	-		*33,027*	33,027
Cash and cash equivalents	20	1,118,437			1,118,437
Tax receivables	17	35,461			35,461
Derivative financial instruments	28	27,770			27,770
Current assets		**3,208,388**	**-**	**(907)**	**3,207,481**
Assets held for sale	40	**60,729**			**60,729**
Total Assets		**12,733,914**	**-**	**(1,023)**	**12,732,891**
Equity attributable to owners of the Group:	21,1	**4,116,758**	**-**	**(1,023)**	**4,115,735**
-Share capital		1,904,375			1,904,375
-Reserves		2,035,991		*(1,023)*	2,034,968
-Net income (loss) for the period		176,392			176,392
Equity attributable to non-controlling interests:	21,2	**60,251**	**-**	**-**	**60,251**
-Reserves		60,936			60,936
-Net income (loss) for the period		(685)			(685)
Total Equity	21	**4,177,009**	**-**	**(1,023)**	**4,175,986**
Borrowings from banks and other financial institutions	24	3,897,089			3,897,089
Other payables	26	74,435			74,435
Provisions for liabilities and charges	22	127,124			127,124
Provisions for deferred tax liabilities	14	1,216,635			1,216,635
Employee benefit obligations	23	274,037			274,037
Tax payables	27	2,399			2,399
Derivative financial instruments	28	54,963			54,963
Non-current liabilities		**5,646,682**	**-**	**-**	**5,646,682**
Borrowings from banks and other financial institutions	24	559,168			559,168
Trade payables	25	1,673,642			1,673,642
Other payables	26	565,254			565,254
Provisions for liabilities and charges	22	45,833			45,833
Employee benefit obligations	23	-			-
Tax payables	27	48,416			48,416
Current assets	28	17,910			17,910
Current liabilities		**2,910,223**	**-**	**-**	**2,910,223**
Total Liabilities and Equity		**12,733,914**	**-**	**(1,023)**	**12,732,891**

IFRS 15 - REVENUE FROM CONTRACTS WITH CUSTOMERS: As a result of the application of this new accounting standard, which replaces the previous IAS 18, some amounts previously accounted for under costs and mainly related to variable considerations payable to indirect customers, and mainly linked to the achievement of sales targets, have been recorded as a reduction to revenues or other revenues, with insignificant impact. The restatement of these amounts did not alter the equity of the Group at the date of transition which was January 1, 2018. The comparable data for the 2017 financial year was not subjected to restatement in that the Group has opted for the application of the modified retrospective method during the transition.

The restatement of the Income Statement is presented below in accordance with the previous IAS 18 standard:

(In thousands of euro)

	IAS 18	2018 Reclassifications	IFRS 15
Revenues from sales and services	5,233,402	(38,931)	5,194,471
Other income	495,018	(11,813)	483,205
Changes in inventories of unfinished, semi-finished and finished products	201,416	-	201,416
Raw materials and consumables used (net of change in inventories)	(1,818,199)	-	(1,818,199)
Personnel expenses	(1,067,579)	-	(1,067,579)
Amortisation, depreciation and impairment	(414,523)	-	(414,523)
Other costs	(1,908,906)	50,744	(1,858,162)
Net impairment loss on financial assets	(21,273)	-	(21,273)
Increase in fixed assets for internal work	3,700	-	3,700
Operating income (loss)	**703,056**	**-**	**703,056**

IFRS 15 had no impact on the methods used for recognising revenues.

The Group availed itself of the practical expedient provided for by IFRS 15 regarding performance obligations not fulfilled at the end of the financial year, as these performance obligations relate to contracts whose duration does not exceed one year.

IFRS 9 – FINANCIAL INSTRUMENTS IFRS 9 was applied retrospectively. The date of first application was January 1, 2018. The comparable data for 2017 was not subjected to restatement.

→ Classification and measurement:
At January 1, 2018, based on the assessment of the applicable business model and the contractual conditions of the cash flows associated with the assets, the financial assets were classified in the categories as provided for by IFRS 9. The equity instruments which at December 31, 2017 were classified as financial assets available for sale, (AFS) were designated as financial assets at fair value through other comprehensive income (FVOCI) in that they do not fall under the core business of the Group. The sole exception being the investment in Mediobanca S.p.A., which instead has been classified as financial assets whose *changes* in fair value have been recognised in the Income Statement (FVPL), as it was expected to be sold in the short term. The equity investment in Mediobanca S.p.A. was sold in the first days of January 2018 and the positive change in fair value to the amount of euro 3,780 thousand euro was recorded in the Income Statement under the item *"Gains on equity investments"* (Refer to Note 36.2).

The financial assets that at December 31, 2017 were classified as securities held for trading were classified as financial assets at fair value through the Income Statement (FVPL).

The following table summarises the reclassifications made:

(In thousands of euro)

	Other non current financial assets at FV through income statement	Other current financial assets at FV through income statement (Securities held for trading at 2017)	Other financial assets at FV through other comprehensive income (available for sale financial assets 2017)	Financial assets at amortised cost (gross trade receivables and gross other receivables)
Total at 12/31/2017	**-**	**33,027**	**229,519**	**1,526,549**
Reclassification from available for sale financial assets to other financial assets at FV through income statement	149,027	-	(149,027)	-
Total at 01/01/2018	**149,027**	**33,027**	**80,492**	**1,526,549**

→ Impairment of financial assets
The Group has analysed the impacts of the new impairment model of the IFRS 9 based on the losses expected from trade and financial receivables.

For trade receivables, the Group has applied the simplified approach permitted by the standard, according to which expected losses are calculated over the entire life of the receivables. The Group has used a matrix based on historical experience which is linked to the ageing of the receivable itself, and which is adjusted to take into account the specific factors of some customers. There were no impacts on the Group's equity at the transition date due to the application of the new impairment model to trade receivables.

For financial receivables, considered to be of a low credit risk, the calculation of the impairment was made with reference to the losses expected in the following 12 months, and was based on a matrix which included the ratings of customers provided by independent market operators.

The application of the new model for expected losses to financial receivables entailed the recognition of a loss on the transition date - net of the deferred tax effect - equal to euro 1,023 thousand and recognised as a reduction of the equity, in accordance with the rules of transition established by IFRS 9.

→ *Hedge accounting*: The Group adopted the new rules for hedge accounting as provided for by IFRS 9 prospectively as of January 1, 2018. The hedging relationships in place at December 31, 2017 satisfied the conditions provided for by IFRS 9 for the continued adoption of hedge accounting. It should be noted that, based on the provisions of IFRS 9, the cash flow hedge reserve for cash flow hedges outstanding at December 31, 2017 has been partly reclassified to a new reserve for the cost of hedging under equity to the amount of euro 1,000 thousand. The reclassification relates to the change in the fair value of the cross currency basis spread which, not being hedge accounting, is separated and recorded in a separate equity reserve, while the cash flow hedge reserve only includes changes in fair value in hedge accounting.

The impacts on the individual components of the Group's equity deriving from the first application of IFRS 9 are summarised in the following table:

(In thousands of euro)

	Reserve for fair value adjustment of available for sale financial assets	Reserve for fair value adjustment of financial assets at fair value through other comprehensive income	Reserve for cash flow hedge	Reserve for cost of hedging	Other reserves / retained earnings
Total at 12/31/2017	**19,410**	**-**	**(13,454)**	**-**	**2,503,272**
Reclassification from available for sale financial assets to other financial assets at FV through income statement (Mediobanca)	(10,554)	-	-	-	10,554
Reclassification from available for sale financial assets to other financial assets at FV through other comprehensive income	(8,856)	8,856	-	-	-
Impairment of financial assets	-	-	-	-	(1,023)
Reclassification for hedge accounting	-	-	(1,000)	1,000	-
Total at 01/01/2018	**-**	**8,856**	**(14,454)**	**1,000**	**2,512,803**

It is to be noted that the fair value adjustment reserve for the financial assets available for sale at December 31, 2017 (positive to the amount of euro 19,410 thousand) was reclassified to a new reserve under equity for the investments designated as financial assets at their fair value recognised under other items of the Comprehensive Income Statement, while investments, whose changes at fair value were recognised in the Income Statement, have been reclassified to retained earnings. These reserves are not reversed to the Income Statement if the investment is disposed of;

4. FINANCIAL RISK MANAGEMENT POLICIES

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

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

4.1 TYPES OF FINANCIAL RISKS

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

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

The Group aims to minimise the impact of transaction risk related to exchange rate volatility. In order to achieve this objective, the Group's procedures provide that the Operating Units are responsible for the collection of all information inherent to positions subject to transaction risk, whose coverage is then provided in the form of forward contracts which are entered into with the Group Treasury.

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

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

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

Furthermore, as part of the annual and three-year planning process, the Group makes exchange rate forecasts by 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 transaction risk for future transactions.

From time to time the Group assesses the opportunity to engage in currency hedging on future transactions for which it typically makes use of either forward buy or sell operations, or optional operations such as risk reversal (for example; zero cost collars). Hedge accounting, as provided for by IFRS 9, is activated if and when the requirements are met.

b) Translation risk
The Group owns controlling interests in companies that prepare their Financial Statements in currencies other than the Euro, which is the currency used to prepare the consolidated Financial Statements. This exposes the Group to currency translation risk, which is generated by the conversion into Euro of the assets and liabilities of these subsidiaries.

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

Total consolidated equity at December 31, 2018 stood at 47.8% (compared to approximately 57.1% at December 31, 2017). The most important currencies for the Group other than the Euro were the Brazilian Real (10.7%; 8.8% at December 31, 2017), the Turkish Lira (0.5%; 0.7%; at December 31, 2017), the Chinese Renminbi (12.2%, 12.8% at December 31, 2017), the Romanian Leu (8.5%; 9.0% at December 31, 2017), the Pound Sterling (3.9%, 3.4% at December 31, 2017), the US Dollar (3.8%; 3.3% at December 31, 2017) the Mexican Peso (7.4%, 2.5% at December 31, 2017) and the Russian Rouble (1.6%; 1.0% at December 31, 2017).

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

(In thousands of euro)

	Appreciation of 10%		Depreciation of 10%	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Brazilian Real	54,258	40,903	(44,393)	(33,466)
Turkish Lira	2,543	3,420	(2,080)	(2,798)
Chinese Renminbi	61,628	59,309	(50,423)	(48,526)
Romanian Leu	43,204	41,610	(35,349)	(34,045)
Russian Rouble	8,308	4,868	(6,797)	(3,983)
British Pound	19,481	15,681	(15,939)	(12,830)
Argentinian Pesos	8,779	-	(7,183)	-
US Dollar	19,036	15,168	(15,575)	(12,411)
Mexican Pesos	37,594	11,648	(30,759)	(9,530)
Total on consolidated equity	**254,831**	**192,607**	**(208,498)**	**(157,589)**

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

The Group assesses, on the basis of the market circumstances, whether to enter into derivative contracts for hedging interest rate risk, for which hedge accounting is activated when the conditions set forth in the IFRS 9 are met.

The table below shows the effects on the net income (loss) results from an increase or decrease of 0.5% in the level of interest rates of all currencies to which the Group is exposed – all other conditions being equal:

(In thousands of euro)

	+0.50%		-0.50%	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Impact on Net income (loss)	(13,039)	(12,513)	13,039	12,513

The effects on the Group's equity deriving from changes in the LIBOR and EURIBOR rates calculated on the interest rate hedging instruments outstanding at December 31 2018 are described in Note 28 - *"Derivatives"*.

PRICE RISK ASSOCIATED WITH FINANCIAL ASSETS The Group's exposure to price risk is limited to the volatility of financial assets such as listed and unlisted equities and bonds, which constituted approximately 0.7% of the total consolidated assets at December 31, 2018 (2.1% at December 31, 2017). These assets were classified as other financial assets at fair value through other comprehensive income and other financial assets at fair value through income statement (assets available for sale and securities held for trading at December 31, 2017).

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

Other financial assets at fair value through other comprehensive income are represented by listed securities amounted to euro 28,448 thousand (euro 179,204 thousand included in the item financial assets available for sale at December 31, 2017) and those represented by securities indirectly associated with listed securities (Fin. Priv. S.r.l.) amounted to euro 15,604 thousand, (euro 19,908 thousand at December 31, 2017). These financial assets constituted 45.9% of the total financial assets subject to price risk (75.8% at December 31, 2017). A positive change of +5% in the prices of the aforesaid listed securities all other conditions being equal, would result in a positive change to the Group's equity of euro 1,422 thousand (a positive change of euro 8,960 thousand at December 31, 2017) while a negative change of -5% in the prices of the aforesaid listed equities, all other conditions being equal, would result in a negative change to the Group's equity of euro 1,422 thousand (a negative change of euro 8,960 thousand to the Group's equity at December 31, 2017).

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

Other instruments used for commercial credit risk management is the taking out of insurance policies. As of January 2012, the company signed a master agreement which expired in December 2018, with a leading insurance company for worldwide coverage for credit risk mainly related to sales on the Replacement channel (with an approximate 75% acceptance rate at December 2018).

Insurance coverage was extended to also cover the two year 2019 - 2020 period. At December 31, 2018, the amount of trade receivables remained essentially consistent with that at closing for the previous financial year. Instead, for the management of its temporary cash surpluses or for trading in derivative instruments, the Group operates only with highly rated financial counterparties.
Pirelli does not hold public debt instruments from any European country, and constantly monitors its net credit exposure to the banking system, and does not show significant concentrations of credit risk.

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

The principal instruments used by the Group to manage liquidity risk are comprised of its one and three year financial plans, and its treasury plans. These allow for the complete and correct detection and measurement of incoming and outgoing cash flows. The differences between the plans and the final data are constantly analysed.

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

The prudent management of the aforesaid risk requires the maintenance of an adequate level of cash or cash equivalents and/or highly liquid short-term financial instruments, the availability of funds obtainable through an adequate amount of committed lines of credit and/or the use of the capital market, and the diversification of products and deadlines in order to seize the best opportunities available.

At December 31, 2018 the Group had, in addition to cash and other current financial assets at fair value through income statement to the amount of euro 1,354,096 thousand (euro 1,151,464 thousand at December 31, 2017), unused credit facilities to the amount of euro 700,000 thousand (euro 700,000 thousand at December 31, 2017) maturing in the second quarter of 2022.

Maturities for financial liabilities at December 31, 2018 were composed as follows:

(In thousands of euro)

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

Maturities for financial liabilities at December 31, 2017 were composed as follows:

(In thousands of euro)

	within 1 year	1 to 2 years	2 to 5 years	over 5 years	Total
Trade payables	1,673,642	-	-	-	1,673,642
Other payables	565,254	5,329	17,320	51,786	639,689
Financial instruments	17,910	23,893	31,070	-	72,873
Borrowings from banks and other financial institutions	643,243	708,980	3,495,823	-	4,848,046
Total	**2,900,049**	**738,202**	**3,544,213**	**51,786**	**7,234,250**

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, which reflects the significance of the inputs used in determining the fair value. The levels are defined as follows:

- level 1 – unadjusted prices quoted on an active market for assets or liabilities subject to evaluation;
- level 2 – inputs different from the aforesaid prices quoted 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 and liabilities measured at fair value at December 31, 2018, subdivided into the three levels as defined above:

(In thousands of euro)

	Note	Carrying amount at 12/31/2018	Level 1	Level 2	Level 3
FINANCIAL ASSETS:					
Financial assets carried at fair value through Income Statement:					
Other current financial assets at fair value through income statement	19	27,196	-	27,196	-
Current derivative financial instruments	28	77,650	-	77,650	-
Non current derivative financial instruments	28	-	-	-	-
Hedging instruments:					
Current derivative financial instruments	28	20,917	-	20,917	-
Non current derivative financial instruments	28	20,134	-	20,134	-
Other financial assets at fair value through other comprehensive income					
Securities and shares		53,207	28,448	15,604	9,155
Investment funds		15,574	-	15,574	-
	13	68,781	28,448	31,178	9,155
TOTAL ASSETS		**214,678**	**28,448**	**177,075**	**9,155**
FINANCIAL LIABILITIES:					
Financial liabilities carried at fair value through Income Statement:					
Current derivative financial instruments	28	(59,602)	-	(59,602)	-
Hedging instruments:					
Current derivative financial instruments	28	-	-	-	-
Non current derivative financial instruments	28	(16,039)	-	(16,039)	
TOTAL LIABILITIES		**(75,641)**	**-**	**(75,641)**	**-**

The following table shows assets and liabilities carried at fair value at December 31, 2017, subdivided into the three levels as defined above:

(In thousands of euro)

	Note	Carrying amount at 12/31/2017	Level 1	Level 2	Level 3
FINANCIAL ASSETS:					
Financial assets carried at fair value through Income Statement:					
Securities held for trading		33,027	-	33,027	-
Current derivative financial instruments	28	27,770	-	27,770	-
Hedging derivative instruments:					
Non-current derivative financial instruments	28	878	-	878	-
Financial assets available-for-sale:					
Securities and shares		214,250	179,204	19,908	15,138
Investment funds		15,269	-	15,269	
	13	229,519	179,204	35,177	15,138
TOTAL ASSETS		**291,194**	**179,204**	**96,852**	**15,138**
FINANCIAL LIABILITIES:					
Financial liabilities carried at fair value through Income Statement:					
Current derivative financial instruments	28	(17,910)	-	(17,910)	-
Hedging derivative instruments:					
Non-current derivative financial instruments	28	(54,963)	-	(54,963)	-
TOTAL LIABILITIES		**(72,873)**	**-**	**(72,873)**	**-**

The following table shows the **changes in the financial assets that occurred in level 3 during the course of 2018**:

(In thousands of euro)

	12/31/2018
Opening balance	15,138
Translation differences	1
Disposals	(2,835)
Fair value adjustments through other comprehensive income	(3,188)
Other changes	39
Closing balance	**9,155**

These financial assets are mainly represented by equity investments in the European Institute of Oncology (euro 6,961 thousand), and Tlcom I LP (euro 184 thousand).

The item **decreases** mainly refer to the liquidation of the investment in Emittenti Titoli.

The **fair value adjustments under other items of the comprehensive Income Statement** amounted to a loss of euro 3,188 thousand, and refers mainly to the adjustment of the investment in Pirelli de Venezuela C.A. up to the date of disposal completed on September 7, 2018 (euro 2,610 thousand).

During the course of the 2018 financial year there were no transfers from level 1 to level 2 or vice versa, nor from level 3 to other levels and vice versa.

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

The fair value of financial instruments not traded on active markets (e.g. derivatives) is determined by the use of evaluation techniques widely used in the financial sector, which maximise the utilisation of observable and available market data:

- → Market prices for similar instruments;
- → the fair value of interest rate swaps is calculated by discounting estimated future cash flows based on observable yield curves;
- → the fair value of foreign exchange derivatives (forward contracts) is determined by using the forward exchange rate at the reporting date of the Financial Statements.
- → The fair value of the cross currency interest rate swaps is calculated by discounting the estimated future cash flows based on the observable yield curves and converting them into Euro using the exchange rate at the reporting date of the Financial Statements;
- → The fair value of natural rubber futures is determined by using the forward exchange rate at the reporting date of the Financial Statements.

5.2 CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

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

(In thousands of euro)

	Note	Carrying amount at 12/31/2018	Carrying amount at 12/31/2017
FINANCIAL ASSETS			
Financial assets at fair value through income statement			
Securities held for trading		-	33,027
Other financial assets at fair value through income statement	19	27,196	-
Current derivative financial instruments	28	77,650	27,770
		104,846	60,797
Financial assets at amortized cost			
Other non-current receivables	16	225,707	204,051
Current trade receivables	15	627,968	652,487
Other current receivables	16	416,651	400,538
Cash and cash equivalents	20	1,326,900	1,118,437
		2,597,226	*2,375,513*
Financial assets available-for-sale			
Other financial assets		-	229,519
Financial assets at fair value through other comprehensive income			
Other financial assets	13	68,781	-
Financial hedging derivative instruments			
Current derivative financial instruments	28	20,917	-
Non-current derivative financial instruments	28	20,134	878
		41,051	*878*
TOTAL FINANCIAL ASSETS		**2,811,904**	**2,666,707**
FINANCIAL LIABILITIES			
Financial liabilities carried at fair value through income statement			
Current derivative financial instruments	28	59,602	17,910
Financial liabilities valuated at amortised cost			
Non-current borrowings from banks and other financial institutions	24	3,929,079	3,897,089
Other non-current payables	26	83,287	74,435
Current borrowings from banks and other financial institutions	24	800,145	559,168
Current trade payables	25	1,604,677	1,673,642
Other current payables	26	436,752	565,254
		6,853,940	6,769,588
Financial hedging derivative instruments			
Non-current derivative financial instruments	28	16,039	54,963
TOTAL FINANCIAL LIABILITIES		**6,929,581**	**6,842,4621**

6. CAPITAL MANAGEMENT POLICY

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

The main indicator that the Group uses to manage its capital is the ROI (which is calculated as the percentage ratio between the EBIT adjusted and the average net invested capital (which does not include investments in associated companies and Joint Ventures, *"Other financial assets at fair value through other comprehensive income"* and *"Other non-current financial assets at fair value through the Income Statement"* (*"other financial assets"* refers to the comparative data at December 31, 2017) and the intangible assets relative to assets recognised as a consequence of Business Combinations.

The ROI for the financial year 2018 equalled 30% compared to an ROI of 28% for the previous financial year.

7. ESTIMATES AND ASSUMPTIONS

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

GOODWILL

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

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

The configuration of the value used to determine the recoverable amount for Consumer Activities at December 31, 2018 was the fair value determined using the stock market capitalisation of the Parent Company at the date of the impairment test (December 31, 2018), where the stock market capitalisation was calculated on the number of outstanding shares without taking any control premium into consideration, and adjusted upwardly or downwardly according to the fair value of the financial statement items not included in the carrying amount of the Consumer Activities, mainly the net financial position.

The impairment test at December 31, 2018 did not show any impairment, as the fair value of the Consumer Activities was significantly higher than the carrying amount.

PIRELLI BRAND (INTANGIBLE ASSET WITH AN INDEFINITE USEFUL LIFE)

The Pirelli Brand is intangible fixed asset with an indefinite useful life are not subject to amortisation, but pursuant to IAS 36, is tested for impairment annually or more frequently, if specific events or circumstances arise that may indicate a reduction in value.

The impairment test at December 31, 2018 was performed using the assistance of an independent third-party professional.

The configuration of the recoverable amount for impairment testing purposes at December 31, 2018 was the fair value, calculated on the basis of the income approach (the so-called Level 3 of the hierarchy of IFRS 13 – Fair Value measurement).

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

PROPERTY, PLANT AND EQUIPMENT

In accordance with the accounting standards, property, plant and equipment and intangible assets are tested in order to ascertain whether there has been any impairment when there are indicators that signal that difficulties are to be expected for the recovery of their relative net carrying amount through their use. The verification of the existence of the aforesaid impairment indicators requires that the Directors make subjective judgements based on the information available from both internal and external sources as well as on historical experience. Also if it is determined that a potential impairment may have been generated, the impairment is calculated using the appropriate assessment techniques.

The correct identification of indicators of a potential impairment, as well as the estimates used to determine the impairment, depend on a subjective evaluation as well as on factors that may change over time and influence the valuations and estimates made by management.

INCOME TAXES (CURRENT AND DEFERRED)

Income taxes (current and deferred) are determined in each country in which the Group operates according to a prudent interpretation of the tax regulations in force. This process sometimes involves complex estimates in determining taxable income and temporary deductible and taxable differences between carrying amounts and tax amounts. In particular, deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which they can be recovered. The assessment of the recoverability of deferred tax assets, recorded in relation both to tax losses that may be used in subsequent financial years, and to temporary deductible differences, takes into account the estimate of future taxable income and is based on prudent tax planning.

PENSION FUNDS

The companies of the Group have in place, pension plans, health insurance plans and other defined benefit plans for their employees, primarily in the United Kingdom and the United States. These funds have been closed to new contributions and therefore the actuarial risk relates only to the previous deficit. Management uses different actuarial assumptions to calculate the liabilities and assets servicing these pension plans. The actuarial assumptions of a financial nature are concerned with the discount rate, the rate of inflation and the trend in medical costs. The actuarial assumptions of a demographic nature are essentially concerned with mortality rates. The Group has identified discount rates which it has deemed are balanced, given their context.

PROVISIONS FOR LIABILITIES AND CHARGES

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

8. BUSINESS COMBINATIONS

ACQUISITION CAÇULA (BRAZIL)

During the last quarter of 2018, Pirelli Comercial de Pneus Brasil Ltda, a Brazilian company which is 85% controlled by Pirelli Tyre S.p.A., and 15% controlled by Pirelli Latam Participaçoes Ltda., acquired 100% of the capital of JMC Pneus Comércio Importação and Exportação Ltda., which owns 34 points of sale in the state of São Paulo, for the preliminary consideration of euro 9,676 thousand subject to a post-closing price adjustment. With this operation, Pirelli intends to complete the strengthening its distribution chain in Brazil, particularly in the São Paulo area.

The temporary fair value of the net assets acquired were estimated as equal to the carrying amount for equity and was negative to the amount of euro 1,645 thousand.

The process of allocating the price paid at fair value of the assets acquired for the business combination (Purchase Price Allocation - PPA), in accordance with the provisions of accounting principle IFRS 3 (Business combinations) has not yet been completed. The consequent determination of the goodwill deriving from the acquisition is therefore to be considered provisional and will be completed, in accordance with the provisions of the standard, within twelve months of the acquisition date.

The difference, at the transaction date, between the consideration, reduced on the basis of the preliminary results of the price adjustment procedure (euro 8,362 thousand) and the provisional fair value of the net assets acquired (negative at euro 1,645 thousand), was equal to euro 10,007 thousand, was recorded as goodwill under the item *"intangible fixed assets"*.

9. OPERATING SEGMENTS

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

- → which involves entrepreneurial activities which generate revenues and costs;
- → whose operating income is periodically reviewed by the Chief Executive Officer, in his role as Chief Operating Decision Maker (CODM);
- → for which separate income, financial position, and equity data is available.

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

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

(in thousands of euro)

	2018	2017
Europe	2,234,169	2,237,962
Russia and CIS	167,004	159,590
NAFTA	1,004,027	983,859
South America	691,874	915,677
Asia\Pacific (APAC)	890,248	806,247
Middle East\Africa\India (MEAI)	207,149	248,948
Total	**5,194,471**	**5,352,283**

Non-current assets by geographic area which are allocated on the basis of the country where the assets are located, were as follows.

(in thousands of euro)

	12/31/2018		12/31/2017	
Europe	5,407,113	60.92%	5,504,482	62.03%
Russia & CSI	171,456	1.93%	192,382	2.17%
NAFTA	445,894	5.02%	373,950	4.21%
Central and South America	466,441	5.25%	435,488	4.91%
Asia/Pacific (APAC)	495,760	5.59%	487,560	5.49%
Middle Est/Africa/India (MEAI)	2,739	0.03%	2,773	0.03%
Non-current unallocated assets	1,886,862	21.26%	1,877,363	21.16%
Total	**8,876,265**	**100.00%**	**8,873,998**	**100.00%**

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

10. PROPERTY, PLANT AND EQUIPMENT

The composition and changes were as follows:

(in thousands of euro)

	12/31/2018			12/31/2017		
	Gross Value	Accumulated Depreciation	Net Value	Gross Value	Accumulated Depreciation	Net Value
Land	189,026	-	189,026	201,216	-	201,216
Buildings	797,796	(100,549)	697,247	747,693	(81,256)	666,437
Plant and machinery	2,390,323	(484,851)	1,905,472	2,161,265	(340,307)	1,820,958
Industrial and trade equipment	436,827	(194,585)	242,242	376,568	(139,295)	237,273
Other assets	107,028	(48,088)	58,940	100,972	(46,562)	54,410
Total	**3,921,000**	**(828,073)**	**3,092,927**	**3,587,714**	**(607,420)**	**2,980,294**

(in thousands of euro)

NET VALUE	12/31/2017	Change in scope	High Inflation Argentina	Translation differ.	Increases	Decreases	Depreciation	Devaluation	Recl./ Other	12/31/2018
Land	**201,216**	(9,890)	2,872	(8,707)	-	(3,250)	-	-	6,785	**189,026**
Buildings	**666,437**	(787)	5,316	(16,882)	67,338	(774)	(29,320)	-	5,919	**697,247**
Plant and machinery	**1,820,958**	-	14,395	(38,949)	305,140	(2,931)	(157,998)	(14,560)	(20,583)	**1,905,472**
Industrial and trade equipment	**237,273**	-	669	(9,925)	56,899	(4,628)	(68,501)	(406)	30,861	**242,242**
Other assets	**54,410**	-	1,389	(3,469)	22,424	(308)	(13,265)	(3)	(2,238)	**58,940**
Total	**2,980,294**	**(10,677)**	**24,641**	**(77,932)**	**451,801**	**(11,891)**	**(269,084)**	**(14,969)**	**20,744**	**3,092,927**

(in thousands of euro)

NET VALUE	12/31/2016	Change in scope	Assets held for sale	Translation differ.	Increases	Decreases	Depreciation	Reclass/ Other	12/31/2017
Land	**326,216**	(111,043)	-	(14,806)	545	-	-	304	**201,216**
Buildings	**730,541**	(92,196)	-	(42,348)	61,071	(1,319)	(25,414)	36,102	**666,437**
Plant and machinery	**2,147,501**	(293,363)	(55,879)	(103,156)	336,637	(6,859)	(147,769)	(56,154)	**1,820,958**
Industrial and trade equipment	**300,907**	(60,558)	-	(14,492)	48,183	(4,034)	(66,077)	33,344	**237,273**
Other assets	**51,470**	(6,139)	-	(3,768)	23,945	(292)	(11,413)	608	**54,410**
Total	**3,556,635**	**(563,299)**	**(55,879)**	**(178,570)**	**470,381**	**(12,504)**	**(250,673)**	**14,204**	**2,980,294**

The item **effect of inflation in Argentina** refers to the revaluation of the assets held by the Argentine company for the 2018 financial year as a result of the application of the accounting standard IAS 29 - Financial Reporting in Hyperinflationary Economies.

The item **increases**, totalling euro 451,801 thousand, were primarily aimed at increasing the capacity of the High Value segment in Europe and the NAFTA area, the strategic reconversion of the capacity of the Standard segment into High-Value in Brazil, and to the continuous improvement of the quality and mix in all manufacturing plants.

The ratio of investments to amortisations for the 2018 financial year was equal to 1.68, (1.88 for the 2017 financial year).

The item **impairment** mainly includes the write-off on plants and machinery in Brazil amounting euro to 12,000 thousand and attributable to the actions already launched for the rationalisation of the structures of the Standard business.

The item **reclassifications/other** mainly includes the purchase of some of the residual assets from the Prometeon Group relative to the Consumer business relative to the 2018 financial year.

Property, plant and equipment in progress at December 31, 2018, included in the single fixed asset categories amounted to euro 227,302 thousand (euro 227,509 thousand at December 31, 2017). The main projects are concentrated in Germany, China, Mexico, Romania and Brazil.

At December 31, 2017, the **change in scope** column itemised the value of goodwill and other intangible assets attributable to the Prometeon Group, and which were transferred following the assignment by Pirelli & C. S.p.A. to Marco Polo International Holding Italy S.p.A. (subsequently merged by incorporation into Marco Polo International Italy S.p.A.) of the TP Industrial Holding S.p.A. shares, the company into which Pirelli's Industrial assets had been merged.

It should be noted that, in the context of financing stipulated in Brazil, the companies of the Group have pledged as guarantee their own plants and machinery as guarantees to a total value of euro 342 thousand.

The value of the buildings and other assets for which the Company had entered into a financial leasing agreement, was included in the respective categories of property, plant, and equipment.

The changes which occurred were composed as follows:

(in thousands of euro)

	12/31/2018			12/31/2017		
	Cost	Accumulated Depreciation	Net value	Cost	Accumulated Depreciation	Net value
Leased buldings	327	(327)	-	330	(330)	-
Other leased assets	1,916	(1,788)	128	2,286	(2,001)	285
Leased plant and machinery	176	(62)	114	266	(107)	159
Total	**2,419**	**(2,177)**	**242**	**2,882**	**(2,438)**	**444**

Payables for financial leases were included in financial payables. (Refer to Note 24).

The total minimum future payments due for non-cancellable operating lease contracts amounted to euro 517,853 thousand, of which:

- → euro 92,416 thousand were due within one year;
- → euro 308,806 thousand were due between one and five years;
- → euro 116,631 thousand were due in beyond five years.

11. INTANGIBLE ASSETS

The composition and changes were as follows.

(In thousands of euro)

	12/31/2017	Translation differences	Effect of business combination	Increase	Amortisation	Impairment	Other	12/31/2018
Concessions/licenses/ trademarks - finite life	**67,797**	(811)	-	979	(4,827)	-	237	**63,375**
Pirelli Brand - indefinite life	**2,270,000**	-	-	-	-	-	-	**2,270,000**
Goodwill	**1,877,363**	(508)	10,007	-	-	-	-	**1,886,862**
Customer relationships	**377,242**	87	-	-	(34,533)	-	-	**342,796**
Technology	**1,276,017**	-	-	-	(76,850)	(5,250)	-	**1,199,167**
Software applications	**20,744**	(118)	-	10,330	(7,816)	-	451	**18,333**
Other intangible assets	**4,541**	270	-	331	(1,194)	(0)	(464)	**2,805**
TOTAL	**5,893,704**	**(1,080)**	**10,007**	**11,640**	**(125,220)**	**(5,250)**	**224**	**5,783,338**

(In thousands of euro)

	12/31/2016	Change in scope	Translation differences	Increase	Amortisation	Reclassif.	Other	12/31/2017
Concessions/licenses/trademarks - finite life	**71,520**	-	(506)	359	(4,560)	754	230	**67,797**
Pirelli Brand - indefinite life	**2,270,000**	-	-	-	-	-	-	**2,270,000**
Goodwill	**2,351,263**	(473,900)	-	-	-	-	-	**1,877,363**
Customer relationship	**431,595**	(22,417)	(136)	2,635	(34,435)	-	-	**377,242**
Technology	**1,347,867**	-	-	-	(71,850)	-	-	**1,276,017**
Software applications	**17,527**	(4,128)	(152)	13,473	(7,210)	1,059	175	**20,744**
Other intangible assets	**7,117**	-	(416)	2,502	(2,141)	(1,813)	(708)	**4,541**
TOTAL	**6,496,889**	**(500,445)**	**(1,210)**	**18,969**	**(120,196)**	**-**	**(303)**	**5,893,704**

Intangible assets were composed mainly of the value of the assets identified during the course of the 2016 financial year following the completion of the allocation of the price paid by Marco Polo Industrial Holding S.p.A. for the acquisition of the Pirelli Group at fair value of the Pirelli assets and liabilities acquired (Purchase Price Allocation or PPA) and recognised in the consolidated Financial Statements following the merger by incorporation of the Parent company Marco Polo Industrial Holding S.p.A. into Pirelli, which took place during the same 2016 financial year. The net carrying amounts at December 31, 2018 mainly refer to:

- → the Pirelli Brand (indefinite useful life) for an amount equal to euro 2,270,000 thousand. It should be noted that the evaluation of the useful life of brands is based on a series of factors including the competitive environment, market share, history of the brand, life cycles of the underlying product, operational plans and the macroeconomic environment of the countries in which the related products are sold. In particular, the useful life of the Pirelli Brand was assessed indefinitely on the basis of its history of over one hundred years of success (established in 1872) and the intention and ability of the Group to continue investing in order to support and maintain the brand;
- → the Metzeler Brand (useful life of 20 years) equal to euro 55,833 thousand was included under the item "Concessions, licenses and brands with a finite useful life;"
- → Customer relationships (useful life of 10-20 years) equal to euro 340,333 million, which mainly includes the value of commercial relationships both in the Original Equipment channel and in the Replacement channel;
- → Technology which includes the value of both product and process technologies as well the value of the

In-Process R&D (being formed at the time of the acquisition of the Group in 2015) for an amount equal to euro 1,114,167 thousand and euro 85,000 thousand respectively. The useful life of the product and process Technology was determined to be 20 years, while the useful life for *In-Process R&D* was 10 years;

→ goodwill to the amount of euro 1,886,862 thousand, of which euro 1,877,363 thousand was recorded at the time of acquisition of the Group in September 2015. The residual portion refers to the goodwill provisionally determined as part of the acquisition of the company JMC Pneus Comercio Importação e Exportação Ltda., which took place during the fourth quarter of 2018. Reference should be made to Note 8 for further details:

At December 31, 2017, in the **change in scope** column shows the value of goodwill and other intangible assets attributable to the Prometeon Group and which were transferred following the assignment by Pirelli & C. S.p.A. to Marco Polo International Holding Italy S.p.A. (subsequently merged by incorporation into Marco Polo International Italy S.p.A.) of the shares of TP Industrial Holding S.p.A., the company into which Pirelli's Industrial assets were merged.

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

For the purposes of such impairment testing, goodwill is allocated to the cash generating units (CGUs) or group of CGUs in compliance with the maximum aggregation limit which cannot exceed that of the operating segment identified pursuant to IFRS 8.

The impairment test consists of comparing the recoverable value of the CGU to which the goodwill is allocated with the carrying amount of its operating assets, including the operating assets owned and goodwill.

Goodwill, amounting to euro 1,877,363 thousand, was allocated to the CGU group *"Consumer Activities"*, which represents the only sector of activity in which the Group operates, and which it considers to be the minimum level at which goodwill should be monitored for the purposes of internal management control.

The recoverable amount is defined as the higher amount between its value in use (current value of the expected results) and the fair value less the costs of disposal (equivalent value net of sales costs).

The value configuration used to determine the recoverable value of the Consumer Activities at December 31, 2018 is the fair value which is determined using on the stock market capitalisation of the Parent Company at the date of the impairment test (December 31, 2018), where the stock market capitalisation is calculated on the number of outstanding shares, without taking any control premium into consideration, be it adjusted either upwardly or downwardly of the fair value recorded in the Financial Statement items which have not been included in the carrying amount of the Consumer Activities, mainly the net financial position.

The impairment test at December 31, 2018 did not show any impairment, as the fair value of the Consumer Activities was significantly higher than the carrying amount.

The difference between the recoverable amount and the carrying amount of the group of CGUs relative to the Consumer Activities resulted in a zero balance due to a potential contraction of 20.8% of the stock market price of the ordinary shares of Pirelli & C. S.p.A.

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

The impairment test as at December 31, 2018 was carried out with the assistance of an independent third party professional.

The configuration for the recoverable amount for the purposes of impairment testing at December 31, 2018 was the fair value, calculated on the basis of the income approach (the so-called Level 3 of the hierarchy of IFRS 13 – Fair Value measurement) and is based on:

→ the consensus forecasts by equity analysts with respect to the forecast revenues for the period 2019-2020 in that they were more prudent than the projections made by management;
→ an evaluation criterion is obtained by the sum of parts which also takes into account the contribution of royalties from the Prometeon Tyre Group for the use the Pirelli trademark in relation to the industrial segment;
→ the royalty rate applied to the revenues of the Consumer High Value and Consumer Standard segment was deduced from the royalty rates implicit in the valuations made by an independent entity relative to the main brands of the listed companies of the Tyre sector and was equal to an average royalty rate of 5.01%. With reference to the contribution in terms of royalties from the Prometeon Tyre Group, the royalty rates used were those provided for by the license agreement subject to the reshaping of the contract as approved by the Board of Directors on February 14, 2019;
→ a discount rate of 8.38%, which included a premium determined on the basis of the risk of the specific asset;
→ a growth rate of g in the terminal value assumed to be equal to zero;
→ the TAB (Tax Amortisation Benefit) that is, the tax benefit that could potentially benefit the market participant due to the possibility of fiscally amortising the asset.

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

A sensitivity analysis was also carried out in relation to the Key Assumptions used in the valuation of the royalty rate (for the Consumer evaluation unit and for the contribution in terms of royalties from the Prometeon Group); the discount rate, and the g growth factor. The fair value remained higher than the carrying amount even assuming the following changes in the sole Key assumption:

→ a downward change in the royalty rates for the Consumer evaluation units of 50 basis points and the simultaneous zeroing of the balance for royalties from the license agreement with Prometeon Tyre Group;
→ an upward change in the discount rate of150 basis points;
→ a downward change in the g growth rate of 150 basis points.

12. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

(In thousands of euro)

	12/31/2018			12/31/2017		
	Associates	JV	Total	Associates	JV	Total
Opening balance	**12,529**	**4,951**	**17,480**	**32,446**	**14,564**	**47,010**
Decreases	-	-	-	(10,410)	-	(10,410)
Increases	-	65,222	65,222	1,496	-	1,496
Distribution of dividends	(2,674)	-	(2,674)	(8,556)	-	(8,556)
Impairment	(874)	-	(874)	(754)	-	(754)
Share of net income (loss)	(274)	(11,286)	(11,560)	1,361	(9,613)	(8,252)
Share of other components recognised in Equity	-	(3,221)	(3,221)	(2,915)	-	(2,915)
Reclassification to provision for future risks and expenses	-	8,620	8,620	-	-	-
Reclassifications and other	(288)	-	(288)	(139)	-	(139)
Closing balance	**8,419**	**64,286**	**72,705**	**12,529**	**4,951**	**17,480**

12.1 INVESTMENTS IN ASSOCIATES

The item was composed as follows:

(In thousands of euro)

	12/31/2017	Distrib. of dividends and reserves	Impairment	Share of net income (loss)	Reclass. and other	12/31/2018
Eurostazioni S.p.A.	6,271	-	-	124	-	6,395
Fenice S.r.l.	2,477	(2,474)	(4)	-	1	0
Focus Investments S.p.A.	1,352	-	(870)	(482)	-	(0)
Other Group companies	2,429	(200)	-	84	(289)	2,024
Total associates	**12,529**	**(2,674)**	**(874)**	**(274)**	**(288)**	**8,419**

As regards the investment in Fenice S.r.l., the company was put into liquidation following the sale of the investment in Prelios S.p.A. on December 28, 2017, to Lavaredo S.p.A., a newly established company designated by the Burlington fund, the counterparty to the transaction. The liquidation was completed in July 2018.

The item **distribution of dividends and reserves** mainly refers to the distribution of reserves and dividends implemented by Fenice S.r.l., to the amount of euro 2,474 thousand.

The item **impairment** mainly refers to the investment in the RCS MediaGroup S.p.A. This impairment became necessary in order to align the carrying amount after applying the equity method to its fair value, following the emergence of impairment indicators in 2018.

The **share of net income (loss)** (negative at euro 274 thousand) mainly refers to the loss recorded by Focus Investments S.p.A. equal to euro 482 thousand.

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

12.2 INVESTMENTS IN JOINT VENTURES

The item was composed as follows:

(In thousands of euro)

	31/12/2017	Increases	Share of net income (loss)	Share of other components recognised in Equity	Reclassification to provision for future risks and expenses	31/12/2018
PT Evoluzione Tyres	4,951	-	(10,350)	(3,221)	8,620	-
Xushen Tyre (Shanghai) Co, Ltd	-	65,222	(936)	-	-	64,286
Total joint ventures	**4,951**	**65,222**	**(11,286)**	**(3,221)**	**8,620**	**64,286**

The Group holds:

- an investment of 60% (ownership unchanged from the previous financial year) in PT Evoluzione Tyres, an entity which operates in Indonesia and is active in tyre production. Even though the company is 60% owned, as a result of the contractual agreements between shareholders, it falls under the definition of a joint venture in that the governance regulations explicitly require unanimous consensus for significant business decisions. The investment was evaluated using the equity method.
- a 49% stake in the company Xushen Tyre (Shangai) Co., Ltd, a joint venture which, through the company Jining Shenzhou Tyre Co., owns a Consumer tyre manufacturing plant in China. The purchase was finalised on October 9, 2018 for an amount equal to euro 65,222 thousand. The investment was evaluated using the equity method. The new plant will provide the necessary production flexibility for the High Value segment, taking into account the evolution of the Chinese market, the expected developments in the electric car segment and the increasing share of homologations obtained in the Original Equipment segment in China, Japan and Korea.

The **share of net income (loss)** of euro 11,286 thousand refers to the pro-rata loss of PT Evoluzione Tyres to the amount of euro 10,350 thousand for 2018, and to the pro-rata loss for euro 936 thousand related to the fourth quarter of 2018 of the joint venture Xushen Tyre (Shanghai) Co, Ltd., a new High Value plant currently undergoing a ramp-up phase. The Group has reclassified the portion of the result recognised as a result of the application of the equity method which exceeds the value of the investment into a specific provision for risks and charges.

It should be noted that the negative result of the investment in PT Evoluzione Tyres was considered representative of an impairment indicator, and therefore the investment was subjected to an impairment test, with the aim of comparing the value of the net investment in the associated company (including the value of financial receivables

due from the associated company totalling euro 18.7 million), following the application of the equity method, with the recoverable value of the same, represented by the equity value. The equity value of the investment at December 31, 2018 was higher than the carrying amount of the same and therefore no further impairment was recorded.

The investments in Joint Ventures were not relevant in terms of the impact on the total consolidated assets.

13. OTHER FINANCIAL ASSETS - OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH COMPREHENSIVE INCOME - OTHER NON-CURRENT FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT

OTHER FINANCIAL ASSETS

Following the entry into force on January 1, 2018 of IFRS 9, the other financial assets, consisting of financial assets available for sale amounting to euro 229,519 thousand at December 31, 2017, were designated as financial assets at fair value through other comprehensive income (FVOCI) to the amount of 80,492 thousand, and as financial assets whose *changes* in fair value were recognised in the Income Statement (FVPL) to the amount of euro 149,027 thousand euro.

(In thousands of euro)

Total other financial assets at 12/31/2017 (IAS 39)	**229,519**
Reclassification to other financial assets at FV through other comprehensive income (FVOCI)	(80,492)
Reclassification to other financial assets at FV through income statement (FVPL)	(149,027)
Total other financial assets at 1/1/2018 (IFRS 9)	**-**

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

The changes in other financial assets at fair value through other comprehensive income amounted to euro 68,781 thousand at December 31, 2018, were as follows:

(In thousands of euro)

Opening balance other financial assets at FV through other comprehensive income FVOCI (IFRS 9) at 01/01/2018	**80,492**
Translation differences	(9)
Decreases	(2,858)
FV adjustment through other comprehensive income	(8,319)
Other	(525)
Closing balance 12/31/2018	**68,781**

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

(In thousands of euro)

	12/31/2018	12/31/2017
Listed securities:		
RCS Mediagroup S.p.A.	28,448	30,177
Other companies	-	-
Total listed securities	**28,448**	**30,177**
Unlisted securities:		
Fin. Priv. S.r.l.	15,604	19,908
Fondo Anastasia	15,574	15,269
Istituto Europeo di Oncologia S.r.l.	6,961	6,599
Euroqube	12	12
Tlcom I LP	184	186
Emittenti Titoli	-	2,748
Equinox Two SCA	-	601
Pirelli De Venezuela C.A.	-	2,610
Other companies	1,998	2,382
Total unlisted securities	**40,333**	**50,315**
Total other financial assets at FV through other comprehensive income	**68,781**	**80,492**

The item **decreases** mainly refer to the liquidation of the investment in Emittenti Titoli.

The **fair value adjustments under other items of the comprehensive Income Statement** amounted to a loss of euro 8,319 thousand, and refers mainly to the RCS MediaGroup S.p.A. (euro 1,729 thousand), Fin. Priv (euro 4,304 thousand) and Pirelli de Venezuela C.A. (euro 2,610 thousand).

The fair value of listed securities corresponds to the stock market price at December 31, 2018. The fair value of unlisted securities was determined by making estimates on the basis of the best information available.

OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

The changes in the other financial assets at fair value through income statement and recorded in the 2018 Income Statement were as follows:

(In thousands of euro)

Opening balance other financial assets at FV through income statement FVPL (IFRS 9) at 01/01/2018	**149,027**
FV adjustment through income statement	3,780
Decreases	(152,807)
Closing balance 12/31/2018	-

The initial value of other non-current financial assets at fair value through the Income statement refers to the investment in Mediobanca S.p.A, which was disposed of during January 2018.

14. DEFERRED TAX ASSETS AND PROVISION FOR DEFERRED TAX LIABILITIES

Their composition is as follows:

(In thousands of euro)

	12/31/2018	12/31/2017
Deferred tax assets	74,118	111,553
Provision for deferred tax liabilities	(1,081,605)	(1,216,635)
Total	**(1,007,487)**	**(1,105,082)**

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

The provision for deferred taxes mainly refers to the tax effect recognized on the value of the assets identified during the course of the 2016 financial year following the completion of the allocation of the price paid by Marco Polo Industrial Holding S.p.A. for the acquisition of the Pirelli Group at fair value of the Pirelli assets and liabilities acquired (Purchase Price Allocation or PPA) and recognised into the consolidated Financial Statements following the merger by incorporation of the holding company Marco Polo Industrial Holding S.p.A. into Pirelli, which took place during the same 2016 financial year.

The gross amounts for compensations carried out were as follows:

(In thousands of euro)

	12/31/2018	12/31/2017
Deferred tax assets	**304,872**	**288,944**
- of which within 12 months	126,864	75,345
- of which beyond 12 months	178,008	213,599
Provision for deferred tax liabilities	**(1,312,359)**	**(1,394,026)**
- of which within 12 months	(3,361)	(37,569)
- of which beyond 12 months	(1,308,998)	(1,356,457)
Total	**(1,007,487)**	**(1,105,082)**

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

(In thousands of euro)

	12/31/2018	12/31/2017
Deferred tax assets:		
Provisions for liabilities and charges	48,478	64,277
Employee benefit obligations	61,428	72,359
Inventories	21,070	27,357
Tax losses carried forward	70,429	51,159
Trade receivables and other receivables	27,727	23,541
Trade payables and other payables	395	951
Other	75,345	49,300
Total	**304,872**	**288,944**
Provision for deferred tax liabilities:		
Property, plant and equipment and intangible assets	(1,259,704)	(1,313,032)
Other	(52,655)	(80,994)
Total	**(1,312,359)**	**(1,394,026)**

The item *"other"* refers mainly to deferred tax assets and mainly includes deferred tax assets recorded on excess of interest paybles not deducted, and on the ACE benefit (Allowance for Corporate Equity).

At December 31, 2018 the value of deferred tax assets not recognised on temporary differences amounted to euro 7,867 thousand, while those related to tax losses amounted to euro 44,243 thousand.

The value of the tax losses reallocated according to maturities, for which deferred tax assets were not recognised, were as follows:

(In thousands of euro)

Year of maturity	12/31/2018	12/31/2017
2017	-	6,082
2018	4,660	4,666
2019	1,712	1,711
2020	3,051	3,047
2021	2,647	2,646
2022	5,970	5,969
2023	8,517	8,530
2024	2,726	2,728
2025	4,708	4,708
2026	3,648	3,648
2027	512	-
without maturity date	152,105	143,308
Total	**190,256**	**187,043**

Of the total tax losses with no expiration, the amount euro 56,944 thousand mainly refers to losses attributable to the English subsidiary Pirelli UK Ltd for which sufficient taxable income was not expected in order to justify the recoverability thereof.

The tax effect of gains and losses recognised directly in equity was positive to the amount of euro 7,884 thousand (negative to the amount of euro 6,308 thousand for 2017) and are shown in the Statement of Comprehensive Income. These changes were mainly due to tax effects connected to actuarial gains/losses on employee benefits and to the fair value adjustment of derivatives in cash flow hedging.

15. TRADE RECEIVABLES

Trade receivables were analysed as follows:

(In thousands of euro)

	12/31/2018			12/31/2017		
	Total	Non-current	Current	Total	Non-current	Current
Trade receivables	685,090	-	685,090	919,573	-	919,573
Provision for bad debts	(57,122)	-	(57,122)	(267,086)	-	(267,086)
Total	**627,968**	**-**	**627,968**	**652,487**	**-**	**652,487**

The gross value of trade receivables amounted to euro 685,090 thousand (euro 919,573 thousand at December 31, 2017) of which euro 148,663 thousand was for receivables which were past due (expired) at the reporting date (euro 382,196 thousand at December 31, 2017). The decrease in expired receivables was mainly attributable to the write-off of receivables due from the Venezuelan company Pirelli de Venezuela C.A. which was sold during 2018.

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

The item impaired receivables includes both significant individual positions subject to individual impairment and positions with similar credit risk characteristics that were grouped together and impaired on a collective basis.

The changes in the provision for bad debts were as follows:

(In thousands of euro)

	12/31/2018	12/31/2017
Opening balance	**267,086**	**286,627**
Change in scope	-	(2,777)
Translation differences	16,548	(21,865)
Accruals	18,978	17,659
Decreases	(245,335)	(12,453)
Other	(156)	(106)
Closing balance	**57,122**	**267,086**

Accruals to the provision for bad debts are recognised in the Income Statement as *"Impairment of net financial assets"* (Refer to Note 33).

The **decreases** in the provision for bad debts was mainly due to the write-off of the receivables due from Pirelli de Venezuela C.A., a company sold to third parties during the course of the financial year.

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

16. OTHER RECEIVABLES

Other receivables were analysed as follows:

(In thousands of euro)

	12/31/2018			12/31/2017		
	Total	Non-current	Current	Total	Non-current	Current
Financial receivables	156,952	124,048	32,904	131,096	94,585	36,511
Trade accruals and deferrals	32,837	8,907	23,930	34,548	1,513	33,035
Receivables from employees	6,625	1,059	5,566	6,974	1,225	5,749
Receivables from social security and welfare institutions	2,537	-	2,537	5,535	-	5,535
Receivables from tax authorities not related to income taxes	306,253	42,021	264,232	247,015	13,521	233,494
Other receivables	152,477	50,173	102,304	181,808	93,207	88,601
	657,681	**226,208**	**431,473**	**606,976**	**204,051**	**402,925**
Provision for bad debts	(15,323)	(501)	(14,822)	(2,387)	-	(2,387)
Total	**642,358**	**225,707**	**416,651**	**604,589**	**204,051**	**400,538**

The item **non-current financial receivables** (euro 124,048 thousand) refers mainly to euro 60,995 thousand in sums deposited as guarantees for tax and legal disputes in relation to the subsidiary Pirelli Pneus Ltda (Brazil) and remunerated at market rates, to euro 18,222 thousand in sums deposited during the financial year into escrow accounts in favour of the pension funds of Pirelli UK Ltd and Pirelli UK Tyres Ltd, to euro 13,768 thousand in contributions paid in cash at the time of signing an association in participation contract, to euro 12,576 thousand as the non-current portion of loans disbursed to the Indonesian Joint Venture PT Evoluzione Tyres, and to euro 918 thousand relative to the non-current portion of insurance premiums paid in advance during the financial year for the issuance of guarantees in favour of the same pension funds.

The item **current financial receivables** (euro 32,904 thousand) refers to euro 3,682 thousand for the short-term portion of insurance premiums paid in advance for the issuance of guarantees in favour of the same pension funds, to euro 6,114 thousand for the short-term portion of loans disbursed to the Indonesian joint venture PT Evoluzione Tyres, and to euro 9,600 thousand accrued on derivative cross currency interest swaps relative to the unsecured syndicated Facilities loan granted to Pirelli International Plc.

The **provision for other receivable and financial receivables** (euro 15,323 thousand) mainly includes euro 6,085 thousand relative to the impairment of financial receivables following the application of the new impairment model introduced by IFRS 9, and is based on expected losses, and euro 9,238 thousand euros mainly for other impaired receivables due for royalties from the Aeolus Tyre Co., Ltd. consequent to the extraordinary reshaping of the technology license agreement with the Aeolus Group.

The item **receivables from tax authorities not related to income taxes** (euro 306.253 thousand) is mainly comprised of receivables for IVA (value added tax) and other indirect taxes. The increase at December 31,

2017 was mainly attributable to an increase in indirect tax receivables in Brazil. It should be noted that the item receivables from tax authorities at December 31, 2018 includes a receivable from the Brazilian tax authorities for the PIS/COFINS tax totalling euro 23,121 thousand, which was recognised following the obtainment of favourable rulings by the Federal Regional Court which recognised the right to deduct the state tax on goods and services (ICMS) on the basis of the calculation of social contributions PIS (Programa de Integracao Social) and COFINS (Contribucao para Financiamento de Seguridade Social). In more detail:

- euro 4,900 thousand (of which euro 1,346 thousand is relative to the total nominal value of the receivable and euro 3,553 thousand is relative to accrued interest) refers to the years from 1992 to 2002 for which the ruling in favour of the Group was passed for sentencing in December 2018.
- euro 18,222 thousand refers to receivables for the financial years from 2003 to 2014. For these years, even though the judgment has not the force of res judicata as of December 31, 2018, also on the basis of an opinion by an independent expert, the portion of this receivable was recorded in the Financial Statements which at the closing of the financial year met the conditions of virtual certainty required by the accounting standards.

The item **other non-current receivables** (euro 50,173 thousand) mainly refers to amounts deposited as guarantees for legal and tax disputes involving the Brazilian business units (euro 44,739 thousand), to receivables pledged as guarantees in Pirelli's favour which may be exercised in the event of contingent liabilities arising in relation to the acquisition of the company Campneus Lider de Pneumaticos Ltda (Brazil) for euro 2,281 thousand.

The item **other current receivables** (euro 102,304 thousand) mainly includes advances to suppliers amounting to euro 38,877 thousand, receivables from the disposal of real estate property not used for industrial operations in Brazil amounting to euro 2,253 thousand, and receivables from associates amounting to euro 10,582 thousand mainly refers to the sale of materials and moulds and receivables relative to the Prometeon group for the amount of euro 14,343 thousand.

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

17. TAX RECEIVABLES

The item **tax receivables** refers to income taxes which amounted to euro 57.562 thousand (of which euro 16.169 thousand was non-current) compared to euro 62.779 thousand at December 31, 2017 (of which euro 27,318 thousand was non-current). In more details, this mainly refers to receivables for advance payments on taxes for the financial year and to corporate income tax receivables from previous financial years recorded by the Brazilian and Argentine companies.

18. INVENTORIES

Inventories were analysed as follows:

(In thousands of euro)

	12/31/2018	12/31/2017
Raw and auxiliary materials and consumables	155,205	147,645
Sundry materials	6,492	5,197
Work in progress and semi-finished products	55,608	48,782
Finished products	910,447	737,558
Advances to suppliers	714	1,486
Total	**1,128,466**	**940,668**

The restatement of the value of inventories recognised net of impairments amounted to euro 21,497 thousand (impairments for euro 7,486 thousand at December 31, 2017).

Inventories were not subject to any guarantee pledges.

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

Other financial assets at fair value through income statement amounted to euro 27,196 thousand at December 31, 2018.

It should be noted that following the entry into force of IFRS 9 on January 1, 2018, financial assets which at December 31, 2017 were classified as securities held for trading amounted to euro 33,027 thousand, were classified as other financial assets at fair value through income statement (FVPL).

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

Changes in fair values for the financial year were recognised in the Income Statement as *"Financial expenses"* (refer to Note 38).

20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents went from euro 1,118,437 thousand at December 31, 2017 to euro 1,326,900 thousand at December 31, 2018.

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

For the purposes of the cash flow statement, the balance of cash and cash equivalents was recorded net of current accounts payable for euro 23,048 thousand at December 31, 2018 (euro 8,797 thousand at December 31, 2017).

21. EQUITY

21.1 ATTRIBUTABLE TO PARENT COMPANY

Equity attributable to parent company went from euro 4,116,758 thousand at December 31, 2017 to euro 4,468,121 thousand at December 31, 2018. The increase was mainly due to the net income for the financial year (positive at euro 431,606 thousand), to actuarial gains on pension funds (positive at euro 28,727 thousand) and to the effect of high inflation in Argentina (positive at euro 26,242 thousand) of euro) which were offset by reductions due to foreign exchange differences from the translation of foreign financial statements (negative to the amount of euro 82,314 thousand euro) and to transactions with minority shareholders (negative to the amount of euro 36,345 thousand).

The subscribed and paid up **share capital** at December 31, 2018 amounted to euro 1,904,375 thousand and was represented by 1,000,000,000 registered ordinary shares without indication of their nominal value.

21.2 ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Equity attributable to non-controlling interests went from euro 60,251 thousand at December 31, 2017 to euro 82,806 thousand at December 31, 2018. The increase was mainly due to the net effect of transactions with minority shareholders as described in Note 21.3.

21.3 MAIN TRANSACTIONS WITH MINORITY SHAREHOLDERS

During June 2018, the separation of the Group's residual industrial assets held in the subsidiary in Argentina was completed. The operation was structured according to the following methods:

- On June 28, 2018 the Group acquired the minority interest (of 28.5%) held in Pirelli Neumaticos S.A.I.C. from the Prometeon Tyre Group S.r.l. for the amount of euro 31.2 million, increasing its shareholding from 71.5% to 100%. The carrying amount of the minority interest acquired was negative at approximately euro 6.1 million. The difference between the price paid and the net equity acquired was equal to euro 37.3 million, and since it refers to a transaction with minorities, it was recognised as a reduction to the net equity attributable to the Parent Company.
- On June 29, 2018, the subsidiary Pirelli Neumaticos S.A.I.C. transferred the assets of the Industrial Business, to the company, the Prometeon Tyre Group de Argentina S.A, which is part of the Prometeon Group, for a an amount of approximately euro 27 million. The transaction generated a capital gain of approximately euro 21 million (approximately euro 15 million net of the tax effect) which was recognised as an increase to the Group's equity in continuity with the accounting adopted at the time of the assignment of the industrial business, due to the fact that the operation came about through subjects under common control.

Both transactions took place on the basis of values determined by a third and independent professional.

During May 2018, the increase of the reserved capital of Pirelli Tyre Russia was finalised, amounting to approximately euro 14 million, signed by some of the minority shareholders for a total of 35% of the company's share capital. The transaction generated a negative impact on the Group's equity of approximately euro 12 million, given the differential between the carrying amount of the equity acquired from the minorities and the value of the contribution made, inclusive of the additional transaction costs. It should also be noted that as part of this reorganisation, an option for acquisition was provided for concerning the entire investment of the minority shareholder Panaland, equal to 10% of the Pirelli Tyre Russia capital. This option provides for a crossover Call and Put system: the call option can be exercised by E-Volution Tyre B.V. (EVO - a company 100% owned by Pirelli Tyre S.p.A.) during the period between January 1 and June 30, 2020, while the put option will be exercised by Panaland, subject to the non-exercise of the call option by EVO, during the period between July 1 and December 31, 2020. Against this option a financial liability was recorded for a total of euro 4.2 million with a simultaneous reduction in the equity attributed to non-controlling interests. The impact of the transaction on the equity of non-controlling interests was positive to a total amount of euro 13.1 million.

22. PROVISIONS FOR LIABILITIES AND CHARGES

The changes that occurred during the financial year are shown below:

PROVISION FOR LIABILITIES AND CHARGES - NON-CURRENT PORTION

(In thousands of euro)

Opening balance	**127,124**
Translation differences	(1,657)
Increases	27,560
Uses	(10,554)
Reversals	(4,203)
Other	57
Closing balance 12/31/2018	**138,327**

The **non-current portion** mainly refers to provisions made by the subsidiaries Pirelli Pneus Ltda, with headquarters in Brazil, for tax and legal disputes (euro 20,075 thousand) and for labour lawsuits (euro 11,930 thousand), and to provisions made by the parent company Pirelli & C. S.p.A. for tax disputes (euro 1,141 thousand), for commercial risks, remediation of disused areas and labour disputes (euro 3,160 thousand), and for occupational diseases litigation (euro 14,576 thousand), to a provisions for liabilities and charges recorded for the investment in the Joint Venture PT Evoluzione Tyres (euro 8,620 thousand) for the surplus between the proportion of the loss for the period and the value of the investment and by a provision attributable to the rationalisation of the structures relative to the Standard business launched during the course of 2018 for euro 13,000 thousand.

The item also includes contingent liabilities (whose outlay is not considered likely) which were identified during the Purchase Price Allocation following the acquisition of the Pirelli Group by Marco Polo Industrial Holding S.p.A. and the subsequent reverse merger, attributable to the decision taken by the European Commission - which was subsequently confirmed by the ruling of the General Court of the European Union on July 12, 2018, against which on September 21, 2018 Pirelli & C. S.p.A. (Pirelli) filed an appeal to the Court of Justice of the European Union of the decision made following the antitrust investigation regarding the energy cable business, which foresaw sanctions against Prysmian Cavi e Sistemi S.r.l. (Prysmian) of approximately euro 104 million, of which a part (euro 67 million), Pirelli, despite having been found to not have been involved in the alleged cartel, was held as being jointly liable with Prysmian S.p.A., based solely on the application of the principle of so-called parental liability, in that during part of the period of the alleged infringement, Prysmian S.p.A. was a subsidiary of Pirelli & C. S.p.A. The provisioned amount is equal to euro 33.5 million which corresponds to the amount of the first-call bank guarantee issued by Pirelli - similar to what was carried out by Prysmian - for the benefit of the Commission (and at the request of the latter) for an amount equal to 50% of the aforementioned euro 67 million.

The item **increases** mainly refers to provisions for the labour disputes of the subsidiary Pirelli Pneus Ltda., to provisions for the remediation of disused areas, to provisions for the surplus between the pro-rata share of loss for the period and the value of the investment in the Joint Venture PT Evoluzione Tyres, and to provisions the aforementioned rationalisation measures taken for the structures relative to the Standard business which began in 2018.

The item **uses** were for costs incurred mainly due to the labour disputes of the subsidiaries Pirelli Pneus Ltda (Brazil), and for settling pending litigations against Pirelli Tyre S.p.A. and Pirelli C. S.p.A. for disputes relating to occupational diseases and for the remediation of disused areas.

The **reversals** of surplus provisions are mainly linked to adjustments to the provisions for tax risks.

PROVISION FOR LIABILITIES AND CHARGES - CURRENT PORTION

(In thousands of euro)

Opening balance	**45,833**
Translation differences	157
Increases	10,306
Uses	(4,800)
Reversals	(6,597)
Reclassification	(11,023)
Closing balance 12/31/2018	**33,876**

The **current portion** mainly includes provisions for, product claims and warranties (euro 10,839 thousand), for the remediation of disused areas (euro 4,700 thousand), for insurance risks (euro 2,911 thousand), and work place accidents relative to the English subsidiary (euro 3,343 thousand).

The item **increases** mainly refers to provisions for product claims and product warranty, insurance risks, tax risks and work place accidents.

The item **uses** was mainly attributable to the use of the products warranty provision through claims received from the various units of the Group, and use of the work place accidents provision.

The **reversals** of surplus provisions mostly concerned adjustments to the provisions for claims, for the remediation of environmental areas, for risks related to workplace safety in factories, and for insurance risks.

23. EMPLOYEE BENEFIT OBLIGATIONS

PENSION FUNDS – NON-CURRENT PORTION

The item is composed as follows:

(In thousands of euro)

	12/31/2018	12/31/2017
Pension funds:		
- funded	51,143	92,144
- unfunded	86,639	91,035
Employee leaving indemnities (TFR - Italian companies)	32,175	33,083
Healthcare plans	17,126	18,885
Other benefits	37,229	38,890
Total	**224,312**	**274,037**

Pension funds

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

(In thousands of euro)

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

The following table shows the **composition of pension funds at December 31, 2017.**

(In thousands of euro)

	12/31/2017						
	Germany	Sweden	Total unfunded pension funds	USA	UK	Other countries	Total funded pension funds
Funded funds							
Present value of funded liabilities	-	-	-	132,483	1,137,456	36,067	1,306,006
Fair value of plan assets	-	-	-	(111,813)	(1,071,079)	(30,970)	(1,213,862)
Unfunded funds							
Present value of unfunded liabilities	87,773	3,262	91,035	-	-	-	-
Net liabilities recognised	**87,773**	**3,262**	**91,035**	**20,670**	**66,377**	**5,097**	**92,144**

The characteristics of the main pension funds in place at December 31, 2018 were as follows:

- **Germany:** a non-funded defined benefit plan based on the last salary. This fund guaranteed a pension in addition to the state pension. The plan was closed in October 1982. Consequently the participants to this plan are employees whose employment had begun prior to that date;
- **USA:** a funded defined benefit plan based on the last salary. This fund guaranteed a pension in addition to the state pension and was administered by a Trust. The plan was closed in 2001 and frozen in 2003 for employees who then transferred to a defined contribution scheme. All participants to this plan have since retired;
- **UK:** a funded defined benefit plan based on the last salary. It guarantees a pension in addition to the state pension and is administered internally by a Trust. The plans managed by the subsidiary Pirelli Tyres Ltd were closed in 2001 to new participants and frozen during 2010 for employees hired prior to 2001, who were then offered a transfer to a defined contribution plan. The plan was operated by the subsidiary Pirelli UK Ltd, which included the employees in the Cables and Systems sector which was sold in 2005, and was already frozen at the date of the disposal;

→ **Sweden:** a defined benefits plan (ITP2), which is closed to new participants. The only participants are retired employees and the recipients of deferred pensions.

Changes for the 2018 financial year in the net liabilities of defined benefits (refers to funded and non-funded pension funds) were as follows:

(In thousands of euro)

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

Changes for the 2017 financial year in the net liabilities of defined benefits (refers to funded and non-funded pension funds) were as follows:

(In thousands of euro)

	Valore attuale passività lorda	Fair value delle attività a servizio del piano	Totale passività netta
Opening balance at January 1, 2017	1,554,516	(1,311,365)	243,151
Translation difference	(63,468)	56,428	(7,040)
Movements through income statement:			
- current service cost	1,538	-	1,538
- cost of services rendered for previous years	(5,559)	-	(5,559)
- earnings from settlement	(1,375)	-	(1,375)
- interest expense / (income)	40,590	(35,554)	5,036
	35,194	**(35,554)**	**(360)**
Remeasurements recognized in equity:			
- actuarial (gains) / losses from change in demographic assumptions	237	-	237
- actuarial (gains) / losses from change in financial assumptions	25,746	-	25,746
- experience adjustment (gains) losses	(7,940)	-	(7,940)
- return on plan assets, net of interest income	-	(3,277)	(3,277)
	18,043	**(3,277)**	**14,766**
Employer contributions	-	(43,690)	(43,690)
Additonal employer contributions - Buy in	-	(18,674)	(18,674)
Employee contributions	250	(250)	-
Incentivised exit from benefits fund	(77,085)	77,085	-
Benefits paid	(69,404)	63,254	(6,150)
Other	(1,004)	2,180	1,176
Closing balance at December 31, 2017	**1,397,042**	**(1,213,863)**	**183,179**

The past services costs at December 31, 2018 (euro 14,319 thousand) mainly includes the provision on the estimated impacts on pension obligations deriving from the need to recalculate them in order to equalise some of the differences in treatment with reference to the minimum guaranteed pension (GMP equalisation) that emerged in the UK pension sector following the High Court ruling of October 26, 2018 in the case concerning the Lloyds Banking Group.

Both the past and current services costs are included in the item *"Personnel expenses"* (Refer to Note 32), and the net interests payable are included in the item *"Financial expenses"* (Refer to Note 38).

The **composition of funded pension fund assets** was as follows:

(In thousand of euro)

	12/31/2018				31/12/2017			
	listed	unlisted	total	%	listed	unlisted	total	%
Shares	54,391	-	54,391	4.7%	66,421	-	66,421	5.5%
Bonds	76,181	-	76,181	6.6%	73,535	-	73,535	6.1%
Insurance policies	84,567	-	84,567	7.3%	87,717	6,040	93,757	7.7%
Deposits	355,410	-	355,410	30.7%	339,083	-	339,083	27.9%
Balanced funds	6,665	559,360	566,025	49.0%	16,813	596,829	613,642	50.6%
Real Estate	2,558	-	2,558	0.2%	1,258	-	1,258	0.1%
Derivatives	3,267	(739)	2,529	0.2%	879	4,120	4,999	0.4%
Other	14,186	95	14,282	1.2%	21,168	-	21,168	1.7%
Total	**597,226**	**558,717**	**1,155,943**	**100,0%**	**606,874**	**606,989**	**1,213,863**	**100.0%**

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

- the volatility of the pension fund assets: in order to be able to balance liabilities, the investment strategy cannot limit its horizons exclusively to risk free assets. This implies that certain investments, such as listed securities represent high volatility for the short-term, and that this exposes the plans to risks such as the reduction in value of the assets in the short-term, and to the consequent increase in imbalances. However, this risk is mitigated by diversifying investments into numerous investment classes, through different investment managers, through different investment styles and with exposures to multiple factors which are not perfectly correlated to each other. Moreover, the investments are continuously revised in response to market conditions, and adjusted in order to maintain the overall risk at acceptable levels;
- changes in the bond yields and in the forecast inflation: the expectations of declining bond yields and/or rising inflation brings about an increase in the value of liabilities. The plans reduce this risk through investments in liability hedging assets. In the United Kingdom, the protection guaranteed by a portfolio of this type has been built up over the last few years, and as of the second quarter of 2014 it had reached a coverage which oscillates between 100% and 115% of the value of the liabilities covered by assets;
- life expectancy: the increase in life expectancy entails an increase in the value of a plan's liabilities. The UK plans were completed during the course of 2016, a process which allowed them to be, through the so-called longevity swaps, stipulated with a pool of insurance companies, to cover approximately 50% of the risks. Residual risks are evaluated by using prudent hypotheses whose adequacy is revised periodically.

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

The key parameters of this mandate were as follows:

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

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

In the United Kingdom, the funding arrangements and funding policies are revised every three years. The next funding evaluation is expected in 2020. In the United States funding evaluations are carried out on an annual basis.

The contributions which are expected to be paid into the unfunded pension funds during the 2019 financial year amounts to euro 5,851 thousand, while for funded pension funds the amount expected is euro 32,032 thousand.

EMPLOYEES' LEAVING INDEMNITIES (TFR)

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

(In thousands of euro)

	12/31/2018	12/31/2017
Opening balance	33,083	38,194
Industrial assignment	-	(1,949)
Movements through Income Statement:		
- current service cost	62	302
- interest expense	536	552
Remeasurements recognized in equity:		
- actuarial (gains)/losses arising from changes in demographic assumptions	6	(488)
- actuarial (gains)/losses arising from changes in financial assumptions	291	581
- experience (gains)/losses	-	(2,510)
Indemnities/advanced payments	(1,030)	(1,083)
Other	(773)	(516)
Closing balance	**32,175**	**33,083**

The current cost for services rendered by employees is included in the item *"Personnel expenses"* (Refer to Note 32) while interest payables are included in the item *"Financial expenses"* (Refer to Note 38).

HEALTHCARE PLANS

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

(In thousands of euro)

	USA
Liabilities recognised in the Financial Statements at 12/31/2018	17,126
Liabilities recognised in the Financial Statements at 12/31/2017	18,885

The following changes occurred during the period:

(In thousands of euro)

	12/31/2018	12/31/2017
Opening balance	18,885	20,761
Translation differences	814	(2,553)
Movements through income statement:		
- current service cost	4	4
- interest expense	614	749
Remeasurements recognised in equity:		
- actuarial (gains) losses arising from changes in financial assumptions	(993)	691
- actuarial (gains) losses arising from changes in demographic assumptions	(183)	0
- experience adjustment (gains) losses	(957)	347
Benefits paid	(1,058)	(1,114)
Closing balance	**17,126**	**18,885**

The cost for the service is included in the item *"Personnel expenses"* (Refer to Note 32), and net interests payable is included in *"Financial expenses"* (Refer to Note 38).

The contributions which are expected to be paid into the healthcare plan during the 2019 financial year amount to euro 1,432 thousand.

ADDITIONAL INFORMATION REGARDING POST-EMPLOYMENT BENEFITS

Net actuarial losses accrued during the 2018 financial year and recognised directly in equity amounted to euro 28,727 thousand.

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

	Italy	Germany	Netherlands	Sweden	UK	USA	Switzerland
Discount rate	1.50%	1.70%	2.30%	2.05%	2.90%	4.20%	0.85%
Inflation rate	1.50%	1.50%	1.60%	2.00%	3.13%	N/A	1.00%

The main actuarial assumptions used at **December 31, 2017** were as follows:

	Italy	Germany	Netherlands	Sweden	UK	USA	Switzerland
Discount rate	1.60%	1.60%	2.15%	2.25%	2.50%	3.50%	0.70%
Inflation rate	1.50%	1.50%	1.60%	1.75%	3.10%	N/A	1.00%

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

(In thousands of euro)

	within 1 year	1 to 2 years	3 to 5 years	over 5 years	Total
Pension funds	67,511	67,983	207,434	355,412	698,340
Employees' leaving indemnities (TFR)	2,404	2,429	6,991	10,406	22,230
Healthcare plan	1,431	1,431	4,202	6,360	13,424
Total	**71,346**	**71,843**	**218,627**	**372,178**	**733,993**

The weighted average duration of bonds for post-employment benefits was equal to 14.57 years (15.29 years at December 31, 2017).

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

(in %)

	Impact on post employment benefits				
	Change in assumptions	Increase in assumptions		Decrease in assumptions	
Discount rate	0.25%	riduzione del	3.46%	aumento del	3.67%
Inflation rate (only UK plans)	0.25%	aumento del	2.06%	riduzione del	2.36%

At the end of 2017 the situation was as follows:

(in %)

	Impact on post employment benefits				
	Change in assumptions	Increase in assumptions		Decrease in assumptions	
Discount rate	0.25%	riduzione del	3.61%	aumento del	3.83%
Inflation rate (only UK plans)	0.25%	aumento del	2.46%	riduzione del	2.23%

The sole purpose of the analysis outlined above was to estimate the changes in liability in relation to changes in the discount rates and inflation rates in the UK the central hypothesis for the same rates, rather than comparing them to an alternative set of hypotheses.

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

OTHER LONG-TERM BENEFITS

The composition of other benefits is as follows:

(In thousands of euro)

	12/31/2018	12/31/2017
Long-term incentive plans	2,018	-
Jubilee awards	18,433	19,262
Leaving indemnities	10,786	12,974
Other long-term benefits	5,992	6,654
Total	**37,229**	**38,890**

The item **Long Term Incentives Plan** includes the amount allocated for the 2018-2020 three-year Long Term Incentives Plan, aimed at the entire management sector and which correlates with the 2018-2020 objectives contained in the 2017-2020 Industrial Plan.

EMPLOYEE BENEFIT OBLIGATIONS - CURRENT PORTION The item employee benefit obligations which amounted to euro 5,475 thousand refers to the portion of the second instalment of the retention plan which is pertinent at December 31, 2018, and which will be liquidated during the first half-year of 2019. The plan was approved by the Pirelli Board of Directors on February 26, 2018, and is intended for Managers with strategic responsibilities and a select number of senior Managers and Executives whose contribution in the implementation of the Strategic Plan is considered particularly significant.

24. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Borrowings from banks and other financial institution were as follows:

(In thousands of euro)

	12/31/2018			12/31/2017		
	Total	Non-current	Current	Total	Non-current	Current
Bonds	1,269,514	1,269,514	-	596,280	596,280	-
Borrowings from banks	3,412,940	2,654,914	758,026	3,787,428	3,298,717	488,711
Borrowings from other financial institutions	17,048	393	16,655	50,267	1,176	49,091
Financial leasing payables	213	10	203	428	324	104
Accrued financial expenses and deferred financial income	21,711	28	21,683	18,175	30	18,145
Other financial payables	7,798	4,220	3,578	3,679	562	3,117
Total	**4,729,224**	**3,929,079**	**800,145**	**4,456,257**	**3,897,089**	**559,168**

The item **bonds** refers to:

- an unrated public bond loan 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 the year) placed on January 22, 2018 with a fixed coupon of 1.375% and an original maturity of 5 years, plus a second bond loans issued on March 15, 2018 for a nominal amount of euro 200 million at a floating rate, with original maturity of 2.5 years. Both loans, placed with international institutional investors, were issued as part of the EMTN (Euro Medium Term Note) program approved by the Board of Directors at the end of 2017, signed on January 10, 2018 and updated on December 19, 2018. A previous bond placed by Pirelli International Plc on November 2014 for the nominal amount of euro 600 million, with a fixed coupon of 1.75% and with original maturity in November 2019, was repaid in advance on March 20, 2018 The early repayment, which will cover the entire loan, and which responds to the objective announced for the constant optimisation of the Group's financial structure, will take place through the exercise of the *"Make Whole Issuer Call"* which is provided for by the current Terms and Conditions of the loan, and has entailed the recording of the relative expenses (Refer to Note 38 *"Financial expenses"*);
- the floating rate *"Schuldschein"* loan for a total nominal value of euro 525 million on July 26, 2018, The loan, signed by primary market operators, consists of one tranche for the amount of euro 82 million with 3 year maturity, another for euro 423 million with a 5 year maturity, and another for euro 20 million with a 7 year maturity.

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

(In thousands of euro)

	12/31/2018	12/31/2017
Nominal value	1,278,000	600,000
Transaction costs	(7,683)	(6,176)
Bond discount	(2,988)	(3,012)
Amortisation of effective interest rate	2,185	5,468
Total	**1,269,514**	**596,280**

The item **borrowings from banks**, which amounted to euro 3,412,940 thousand, mainly refers to:

- use of the secured Facilities loan granted to Pirelli & C. S.p.A. and Pirelli International Plc for the amount of euro 2,643,905 thousand. The nominal refinanced total subscribed to on June 27, 2017, (with a closing date of June 29, 2017) amounted to euro 3.4 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). The loan was subjected to repricing (reduction to the interest rates to be paid on the loan) in January 2018, entailing the recognition of a benefit in the Income Statement relative to the re-measurement of the debt (Refer to Note 38 *"Financial expenses")*. The loan had an original maturity of three and five years and was entirely classified under non-current borrowings from banks. On November 29, 2018 the loan was modified to include the right for the Pirelli Group to extend, at its own discretion, the expiry of the individual lines of the loan to up to 2 years with respect to their original contractual maturity of 3 and 5 years. Lastly, it should be noted that on November 29, 2018 all the credit facilities originally granted to Pirelli International Plc were transferred to the Parent company Pirelli & C. S.p.A. and therefore at December 31, 2018 the entire credit line is held by the Parent Company;
- euro 426,134 thousand relative to loans disbursed in Brazil by local banking institutions of which euro 6,508 thousand has been classified under non-current borrowings from banks;
- euro 200,000 thousand relative to the loan disbursed by Intesa Sanpaolo to Pirelli & C. S.p.A. at a fixed rate and maturing in January 2019, has been classified under non-current borrowings from banks; It should be noted that in July 2018 the maturity of the loan was extended until July 19, 2019;
- loans granted by the European Investment Bank (EIB) in favour of S.C. Pirelli Tyres Romania S.r.l. for local industrial investments for a total residual amount of euro 10,000 thousand were fully classified under current borrowings from banks;
- euro 54,187 thousand refers in particular to certain loans classified as current borrowings from banks granted to the Mexican subsidiaries;
- euro 12,630 thousand representing the loan granted to the subsidiary Pirelli Tyre (Jiaozuo) Co., Ltd (China), classified as current borrowings from banks;
- euro 11,612 thousand representing the loans granted to the subsidiary Pirelli Otomobil Lastikleri (Turkey) and classified as current borrowings from the banks;

→ the use of credit facilities at local level in Russia, (euro 22,268 thousand), Argentina (euro 6,485 thousand), Japan (euro 6,357 thousand) and Sweden (euro 4,511 thousand) classified entirely as current borrowings from banks.

At December 31, 2018, the Group had a liquidity margin equal to euro 2,054.1 million composed of euro 700.0 million in the form of non-utilised committed credit facilities, and of euro 1,326.9 million in cash, in addition to financial assets at fair value recognised in the Income Statement to the amount of euro 27.2 million.

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

(In thousands of euro)

Borrowings from banks and other financial institutions at December 31, 2017	**4,456,257**
Bond issuance (EMTN program)	797,012
Bond buy-back (EMTN program)	(645,172)
Bond issuance (Schuldschein)	525,000
Drawdowns of unsecured financing (Facilities)	1,035,786
Reimbursements of unsecured financing (Facilities)	(1,737,501)
Intesa financing	200,000
Reimbursement of BEI borrowing	(20,000)
Flows from local financing facilities of subsidiaries	26,415
Amortized cost for the period	(15,479)
Translation differences and other movements for the period	106,906
Borrowings from banks and other financial institutions at December 31, 2018	**4,729,224**

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

(In thousands of euro)

Borrowings from banks and other financial institutions at December 31, 2016	**6,588,046**
Drawdowns of secured financing (Senior Facilities)	673,937
Reimbursements of secured financing (Senior Facilities)	(5,899,338)
Drawdowns of unsecured financing (Facilities)	4,226,064
Reimbursements of unsecured financing (Facilities)	(863,405)
Reimbursement of BEI borrowing	(20,000)
Net cash flow from Industrial assignment	(49,960)
Amortized cost for the period	81,336
Translation differences and other movements for the period	(280,423)
Borrowings from banks and other financial institutions at December 31, 2017	**4,456,257**

Accrued financial expenses and deferred financial income (euro 21,711 thousand) mainly refers to the accrual of interest on loans from banks to the amount of euro 12,387 thousand (euro 16,784 thousand at December 31, 2017), and to the accrued interest matured on bonds to the amount of euro 9,269 thousand (euro 1,237 thousand at December 31, 2017).

Current and non-current financial payables backed by secured guarantees (pledges and mortgages) totalled euro 342 thousand (euro 676 thousand at December 31, 2017).

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

(In thousands of euro)

	12/31/2018		12/31/2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	1,269,514	1,252,468	596,280	613,998
Borrowings from banks	2,654,914	2,697,096	3,298,717	3,355,453
Other financial payables	4,651	4,651	2,092	2,092
Total	**3,929,079**	**3,954,215**	**3,897,089**	**3,971,543**

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 financial year-end. It has therefore been classified in level 1 of the hierarchy, as provided for by IFRS 13 – Fair Value Measurement. The fair value of the "*Schuldschein*" loan and of current borrowings from bank was calculated by discounting each expected borrowings cash flow at the market swap rate for the currency and at the maturity date, increased by the Group's creditworthiness for debt instruments similar by nature and technical characteristics, which therefore places it at level 2 of the hierarchy as provided for by IFRS 13 - Fair Value Measurement.

The apportionment of borrowings from banks and other financial institutions according to the currency of origin for the debt, at December 31, 2018 and December 31, 2017 was as follows:

(In thousands of euro)

	12/31/2018	12/31/2017
EUR	2,403,626	2,270,509
USD (US Dollar)	2,184,842	1,968,909
MXN (Mexican Peso)	54,187	51,528
RUR (Russian ruble)	32,738	9,059
TRY (Turkish Lira)	13,433	31,004
CNY (Chinese renmimbi)	12,829	166
BRL (Brasilian Real)	9,887	105,471
Other Currencies	17,682	19,611
Total	**4,729,224**	**4,456,257**

At December 31, 2018 there are derivative hedging instruments for interest rates and exchange rates on floating rate debts in foreign currency.

The Group's exposure to changes in interest rates on financial payables, both in terms of the type of interest rate and in terms of the date of the renegotiation of the same (resetting) was subdivided as follows:

→ a floating rate payable to the amount of euro 3,929,394 thousand, whose interest rate is subject to renegotiation within the first six months of 2018;
→ a fixed rate payable to the amount of euro 799,830 thousand, whose interest rate is not subject to renegotiation until the natural maturity of the debt to which it refers (euro 248,715 thousand) due in the following 12 months

and euro 551,115 thousand euro due in over 12 months.

The cost of debt on an annual basis stood at 3.37%, (2.95% including repricing impacts), compared to 5.36% at December 31, 2017.

The reduction in the cost of debt during the course of the 2018 financial year mainly reflects:

- lower interest by approximately euro 84.9 million, due mainly to the lower cost of the main bank credit facility signed in June 2017, compared to the previous bank loan, as well as the reduction of debt thanks also to the share capital increase by Marco Polo for approximately euro 1.2 billion which took place in June 2017;
- the favourable comparison between the not-yet-amortised wash down of fees included for 2017 of euro 61.2 million, and to the amount of euro 3.6 million for 2018, respectively relative to the old bank loan which was repaid in advance in June 2017, and to the bond placed by Pirelli International Plc (for the amount of euro 600 million, with a fixed coupon of 1.75% and original maturity in November 2019) which was repaid early in March 2018;
- the almost neutral balance between the positive effect deriving from the repricing of the Group's main bank credit facility in January 2018, and the expenses arising from the early extinction in March 2018 of the bond placed by Pirelli International Plc (for the amount of euro 600 million with a fixed coupon of 1.75% and original maturity in November 2019) carried out through the exercise of the so-called make-whole option;
- to lower interest on local credit facilities as a mix of interest rate cuts and increased indebtedness in countries with a high interest rate.

With regard to the existence of financial covenants, it is to be noted that Group's main bank credit facility (*"Facilities"*) granted to Pirelli & C. S.p.A. and Pirelli International Plc (currently usable only by, and in its entirety by Pirelli & C.) and the financing of the *"Schuldschein"* loan, require compliance with a maximum ratio (*"Total Net Leverage"*) between net indebtedness and the gross operating margin as reported in the consolidated Financial Statements of Pirelli & C. S.p.A.

For both of the above loans, the failure to comply with the financial covenant is identified as a default event which is exercised in accordance with the terms of the relative contract only if requested by a number of the lending banks which represent at least 66 2/3% of the total commitment, and brings about the early repayment (either partial or total) of the loan with the simultaneous cancellation of the related commitment, while for the *Schuldschein* loan, it may be individually exercised in accordance with the terms of the relative contract, by each lending bank and involves the early repayment of the loan only for the portion due to the bank that has exercised this remedy.

This parameter had been complied with at December 31, 2018. Also in the case of the *Schuldschein* loan, any failure to comply with the financial covenant is identified as an event of default but, unlike that which happens in the case of bank financing, qualified majorities are not required for the early repayment request, each lender being able to proceed independently for its share.

The *Facilities* and *Schuldschein* loans provide for a Negative Pledge clause whose terms and conditions are consistent with the market standards for this type of credit facility.

The other outstanding financial payables at December 31, 2018 did not contain financial covenants.

25. TRADE PAYABLES

Trade payables were composed as follows:

(In thousands of euro)

	12/31/2018			12/31/2017		
	Total	Non-current	Current	Total	Non-current	Current
Trade payables	1,567,718	-	1,567,718	1,634,950	-	1,634,950
Bill and notes payable	36,959	-	36,959	38,692	-	38,692
Total	**1,604,677**	**-**	**1,604,677**	**1,673,642**	**-**	**1,673,642**

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

26. OTHER PAYABLES

Other payables were as follows:

(In thousands of euro)

	12/31/2018			12/31/2017		
	Total	Non-current	Current	Total	Non-current	Current
Accrued expenses and deferred income	84,338	53,233	31,105	75,787	43,995	31,792
Tax payables not related to income taxes	93,200	6,171	87,029	120,100	5,730	114,370
Payables to employees	98,167	220	97,947	115,835	817	115,018
Payables to social security and welfare intitutions	68,576	21,894	46,682	71,058	21,332	49,726
Dividends payable	350	-	350	338	-	338
Contract liabilities	4,147	-	4,147	-	-	-
Other payables	171,261	1,769	169,492	256,571	2,561	254,010
Total	**520,039**	**83,287**	**436,752**	**639,689**	**74,435**	**565,254**

The item **non-current accrued expenses and deferred trade income** refers to euro 49,291 thousand in capital contributions received for investments in Mexico and Romania, whose benefits are recognised in the Income Statement in proportion to the costs for which the contribution was disbursed, and to euro 2,640 thousand in costs for trade initiatives in Brazil.

The item **current accrued expenses and deferred trade income** includes euro 7,034 thousand for various trade initiatives realised in Germany and Brazil, euro 8,805 thousand in government grants and incentives received mainly in Italy and Romania, and euro 1,442 thousand for costs related to insurance coverage in some European countries and in Argentina.

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

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

The item **liabilities from contracts with customers** refers to advanced payments from customers for which the performance obligation has not yet been completed, in line with the provisions of IFRS 15. At December 31, 2017 these amounts were included under *"other current payables"*.

The item **other current payables** (euro 169,492 thousand) mainly includes:

- euro 106,668 thousand for the purchase of property, plant and equipment (euro 105,431 thousand at December 31, 2017);
- euro 14,813 thousand in withholding taxes on income (euro 14,872 thousand at December 31, 2017);
- euro 6,932 thousand in payables to companies in the Prometeon group particularly in Brazil and China;
- euro 6,674 thousand in payables to representatives, agents, professionals and consultants. The item at December 31, 2017 included euro 21,111 thousand for costs incurred in relation to the IPO process;
- euro 6,585 thousand relative to the purchase of 34 points of sale in São Paulo by the Brazilian subsidiary Pirelli Comercial de Pneus Ltda Brasil (Refer to Note 8 - Business Combinations). The amount refers to the preliminary consideration for the transaction, net of the amount already paid at December 31, 2018 (euro 1,393 thousand);

- euro 2,976 thousand in payables to Directors, Auditors and supervisory bodies;
- euro 2,566 thousand for debts relating to customs duties, import and transport costs;

The reduction compared to December 31, 2017 was mainly due to the payment to the minority shareholder Distribudora Automotiva S.A. of the residual debt at the closing of the previous financial year to the amount of euro 18,589 thousand for the purchase of a 36% stake in the subsidiary Comercial and Importadora de Pneus Ltda, a group company that owns a network of points of sale in Brazil, and to pay debts relative to costs incurred for the IPO process.

27. TAX PAYABLES

Tax payables were for the most part related to national and regional income taxes in different countries and amounted to euro 67,594 thousand (of which euro 2,091 thousand was for non-current liabilities), compared to euro 50,815 thousand at December 31, 2017 (of which euro 2,399 thousand was for non-current liabilities). Tax payables include management's valuations on any uncertainty effects on income tax treatment. Income tax payables include the evaluation of management with reference to the effects of any uncertainty on the treatment of income taxes.

28. DERIVATIVE FINANCIAL INSTRUMENTS

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

(In thousands of euro)

	12/31/2018				12/31/2017			
	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	-	7,321	-	(6,092)	-	6,357	-	(6,662)
Exchange rate derivatives - included in net financial position	-	70,329	-	(53,510)	-	21,413	-	(11,248)
Hedge accounting adopted								
- cash flow hedge:								
Interest rate derivatives	-	-	(4,726)	-	878	-	-	-
Other derivatives	20,134	20,917	(11,313)	-	-	-	(54,963)	-
	20,134	98,567	(16,039)	(59,602)	878	27,770	(54,963)	(17,910)
- Total derivatives included in net financial position	20,134	91,245	(13,738)	(53,510)	-	21,413	(54,963)	(11,248)

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

(In thousands of euro)

	12/31/2018	12/31/2017
Current assets		
Forward foreign exchange contracts - fair value recognised in the Income Statement	77,650	27,770
Cross currency interest rate swaps - cash flow edge	20,917	-
Total current assets	**98,567**	**27,770**
Non current assets		
Cross currency interest rate swaps - cash flow hedge	20,134	-
Interest rate swap - cash flow hedge	-	878
Total non current assets	**20,134**	**878**
Forward foreign exchange contracts - fair value recognised in the Income Statement		
Total current liabilities	(59,602)	(17,910)
Totale passività correnti	**(59,602)**	**(17,910)**
Non current liabilities		
Interest rate swaps - cash flow hedge	(4,726)	-
Cross currency interest rate swaps - cash flow hedge	(11,313)	(54,963)
Total non current liabilities	**(16,039)**	**(54,963)**

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

DERIVATIVE FINANCIAL INSTRUMENTS IN HEDGE ACCOUNTING The value of **interest rate derivatives** recorded under current assets to the amount of euro 4,726 thousand refers to the fair value of 9 forward start interest rate swaps.

Derivative	Hedged element	Notional amount (Euro million)	Start date	Maturity	
IRS forward start	Forecast transaction	250	June 2019	June 2022	receive fix / pay floating
IRS forward start	Term loan in USD + CCIRS	100	October 2019	June 2022	receive fix / pay floating
IRS forward start	Schuldschein	180	July 2020	July 2023	receive fix / pay floating
IRS forward start	Schuldschein	20	July 2020	July 2025	receive fix / pay floating
Total		**550**			

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

- any future transaction represented by interest flows on a 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 (Refer to Note 24).

A change of +0.5% in the EURIBOR curve, all other conditions being equal, would result in a positive change of euro 7,859 thousand in the equity of the Group, while a change of -0.5% in the EURIBOR curve, all other conditions being equal, would result in a negative change of euro 8,223 thousand in the equity of the Group

The value of **other derivatives,** recognised among non-current assets to the amount of euro 20,134 thousand, between current assets to the amount of euro 20,917 thousand and among non-current liabilities to the amount of euro 11,313 thousand, refers to the fair value measurement of 11 cross currency interest rate swaps with the following characteristics:

Derivative	Notional amount (USD million)	Notional amount (USD million)	Start date	Maturity	
CCIRS	1,079	922	July 2017	July 2019	pay floating EURIBOR / receive floating LIBOR USD
CCIRS	284	243	July 2017	June 2020	pay floating EURIBOR / receive floating LIBOR USD
CCIRS	682	582	July 2017	June 2022	pay floating EURIBOR / receive floating LIBOR USD
	2,045	**1,747**			
CCIRS forward start	1,079	920	July 2019	June 2022	pay fix EUR / receive floating LIBOR USD
Total	**3,124**	**2,667**			

The objective of these derivatives, for which hedge accounting of the cash flow hedge type was adopted, is to hedge the Group 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 USD floating rate liability.

The positive change in the fair value for the period to the amount of euro 133,155 thousand was suspended in equity (a cash flow hedge reserve of euro 113,098 thousand and a cost of hedging reserve of euro 20,056 thousand), while euro 80,868 thousand was reversed to the Income Statement under the item *"Valuation at fair value of foreign currency derivatives".*(Refer to Note 37 - *"Financial income"*) to offset the unrealised exchange rate losses recorded on the hedged liability, while euro 47,975 thousand was reversed to the item *"Financial expenses"* (Refer to Note 38) thereby correcting the financial expenses recognised on the hedged liability.

The change in fair value for the period for IRS (interest rate swaps), negative at euro 5,604 thousand, has been entirely suspended in equity.

A parallel change of +0.5% in the EURIBOR and LIBOR curves, all other conditions being equal, would result in a positive change of euro 11,555 thousand in the equity of the Group, while a change of -0.5% in the same curves, all other conditions being equal, would result in a negative change of euro 11,851 thousand in the equity of the Group

Hedging relationships relative to IRS (interest rate swap) and CCIRS (cross-currency interest rate swaps / basic swaps) are considered effective in advance if the following conditions are met:

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

The ineffectiveness of the hedging relationship is calculated at each reporting date using the Dollar Offset method which provides for the comparison of any changes in the *"fair value risk adjusted"* for the hedging instrument (with the exception of those attributable to the currency basis spread) with any changes in the fair value in the

risk free rate of the hedged item, through the identification of a hypothetical derivative with the same characteristics of the underlying financial liability.

The depreciation rates applied were as follows:

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

At December 31, 2018, no ineffectiveness was detected for the aforesaid hedging relationships.

29. COMMITMENTS AND RISKS

COMMITMENTS FOR THE PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

The commitments to purchase property, plant and equipment amounted to euro 140,702 thousand and refer mainly to subsidiary companies in Romania, Brazil, Russia, UK and Mexico.

COMMITMENTS FOR THE PURCHASE OF EQUITY INVESTMENTS/FUND SHARES

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

OTHER RISKS

Action filed against Prysmian before the Court of Milan and the High Court of Justice deriving from the antitrust court case concerning the energy cable business.

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 *"Provisions for liabilities and charges"* - against which, on September 21, 2018, Pirelli filed an appeal before the Court of Justice of the European Union. Judgement was suspended by the Court of Milan pending the final ruling by the Community Courts. In November, 2015, Prysmian S.p.A. notified Pirelli of proceedings for the recovery of damages before the High Court of Justice against Prysmian and other parties to the aforementioned alleged anti-competitive agreement brought by National Grid and Scottish Power, companies who claim to have been injured by the alleged unlawful agreement. Specifically, Prysmian S.p.A. submitted a plea to obtain from Pirelli and Goldman Sachs, based on the role played by the parent companies, at the time of the cartel, to hold it harmless in respect of any obligations to pay any 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 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 upheld a procedural understanding between Pirelli and Prysmian S.p.A and consequently suspended the English judgement until judgement is passed for sentencing for the already pending Italian proceedings. Pirelli, on the basis of accurate legal analyses provided by external counsel, maintained that it was not involved in the alleged irregularities of its former subsidiary and that the full and final liability for any breach must be borne exclusively by the company directly involved. As a consequence of the foregoing, the risk assessment of Prysmian S.p.A.'s petition regarding the legal action brought by National Grid & Scottish Power is such as to not require the allocation of any specific provision in the annual Financial Statements at December 31, 2018.

TAX DISPUTES IN BRAZIL The subsidiary Pirelli Pneus is involved in tax disputes and litigations described as follows.

DISPUTES CONCERNING THE ICMS TAX RECEIVABLES ASSIGNED BY THE STATE OF SANTA CATARINA With reference to the dispute concerning the ICMS tax receivables (*Imposto Sobre Operações Relativas à Circulação* or state value added tax) assigned by the State of Santa Catarina, Pirelli Pneus Ltda received notices of assessment which disavowed the ICMS tax receivables. The claim was motioned by the State of São Paulo, according to which Pirelli Pneus benefited from the ICMS tax credits assigned by the State of Santa Catarina, but which were deemed to have been unlawful from the start in that they were assigned by the latter in violation of the Brazilian Constitution, in the absence of a previous agreement between the various States. The dispute has been presented before the competent administrative and tax commissions and, despite the first decisions not being favourable to Pirelli Pneus, the Group maintains that it has a good chance of winning in following court proceedings.

This assessment was based on the orientation in favour of the tax payer whose legal position is strengthening, in particular, as with another case under consideration by the Brazilian Supreme Court, who will have to express its legal position through a sentence which will set a binding precedence, on the impossibility for a Federal State to penalise the tax payer for the use of credits granted by law by another Federal State, even if that law did not observe constitutional rules. According to a previous case before the Supreme Court, this dispute should be managed by the Federal States, and without unduly penalising the tax payer. In addition to the aforesaid, a legislative provision (Complementary Law No. 160) came into force on August 8, 2017, which should put an end to this dispute between the various states in Brazil. This legislation establishes that the aforementioned States may, on a voluntary basis, sign an agreement (a so-called *"convênio"*) which given certain conditions is able to validate the incentives which up to now have been considered illegitimate, and therefore also extinguish the related sanctions imposed by the Brazilian tax authorities. To date there are still some implementative aspects that need to be defined before this new provision can be applied to the case in question, however there is a clear indication of the commitment by the Brazilian States to put an end to these forms of contestation and to prevent new ones in the future.

The risk is estimated at approximately euro 146 million, inclusive of taxes, interests and penalties.

The risk of losing has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for this dispute.

LITIGATION CONCERNING THE IPI TAX RATE APPLICABLE TO CERTAIN TYPES OF TYRES The subsidiary Pirelli Pneus is involved in a tax disputes with the Brazilian tax authorities concerning the IPI tax rate (*Imposto sobre Produtos Industrializados* or tax on industrialised products) with particular reference to the tax rate applicable to the production and importation of tyres for the Sport Utility Vehicle (SUV), vans and other industrial transportation vehicles (such as, for example, trucks).

According to statements by the Brazilian tax authorities in the tax assessment notices issued during the course of 2015 and 2017, the aforementioned tyres should have been subjected to the IPI tax rate for the production and importation of tyres for cars – an applicable rate of 15% - instead of the 2% rate applied by Pirelli Pneus, as is provided for the production and importation of tyres for heavy industrial use vehicles. To date, the dispute is pending before the competent administrative and tax commissions and, despite a first unfavourable decision regarding the assessment for the 2015 fiscal period, the Group maintains that it has a good chance of winning. This position is also supported by an appraisal prepared by a Brazilian government institution (the INT - National Institute of Technology) specifically commissioned by Pirelli Pneus, and who concluded their analysis by equating, in light of their similar characteristics, the tyres discussed with those used for heavy industrial vehicles.

The risk is estimated at approximately euro 37 million, inclusive of tax, interests and penalties.

The risk of losing has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for this dispute.

DISPUTES CONCERNING TRANSFER PRICING WITH RESPECT TO CERTAIN INTRA-GROUP TRANSACTIONS Pirelli Pneus is involved in a dispute with the Brazilian tax authorities concerning corporate income tax (IRPJ - *Imposto de Renda Pessoa Jurídica*) and social contribution tax on net profits (CSLL - *Contribuição Social sobre o Lucro Líquido*) payable by the company for the fiscal periods of 2008, 2011 and 2012 with reference to the application of the so-called transfer pricing regulations for import dealings with related parties.

Based on the assessment notices sent to the company during 2013, 2015 and 2016, the Brazilian tax authorities are mainly contesting the incorrect application by the company of the methodology provided for by the administrative practice in force at that time (IN - *Instrução Normativa* 243 or Instructions for Regulation) for the evaluation of transfer prices applied to the importation of goods from related parties. To date, the claim motioned by the company is pending before the competent administrative-tax tribunals. Even though the administrative ruling issued proved unfavourable to Pirelli Pneus, the Group nevertheless maintains that it has a good chance of winning having assessed the intra-group transactions in question pursuant to the provisions of the legislation in force for the time being, which should prevail over the aforementioned administrative practice (IN 243) of the Brazilian tax authorities.

The risk is estimated at approximately euro 18 million, inclusive of tax, interests and penalties.

The risk of losing has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for this dispute.

DISPUTES CONCERNING THE IPI TAX RATE WITH RESPECT TO THE SALE OF TYRES TO THE AUTOMOTIVE SECTOR Pirelli Pneus is involved in a dispute concerning the IPI tax rate, (*Imposto sobre Produtos Industrializados* or tax on industrialised products) also with reference to the sale of components to companies operating in the automotive sector. According to the Brazilian tax authority's claim as stated in a notice of assessment issued in 2013, Pirelli Pneus should not benefit, as regards its secondary office established in the city of Ibiritè in the Federal State of Minas Gerais, from the IPI tax rate exemption as provided for by law in the case of sales of certain components to companies operating in the automotive sector.

The Group maintains that it has well founded reasons to object to the tax administration's claim. In particular, both the legislation applicable to this case regarding the IPI tax rate and the precedences in case law for similar cases appear to support this position. The risk is estimated at approximately euro 20 million, inclusive of tax, interests and penalties.

The risk of losing has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for this dispute.

OTHER PIRELLI PNEUS DISPUTES Pirelli Pneus is involved in three other tax disputes concerning federal taxes and excises (such as the IPI tax rate- *Imposto sobre Produtos Industrializados* or tax on industrialised products, the PIS - *Programa de Integração Social* or social contribution tax, and the COFINS tax - *Contribuição Social para o Financiamento da Seguridade Social* or tax on Social Security Financing) as well as the ICMS (*Imposto Sobre Operações Relativas à Circulação* or state value added tax). In particular, Pirelli Pneus is involved in certain administrative and judicial proceedings aimed at ensuring that their own reasons prevail over those of the tax authorities, with reference to:

(i) the so called *"Operação Vulcano"* (the federal investigation into fraud in Brazilian foreign trade) with regard to the exportation of goods to Paraguay in which case, according to the Brazilian tax authorities, Pirelli Pneus should not benefit from the provision for tax exemption - approximately euro 9 million inclusive of taxes, interests and penalties;
(ii) the so called *"Desenvolve"* relative to a fiscal incentive which is recognised by the Federal State of Bahia but which, as claimed by the Brazilian tax authorities was incorrectly calculated by Pirelli Pneus - approximately euro 9 million inclusive of taxes, penalties and interest;
(iii) a dispute relative to import customs costs for natural rubber which, in the opinion of the Brazilian tax authorities, was underestimated by not taking into account the value of the intra-group royalties paid - approximately euro 10 million inclusive of taxes, penalties and interest.

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

30. REVENUES FROM SALES AND SERVICES

Revenues from sales and services were as follows:

(In thousands of euro)

	2018	2017
Revenues from sales of goods	5,049,040	5,202,962
Revenues from services	145,431	149,321
Total	**5,194,471**	**5,352,283**

These revenues refer to contracts with customers.

31. OTHER INCOME

The item is composed as follows:

(In thousands of euro)

	2018	2017
Other income from Prometeon Group	91,343	223,542
Sales of Industrial products	183,762	223,482
Gains on disposal of property, plant and equipment	7,848	1,865
Rent income	5,465	3,759
Recoveries and reimbursements	95,785	59,871
Government grants	14,515	8,596
Other income	84,487	107,418
Total	**483,205**	**628,533**

The item **other income from the Prometeon Group** mainly includes sales of raw materials, semi-finished products and finished products for the amount of euro 27,695 thousand, royalties recorded from the trademark license agreement to the amount of euro18,080 thousand, royalties recorded from the know-how license contract to the amount of euro 10,000 thousand, and services rendered for the amount of euro 20,600 thousand. The decrease recorded compared to the previous financial year was mainly attributable to the fact that raw materials are no longer supplied to the Prometeon Group by the British subsidiary Pirelli International Plc. (euro 112,521 thousand at December 31, 2017). Refer also to Note 45 – *"Related party transactions"*.

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

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

- reimbursements of taxes and duties totalling euro 35,940 thousand, of which euro 32,183 thousand received in Brazil, and euro 19,568 thousand attributable to the benefit recorded following the attainment of favourable rulings by the Federal Regional Courts of Brasilia and São Paulo which recognised the right to deduct the state tax on goods and services (ICMS) on the basis of the calculation the social contributions PIS (Programa de Integracao Social) and COFINS (Contribucao para Financiamento de Seguridade Social). Reference should be made to Note 16 - "Other receivables" for further details.
- tax refunds totalling euro 4,695 thousand arising from tax incentives obtained in Argentina and in the state of Bahia, Brazil for commercial exports;
- proceeds from the sale of tyres and scrap materials obtained in the United Kingdom for a total of euro 5,940 thousand;
- income from the sale of tyres for testing and the recovery of transport expenses incurred in Germany for euro 1,962 thousand;

The item **other** includes income from sporting activities amounting to euro 33,754 thousand.

32. PERSONNEL EXPENSES

The item is composed as follows:

(In thousands of euro)

	2018	2017
Wages and salaries	796,874	787,798
Social security and welfare contributions	167,011	181,660
Costs for employee leaving indemnities and similar	19,087	17,177
Costs for defined contribution pension funds	22,698	21,689
Costs for defined benefit pension funds	13,831	(5,928)
Costs for jubilee awards	4,247	3,748
Costs for defined contribution healthcare plans	3,007	2,994
Other costs	40,824	25,509
Total	**1,067,579**	**1,034,647**

The item **other costs** includes this includes the portion of the retention plan that was approved by the Board of Directors on February 26, 2018 intended for Managers with strategic responsibilities and a selected number of senior Managers and Executives whose contribution to the implementation of the Strategic Plan is considered particularly significant.

The item personnel expenses for 2018 includes **non-recurring events** for a total of euro 15,410 thousand (1.4% of the total) attributable to on the estimated impacts on pension obligations deriving from the need to recalculate them in order to equalise some of the differences in treatment with reference to the minimum guaranteed pension (GMP equalisation) that emerged in the UK pension sector following the High Court ruling of October 26, 2018 in the case concerning the Lloyds Banking Group.

33. DEPRECIATION, AMORTISATION AND IMPAIRMENTS

The item is composed as follows:

(In thousands of euro)

	2018	2017
Amortisation	125,220	120,196
Depreciation	269,084	250,673
Impairment of property, plant and equipment and intangible assets	20,219	588
Total	**414,523**	**371,457**

The item impairments mainly refers to property, plant and equipment consistent with the reduction of the Standard capacity.

34. OTHER COSTS

The item is subdivided as follows:

(In thousands of euro)

	2018	2017
Selling costs	310,687	306,108
Purchases of goods for resale	434,201	478,745
Purchases of natural rubber for Prometeon Group	-	106,331
Fluids and energy	161,180	159,830
Advertising	231,981	286,178
Consultants	43,872	56,656
Maintenance	51,394	56,112
Warehouse operating costs	70,225	70,381
Lease, rental and lease installments	125,359	121,984
Outsourcing	38,572	73,643
Travel expenses	52,847	57,461
IT expenses	34,844	33,547
Key managers compensations	8,229	9,610
Other provisions	37,867	33,063
Duty stamps, duties and local taxes	29,031	36,422
Canteen	17,043	18,101
Bad debts (*)	-	17,659
Insurance	30,319	30,937
Cleaning expenses	14,788	15,892
Waste disposal	7,160	18,302
Security expenses	9,150	10,773
Telephone expenses	9,723	11,098
Other	139,690	175,827
Total	**1,858,162**	**2,184,660**

(*) According to the new accounting principle IFRS 9, applicable from January 1, 2018, bad debts are recognised in net impairment loss on financial assets (note 35)

The item other costs for 2018 includes **non-recurring events** for a total of euro 7,798 thousand (0.5% of the total) mainly refers to costs for consultancy services in the as part of non-recurring transactions as well as costs incurred as a result of extraordinary events. For the 2017 financial year, the amount of euro 70,076 thousand (3.2% of the total) refers mainly to costs incurred for the IPO process.

35. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

The item, negative at euro 21,273 thousand, mainly includes:

- the net impairment of trade receivables to the amount of euro 12,019 thousand. At December 31, 2017, the net impairment of trade receivables amounted to euro 8,797 thousand and was included in the item *"Other costs"* (Refer to Note 34);
- the impairment of other trade receivables to the amount of euro 9,254 thousand (Refer to Note 16 *"Other receivables"*).

36. NET INCOME (LOSS) FROM EQUITY INVESTMENTS

36.1 SHARE OF THE NET INCOME (LOSS) FROM EQUITY INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The share of the net income (loss) from equity investments in associates and joint ventures was evaluated using the equity method and was negative to the amount of euro 11,560 thousand, and refers mainly to investments in the joint venture PT Evoluzione Tyres in Indonesia (negative at euro 10,350 thousand - negative at euro 9,613 thousand for 2017).

For further details reference should be made to preceding Note 12 *"Investments in Associates and Joint Ventures"*.

36.2 GAINS ON EQUITY INVESTMENTS

This item mainly refers to the positive impact to the amount of euro 3,780 thousand relative to the investment in Mediobanca S.p.A. classified under *"Other financial assets at fair value through the Income Statement"* (Note 13) sold on January 1, 2018.

36.3 LOSSES ON EQUITY INVESTMENTS

For 2018 the item amounted to euro 1,603 thousand, and mainly refers to the impairment of the investment in Focus Investments S.p.A., classified under investments in associated companies (Refer to Note 12 *"Investments in associates and joint ventures"*). For 2017 the item included the impairment of the investment in Pirelli de Venezuela C.A. (euro 7,616 thousand), in Equinox Two S.C.A. (euro 3,062 thousand), in Emittenti Titoli S.p.A. (euro 1,441 thousand), and in Alitalia-Compagnia Area Italiana S.p.A (euro 781 thousand).

36.4 DIVIDENDS

This item amounted to euro 4,176 thousand and mainly includes dividends received from Equinox Two S.C.A. to the amount of euro 1,508 thousand (euro 3,049 thousand for 2017), and from Fin. Priv. S.r.l. to the amount of euro 957 thousand (euro 757 thousand for 2017). This item also includes dividends received from Mediobanca S.p.A. to the amount of euro 5,829 thousand.

37. FINANCIAL INCOME

The item is composed as follows:

(In thousands of euro)

	2018	2017
Interest	17,176	17,098
Hyperinflation impact	8,536	-
Other financial income	9,627	9,285
Net gains on exchange rates	-	102,157
Fair value measurement of currency derivatives	104,391	-
Total	**139,730**	**128,540**

The item **interest** mainly includes euro 4,758 thousand for interest on fixed income securities, euro 3,095 thousand for interest receivables due from financial institutions, and euro 4,190 thousand for interest on financial receivables, and interest on the loan disbursed by Pirelli International Plc and Pirelli Tyre S.p.A. to PT Evoluzione Tyres for euro 1,834 thousand.

The item **effects of high inflation** refers to the effect on monetary items deriving from the application of IAS 29 - Hyperinflation by the subsidiary company in Argentina. Reference should be made to Note 43 for more details.

The item **other financial income** mainly includes euro 7,610 thousand of interest accrued on tax receivables and on guarantee deposits paid by Brazilian subsidiaries to guarantee legal and tax disputes, and euro 1,828 thousand in capital gains generated on the partial acquisition of the unrated bond loan which was completed on December 19, 2018 for a total amount of euro 47 million.

The item **valuation at fair value of exchange rate derivatives** refers to the purchase/sale of the forward exchange rate hedge contracts to cover commercial and financial transactions in accordance with the exchange rate risk management policy of the Group. For transactions still open at the end of the financial year, the fair value was determined using the forward exchange rate at the reporting date of the consolidated Financial Statements. The valuation at fair value is composed of two elements: the interest component which is tied to the interest rate spread between the currencies which are subject to the individual hedges, equal to a net cost of euro 55,276 thousand, and the exchange rate component at a net cost of euro 159,667 thousand. In comparing the net losses on exchange rates, which totalled euro 192,437 thousand, recorded on receivables and payables in the currencies of the individual companies which is other than the functional currency, and included in financial expenses (Refer to Note 38), with valuation at fair value of the exchange rate component of the derivatives used for hedging exchange rates, which amounted to a net income of euro 159,667 thousand, when taking into account the impact of high inflation in Argentina, there results a negative imbalance of euro 24,234 thousand mainly. The imbalance was due to the euro 11,944 thousand in loss on translations carried out in Argentina, where during the periods of maximum impairment (the Argentine peso was devalued by approximately 90% during the financial year) hedging activity would have been difficult and at costs which would have been disadvantageous.

38. FINANCIAL EXPENSES

The item is composed as follows:

(In thousands of euro)

	2018	2017
Interest	103,975	255,096
Commissions	20,522	29,587
Other financial expenses	13,183	9,250
Net losses on exchange rates	192,437	-
Net interest costs on employee benefit obligations	5,446	7,295
Fair value measurement of exchange rate derivatives	-	189,922
Valuation at fair value of other derivatives	478	-
Total	**336,041**	**491,150**

The item **interest** which amounted to a total euro 103,975 thousand includes euro 87,704 thousand relative to the unsecured credit facility (*"Facilities"*) granted to Pirelli & C. S.p.A. and Pirelli International Plc (held by the Parent company as of November 29, 2019) signed on June 27, 2017 as well as the positive effect of euro 29,750 thousand (euro 20,101 thousand net of the amortised portion) due to the repricing of the same banking facilities which occurred in January 2018 and which entailed a re-measurement of the relative debt. At December 2017, the item included euro 154,322 thousand relative to the new secured Senior Facilities financing granted to Pirelli & C. S.p.A. and Pirelli International Plc for the nominal amount of euro 5,280,746 thousand and repaid in advance on June 29, 2017, of which euro 61,244 thousand related to the consequent reversal to the Income Statement of the portion of costs not amortised at the closing date.

The item also includes:

- euro 47,930 thousand euro for net interest income on Cross Currency Interest Rate Swaps to offset he flow of financial expenses, of the part subscribed to in US Dollars, of the bank credit facility referred to in the previous point. For more details, refer to details in Note 28 *"Derivative financial instruments"*.
- euro 37,268 thousand in financial expenses relative to bonds, of which euro 10,256 thousand refers to unrated bonds and euro 2,329 thousand refers to the *Schuldschein* loan, both issued by Pirelli & C. S.p.A. The item also includes euro 18,690 thousand in expenses arising from the early extinction of the bond placed by Pirelli International Plc (for the amount of euro 600 million, with a fixed coupon of 1.75%, and with original maturity in November 2019) carried out through the exercise of the so-called make-whole option, and the consequent reversal to the Income Statement of the portion of costs not amortised at the closing date to the amount of euro 3,557 thousand;

The item **commissions** includes in particular euro 7,550 thousand in costs relative to transactions for the assignment of receivables using the no recourse (pro-soluto) clause mainly in LatAm, Italy and Germany, and euro 12,871 thousand relative to expenses for guarantees and other bank commissions.

The item **net losses on exchange rates** which amounted to euro 192,437 thousand (gains amounted to euro 2,678,070 thousand and losses amounted to euro 2,870,507 thousand) refers to the adjustment at period-end exchange rates to items expressed in currencies other than the functional currency and still outstanding at the reporting date of the consolidated Financial Statements, and to the net losses realised on items closed during the course of the period.

The item other financial expenses includes **non-recurring events** for to the total amount of euro 2,149 thousand (0.6% of the total) relative to:

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

During 2017 the amount euro 61,244 thousand (12.5% of the total) refers to the early closure of secured funding (*"Senior Facilities"*) as described in the item *"interest"*.

39. TAXES

Taxes were composed as follows:

(In thousands of euro)

	2018	2017
Current taxes	156,104	162,382
Deferred taxes	(103,140)	(121,534)
Total	**52,964**	**40,848**

Tax expenses for 2018 amounted to euro 52,964 thousand against pre-tax earnings of euro 501,765 thousand with a tax rate which attested itself at 10.6%. The tax rate for 2018 positively benefitted from the concessions deriving from the application of the Patent Box tax relief scheme to the amount of euro 89 million by way of the preliminary agreement signed by Pirelli Tyre S.p.A. on October 15, 2018 with the Italian Tax Office.

The item includes **non-recurring events** for a positive amount of euro 60,607 thousand mainly attributable to the benefit derived from the Patent Box for the 2015 - 2017 period (euro 103,881 thousand for non-recurring events recorded for 2017). Refer to note 44 – *"Non recurring events"*.

The reconciliation between theoretical and effective taxes is as follows:

(In migliaia di euro)

	2018
A) Net income (loss) before taxes	**501,763**
B) Theoretical taxes	**125,441**
Main causes for changes between estimated and effective taxes:	
- Tax incentives foreign subsidiaries	(101,346)
- Non-deductible costs	10,415
- Taxes not related to income and not recoverable	21,294
- Other	(2,840)
C) Effective taxes	**52,964**
Theoretical tax rate (B/A)	25,0%
Effective tax rate (C/A)	10.6%

Tax incentives mainly refer to the benefit deriving from the Patent Box of a total of euro 89 million euros, of which euro 54 million euro was relative to the 2015 - 2017 three-year period, and euro 35 million as the estimated benefit for 2018.

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

	2018
Europe	
Italy	27.90%
Germany	30.00%
Romania	16.00%
Great Britain	19.00%
Turkey	22.00%
Russia	20.00%
NAFTA	
USA	25.00%
Mexico	30.00%
Central and South America	
Argentina	30.00%
Brazil	34.00%
Asia / Pacific	
China	25.00%

The share of taxes paid by geographical area is as follows:

- 56% Europe;
- 21% APAC;
- 12% NAFTA;
- 6% LatAm;
- 5% Russia and MEAI.

The term paid taxes refers to the total amount of income taxes effectively paid during the tax period by the Group companies to the respective jurisdictions of tax residence, to income tax payments paid in 2018, to income taxes paid during the course of 2018 but relative to previous financial years (e.g. income tax balances relative to 2017) or to payments relative to tax assessments for previous financial years. Taxes paid also include withholding taxes incurred on the cross-border payments of dividends, interest and royalties which have been reported in the tax residence jurisdictions of the recipient.

40. ASSETS AND LIABILITIES AVAILABLE FOR SALE AND DISCONTINUED OPERATIONS

As a result of the assignment in March 2017 by Pirelli & C. S.p.A. to the Parent company Marco Polo International Holding Italy S.p.A., of the TP Industrial Holding S.p.A. shares, the company into which almost all of Pirelli's Industrial assets had been merged, in continuity with the 2017 financial year some residual activities in China and Argentina relative to the Industrial business, qualified as *"discontinued operations"*. The table below shows the financial figures for 2018 classified in the Income Statement, in accordance with IFRS 5, as the single item *"net income (loss) from discontinued operations"*. The separation process for Argentina was completed during the month of June 2018, while for China it was completed during the fourth quarter of 2018. The comparative data refers to the results of the first quarter for the Industrial business as well as for the twelve months for the residual activities sold during 2018.

(In thousands of euro)

	2018	2017
Revenues from sales and services	12	232,801
Other income	16,674	156,187
Changes in inventories of unfinished, semi-finished and finished products	-	49,550
Raw materials and consumables used (net of change in inventories)	-	(184,027)
Personnel expenses	(2,527)	(71,558)
Amortisation, depreciation and impairment	(87)	(18,772)
Other costs	(25,161)	(161,863)
Increase in fixed assets for internal work	-	46
Operating income (loss)	**(11,089)**	**2,364**
Financial income	2,737	1,670
Financial expenses	(365)	(10,200)
Net income (loss) before tax	**(8,717)**	**(6,166)**
Tax	2,288	(1,189)
Net income (loss) from discontinued operations	**(6,429)**	**(7,355)**
Reversal of reserve on foreign currency translation	-	(80,208)
Total net income (loss) from discontinued operations	**(6,429)**	**(87,563)**

The value of *"assets available for sale"* (euro 10,677 thousand) was mainly attributable to the value of the assets, represented exclusively by land and buildings owned by the subsidiary Joint Stock Company, the *R&D Training Center for New Technologies & Materials* (*ATOM*) sold on February 13, 2019.

41. EARNINGS/(LOSSES) PER SHARE

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

(In thousands of euro)

	2018	2017
Net income attributable to the Parent Company related to **continuing operations**	438,035	263,955
Weighted average number of ordinary shares outstanding (in thousands)	1,000,000	853,232
Earnings/(loss) per share related to continuing operations (in euro per share)	**0.438**	**0.309**
Net income attributable to the Parent Company related to **discontinued operations**	(6,429)	(87,563)
Weighted average number of ordinary shares outstanding (in thousands)	1,000,000	853,232
Earnings/(loss) per share related to discontinued operations (in euro per share)	**(0.006)**	**(0.103)**

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

42. DIVIDENDS PER SHARE

In 2018, Pirelli & C. S.p.A did not distribute any dividends to its shareholders.

43. HYPERINFLATION

In accordance with Group accounting policies regarding the criteria for introducing/ending inflation accounting, the subsidiary Pirelli Neumaticos SAIC has adopted inflation accounting since the preparation of the consolidated Financial Statements at December 31, 2018. It is the only Group company operating in a high-inflation country. The price index used for this purpose was the national consumer price index (CPI) published by the National Institute for Statistics and Census (INDEC).

For the financial statements at December 31, 2018 the official inflation index was used estimated at 48%.

The losses on the net monetary position were recognised in the Income Statement as *"Financial expenses"* (Refer to Note 38) for an amount of euro 8,536 thousand.

44. NON-RECURRING EVENTS

Pursuant to CONSOB Notification No. DEM / 6064293 of July 28, 2006, information is provided below on the impact on the Group's income, financial position and equity, of the non-recurring events and operations:

(millions of euro)

	Equity	Net income (loss) for the financial year	Cash flows
Financial statement (a)	**4,550.9**	**442.4**	**(342.8)**
Operating costs	(23.2)	(23.2)	(49.7)
Financial expenses	(2.1)	(2.1)	(18.7)
Tax	60.6	60.6	1.9
Total impact non recurring items (b)	**35.3**	**35.3**	**(66.5)**
Total adjusted (a-b)	**4,515.6**	**407.1**	**(276.3)**

The impact on the individual items of the consolidated Income Statement was as follows:

(millions of euro)

	2018	2017
Personnel expenses:		
- Retention Plan	-	(2.6)
- UK Pension fund adjustment	(14.4)	-
- Other	(1.0)	-
Other costs:		
- Industrial Reorganization	-	(2.1)
- IPO costs	(0.8)	(61.9)
- Other	(7.8)	(6.1)
Impact on operating income	**(24.0)**	**(72.6)**
Financial expenses:		
- Refinancing impact June 2017 transaction costs	-	(61.2)
- "Make Whole Issuer Call" fee for the anticipated buy back of bond issued by Pirelli International Plc and relating fee wash down	(22.3)	-
- Net repricing impact on unsecured loan ("Facilities")	20.1	
Impact on net income (loss) before tax	**(26.2)**	**(133.8)**
Tax:		
- Recognition of deferred tax assets of italian companies and operating income adjustments and financial expenses	60.6	103.9
Impact on net income (loss) from continuing operations	**34.4**	**(30.0)**
Impact on net income (loss)	**34.4**	**(30.0)**

The impact of non-recurring events on the operating income (loss) for the 2018 financial year amounted to a total of euro 24 million and differs from the value reported in the Directors' Report on Operations for *"non-recurring and restructuring expenses"* (euro 91.5 million), in that it did not include restructuring expenses which amounted to a total of euro 67.5 million.

45. RELATED-PARTY TRANSACTIONS

Related party transactions, including inter-group transactions, are neither exceptional nor unusual, but are part of the ordinary course of business for companies of the Group. Such transactions, when not concluded under standard conditions or dictated by specific regulatory conditions, are in any case governed by conditions consistent with those of the market and carried out in compliance with the provisions of the Procedure for Related Party Transactions which the Company has adopted.

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

STATEMENT OF FINANCIAL POSITION

(In millions of euro)

	12/31/2018	of which related parties	% incidence	12/31/2017	of which related parties	% incidence
Non current assets						
Other receivables	225.7	12.6	5.57%	204.1	12.0	5.88%
Current assets						
Trade receivables	628.0	15.7	2.49%	652.5	62.7	9.61%
Other receivables	416.7	55.4	13.30%	400.5	36.5	9.11%
Income tax receivables	41.4	-	-	35.5	0.1	0.2%
Current liabilities						
Trade payables	1,604.7	191.6	11.94%	1,673.6	198.0	11.83%
Other payables	436.8	7.4	1.70%	565.3	16.4	2.91%
Income tax payables	65.5	-	-	48.4	9.9	20.44%

INCOME STATEMENT

(In millions of euro)

	2018	of which related parties	% incidence	2017	of which related parties	% incidence
Revenue from sales and services	5,194.5	9.0	0.17%	5,352.3	10.8	0.20%
Other income	483.2	108.5	22.46%	628.5	230.6	36.69%
Raw materials and consumables used	(1,818.2)	(12.7)	0.70%	(1,859.8)	(46.5)	2.50%
Personnel expenses	(1,067.6)	(14.1)	1.32%	(1,034.6)	(11.0)	1.06%
Other costs	(1,858.2)	(290.4)	15.63%	(2,184.7)	(375.0)	17.16%
Net impairment loss of financial assets	(21.3)	(9.0)	42.31%	-	-	0.00%
Financial income	139.7	3.1	2.23%	128.5	35.3	27.48%
Financial expenses	(336.0)	-	-	(491.2)	(41.1)	8.4%
Net income (loss) from equity investments	(5.0)	(11.6)	n,s,	(6.9)	(8.3)	n.s.
Net income (loss) from discontinued operations	(6.4)	(10.6)	n,s,	(87.6)	(9.5)	n.s.

CASH FLOW

(in millions of euro)

	2018	of which related parties	% incidence	2017	of which related parties	% incidence
Net cash flows operating activities:						
Trade receivables	(23.4)	47.1	N.A.	73.6	90.6	N.A.
Trade payables	104.7	(6.3)	N.A.	447.4	86.2	N.A.
Other receivables/payables	(151.4)	(29.3)	N.A.	(39.4)	70.5	N.A.
Net cash flows investing activities:						
Acquisition of minorities	(49.7)	(31.2)	N.A.	-	-	-
Disposal of property, plant and equipment	16.2			73.5	61.0	N.A.
Dividends received from associates	2.7	2.7	N.A.	-	-	-
Disposals (Acquisition) of investments in associates and JV	(65.2)	(65.2)	N.A.	17.2	-	-
Repayment of share capital and reserves from associates	-	-	-	8.6	8.6	N.A.
Net cash flows financing activities:						
Change in Financial receivables/Other current financial assets at fair value through income statement - Assets held for trading	(31.8)	-	-	218.0	190.0	N.A.
Net cash flows provided by (used in) discontinued operations	37.1	43.5	N.A.	-	-	-

The effects of the related party transactions, contained in the Income Statement and the Statement of Financial Position on the consolidated data for Pirelli & C. Group were as follows:

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

STATEMENT OF FINANCIAL POSITION

(in millions of euro)

	12/31/2018	12/31/2017
Other non current receivables	12.6	12.0
Trade receivables	3.6	1.8
Other current receivables	32.2	14.8
Trade payables	23.1	24.0
Other current payables	0.1	0.4

INCOME STATEMENT

(in milioni di euro)

	2018	2017
Revenues from sales and services	6.2	-
Other income	2.1	2.4
Other costs	42.7	37.3
Financial income	1.2	0.9
Financial expenses	-	0.1

CASH FLOW

(in millions of euro)

	2018	2017
Net cash flows provided by / (used in) investing activities	(62.5)	8.6

TRANSACTIONS – STATEMENT OF FINANCIAL POSITION

The item **other non-current receivables** refers to a loan granted by Pirelli Tyre S.p.A. to the Indonesian Joint Venture PT Evoluzione Tyres.

The item **trade receivables** includes receivables for services rendered to PT Evoluzione Tyres to the amount of euro 2.1 million and to the Joint Stock Company, the *Kirov Tyre Plant* to the amount of euro 0.6 million.

The item **other current receivables** mainly refers to receivables for advances from Pirelli Tyre S.p.A. to PT Evoluzione Tyres to the amount of euro 15 million for the supply of motorcycle products and the sale of materials and moulds to the Joint Stock Company, the *Kirov Tyre Plant* to the amount of euro 6.7 million, to receivables for the recovery of costs sustained by Pirelli Tyre Co. towards Jining Shenzhou Tyres Co., Ltd to the amount of euro 1.8 million, and to the loan granted by Pirelli International Plc to PT Evoluzione Tyres for euro 6.1 million.

The item **trade payables** mainly refers to the debt for the purchase of energy from Industriekraftwerk Breuberg GmbH and trade payables towards the Joint Stock Company, the *Kirov Tyre Plant.*

TRANSACTIONS - INCOME STATEMENT

The item **revenues from sales and services** mainly refers to royalties charged to PT Evoluzione Tyres to the amount of euro 1.6 million, and sales of materials and services to the Joint Stock Company, the Kirov Tyre Plant for the amount of euro 4.4 million.

This item **other costs** mainly refers to acquisition costs for the purchase of energy and machine hire from Industriekraftwerk Breuberg GmbH to the amount of euro 21.7 million, and costs for the acquisition of products from PT Evoluzione Tyres to the amount of euro 19.8 million.

The item **financial income** refers to interest on the loan granted by Pirelli International Plc and Pirelli Tyre S.p.A. to PT Evoluzione Tyres.

TRANSACTIONS WITH OTHER RELATED PARTIES

The transactions detailed below mainly refer to business relations with the Aeolus Tyre Co., Ltd. and to transactions with the Prometeon Group, both of which are subject to the control of the direct parent company or indirect parent companies.

STATEMENT OF FINANCIAL POSITION

(in millions of euro)

	12/31/2018	12/31/2017
Trade receivables	12.0	61.0
Other current receivables	23.2	21.7
Current tax receivables	-	0.1
Trade payables	168.5	174.0
Other current payables	7.4	16.1
Current tax payables	-	9.9

INCOME STATEMENT

(in millions of euro)

	2018	2017
Revenues from sales and services	2.7	8.4
Other income	106.4	230.6
Raw materials and consumables used	12.7	46.5
Other costs	239.4	328.0
Financial income	9.0	-
Financial expenses	1.9	34.4
Net impairment loss on financial assets	-	41.0
Other income from discontinued operations	7.8	-
Other costs from discontinued operations	18.5	-

With reference to transactions with the Prometeon Group, comparative income amounts refer to the entire 2017 even though the Prometeon Group became a related party as of March 15, 2017 (date of assignment by Pirelli & C. S.p.A. of TP Industrial Holding S.p.A. shares to Marco Polo International Holding Italy S.p.A.).

CASH FLOW

(in millions of euro)

	2018	2017
Change in trade receivables	47.1	90.6
Change in trade payables	(6.3)	86.2
Change in Other receivables/Other payables	(29.3)	70.5
Net cash flows provided by / (used in) investing activities	(31.2)	61.0
Net cash flows provided by / (used in) financing activities	-	190.0
Net cash flows provided by (used in) discontinued operations	43.5	-

TRANSACTIONS – STATEMENT OF FINANCIAL POSITION

The item **trade receivables** mainly refers to receivables from companies of the Prometeon Group to the amount of euro 12 million.

The item **other current receivables** mainly refers to receivables for royalties from the Aeolus Tyre Co. Ltd. to the amount of euro 6 million (these receivables are shown net of the relative provision for bad debts Group equal to euro 9 million attributable to the extraordinary reshaping of the technology license agreement granted to the Aeolus Tyre Co., and trade receivables to the amount of euro 14.3 million from companies of the Prometeon Group.

The item **trade payables** almost exclusively refers to payables to companies of the Prometeon Group to the amount of euro 163.8 million.

The item **other current payables** mainly refers to other current payables to companies of the Prometeon Group to the amount of euro 6.9 million.

TRANSACTIONS - INCOME STATEMENT

The item **revenues from sales and services** mainly refers the sale of goods and services rendered by Pirelli Pneus Ltda to Pirelli de Venezuela C.A. for the amount of euro 2.4 million, The amount, unchanged as compared to September 30, 2018, refers to the revenues recognised as of January 1, 2018 until September 7, 2018, the date on which the sale of the Venezuelan company was completed.

The item **other income** at December 31, 2018 includes recognised royalties from Aeolus Tyre Co. Ltd. in respect of the license agreement stipulated in 2016 to the amount of euro 15 million. The item also includes income from companies of the Prometeon Group mainly relative to:

- the sale of raw materials by Pirelli Pneus Ltda for the amount of euro 17.5 million;
- royalties recorded in respect the license contract for the use of the Pirelli trademark to the amount of euro 18.1 million;
- the sale of finished and semi-finished products for the total amount of euro 10.2 million of which euro 5.4 million was carried out by Pirelli Tyres (Suisse) S.A., and sales by other Group companies to the amount of euro 4.8 million;
- the Long Term Service Agreement to the amount of euro 12.2 million, of which euro 5.4 million to Pirelli Sistemi Informativi S.r.l., euro 1.4 million to Pirelli Pneus Ltda, and euro 5,4 million to other Group companies;
- logistic services for a total amount of euro 8.4 million of which euro 6.9 million carried out by the Brazilian company Total Logistic Management Serviços del Logistica Ltda;
- the licence agreement for know-how charged by Pirelli Tyre S.p.A. for the amount of euro 10 million;
- other for a total amount of euro 14.2 million.

The decrease in other financial income compared to the corresponding period of the previous financial year was mainly attributable to the fact that raw materials are no longer supplied to the Prometeon Group by the British subsidiary Pirelli International Plc. (euro 112.521 thousand at December 31, 2017).

The item **raw and consumable materials** used mainly refers to costs payable to companies of the Prometeon Group for the purchase of direct materials/consumables/ compounds for a total amount of euro 12.7 million of which euro 9.7 million carried out by the Turkish company Pirelli Otomobil Latikleri A.S.

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

- the purchase of truck products for a total amount of euro 126.2 million of which euro 113.1 million was carried out by the Brazilian company Comercial e Importadora de Pneus Ltda. for the Brazilian sales network, of which euro 4.4 million carried out by the German company Driver Reifen und KFZ-Technik GmbH, and purchases by other companies of the Pirelli Group to the amount of euro 8.7 million;
- the purchase of Car/Motorcycle and semi-finished products for a total amount of euro 79.5 million of which euro 75 million carried out by the Turkish company Pirelli Otomobil Latikleri A.S. in respect of the Off-Take contract, and euro 4.4 million on the part of Pirelli Pneus Ltda for the purchase of inner tubes for tyres;
- Costs to the amount of euro 12.2 million sustained by Pirelli Pneus Ltda for the transformation of raw materials following Toll manufacturing contract activities;
- Reimbursement of costs sustained by Pirelli Pneus Ltda for euro 7.3 million;
- other for a total amount of euro 9.7 million.

The item net Impairment loss on financial assets refers to the impairment equal to euro 9 million attributable to the extraordinary reshaping of the technology license agreement granted to the Aeolus Tyre Co. Ltd.

The item **other income from discontinued operations** refers to the sale of industrial products on the part of the Chinese subsidiary Pirelli Tyre Co. for the amount of euro 2.6 million and the recharging of the costs of TP Trading Beijing Co. Ltd. to the amount of euro 0.5 million, and to the amount of euro 4.3 million by the subsidiary Pirelli Neumaticos S.A.I.C. to the Prometeon Group.

The item **other costs from discontinued operations** mainly refers to costs for the purchase of industrial products from the Prometeon Group.

BENEFITS FOR KEY MANAGERS OF THE COMPANY

At December 31, 2018 the remuneration payable to key managers totalled euro 22,362 thousand (euro 20,614 thousand for 2017). The portion relative to employee benefits was recognised in the Income Statement under *"Personnel expenses"* to the amount of euro 14,133 thousand (euro 11,004 thousand for 2017), and under the item *"Other Costs"* in the Income Statement to the amount of euro 8,229 thousand (euro 9,610 thousand for 2017).

46. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

No significant events occurred since the end of the year.

47. OTHER INFORMATION

RESEARCH AND DEVELOPMENT EXPENSES

Research expenses for the 2018 financial year amounted to euro 219 million and represented 4.2% of sales.

REMUNERATION FOR DIRECTORS AND AUDITORS

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

(In thousands of euro)

	2018	2017
Directors	6,910	7,554
Statutory Auditors	315	296
Total	**7,225**	**7,850**

EMPLOYEES

The breakdown by category of the average consolidated headcount of employees is as follows:

	2018	2017
Executives and white collar staff	6,737	6,611
Blue collar staff	23,786	22,412
Temporary workers	1,015	1,621
Total	**31,538**	**30,644**

REMUNERATION FOR INDEPENDENT AUDITORS

Pursuant to the applicable laws, the total fees for the 2018 financial year for auditing services and for services other than auditing services rendered by the company PricewaterhouseCoopers S.p.A. and by other entities belonging to its network were as follows.

(In thousands of euro)

	Company that provided the service	Company that received the service	Partial fees	Total fees	
Independent auditing services	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	71		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	611		
	Network PricewaterhouseCoopers	Subsidiaries	1,428	**2,110**	*66%*
Independent certification services (1)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	220		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	240		
	Network PricewaterhouseCoopers	Subsidiaries	72	**532**	*17%*
Services other than auditing	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	46		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	195		
	Network PricewaterhouseCoopers	Subsidiaries	293	**534**	*17%*
Total				**3,176**	*100%*

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

DISCLOSURE REQUESTED BY LAW NO.124/2017 ART.1 PARAGRAPHS 125-129

During the financial year 2018 Pirelli Tyre S.p.A. received from the M.I.U.R. - Ministry of Education, University and Research - a subsidised loan of euro 5.305 thousand with a 5-year duration e annual interest rate of 0.50%, as an incentive for the development of an R&D project for the development of innovative materials in the tyre construction process.

Furthermore, Pirelli Tyre S.p.A. obtained a non-repayable grant from the Lombardy Region totalling euro 2.462 thousand, as incentives for an R&D project on Smart Manufacturing issues, of which euro 847 thousand was collected during the year.

UNUSUAL AND/OR EXCEPTIONAL TRANSACTIONS

Pursuant to CONSOB Notice No. 6064293 of July 28, 2006, it is hereby specified that during the course of the 2018 financial year that no exceptional and/or unusual transactions as defined in the aforesaid Notice were carried out by the Company.

EXCHANGE RATES

The main exchange rates used for consolidation were as follows:

(local currency vs euro)

	Period-end exchanges rates			Average exchange rates		
	12/31/2018	**12/31/2017**	**Change in %**	**2018**	**2017**	**Change in %**
Swedish Krona	**10.2548**	9.8438	4.18%	**10.2600**	9.6339	6.50%
Australian Dollar	**1.6220**	1.5346	5.70%	**1.5798**	1.4729	7.26%
Canadian Dollar	**1.5605**	1.5039	3.76%	**1.5295**	1.4646	4.43%
Singaporean Dollar	**1.5591**	1.6024	(2.70%)	**1.5926**	1.5587	2.17%
U.S. Dollar	**1.1450**	1.1993	(4.53%)	**1.1812**	1.1295	4.58%
Taiwan Dollar	**34.9786**	35.6588	(1.91%)	**35.6178**	34.3737	3.62%
Swiss Franc	**1.1269**	1.1702	(3.70%)	**1.1550**	1.1115	3.91%
Egyptian Pound	**20.5806**	21.3245	(3.49%)	**21.1035**	20.2283	4.33%
Turkish Lira (new)	**6.0280**	4.5155	33.50%	**5.6655**	4.1174	37.60%
New Romanian Leu	**4.6639**	4.6597	0.09%	**4.6535**	4.5676	1.88%
Argentinian Peso	**43.1665**	22.3658	93.00%	**43.1665**	18.7185	130.61%
Mexican Peso	**22.5170**	23.6250	(4.69%)	**22.7260**	21.3756	6.32%
South African Rand	**16.4594**	14.8054	11.17%	**15.6192**	15.0433	3.83%
Brazilian Real	**4.4390**	3.9693	11.83%	**4.3084**	3.6094	19.37%
Chinese Renminbi	**7.8584**	7.8365	0.28%	**7.8167**	7.6269	2.49%
Russian Ruble	**79.6581**	68.8668	15.67%	**73.9444**	65.8497	12.29%
British Pound	**0.8945**	0.8872	0.82%	**0.8847**	0.8766	0.92%
Japanese Yen	**125.8500**	135.0100	(6.78%)	**130.3778**	126.6909	2.91%

NET FINANCIAL POSITION

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

(In thousands of euro)

	Note	12/31/2018	of which related parties	12/31/2017	of which related parties
Current borrowings from banks and other financial institutions	**24**	800,145		559,168	
Current derivative financial instruments (liabilities)	**28**	53,510		11,248	
Non-current borrowings from banks and other financial institutions	**24**	3,929,079		3,897,089	
Non current derivative financial instruments (liabilities)	**28**	13,738		54,963	
Total gross debt		**4,796,472**		**4,522,468**	
Cash and cash equivalents	**20**	(1,326,900)		(1,118,437)	
Securities held for trading		-		(33,027)	
Other financial assets at fair value through income statement	**19**	(27,196)		-	
Current financial receivables and other assets**	**16**	(27,320)	*(6,154)*	(36,511)	*(5,837)*
Current derivative financial instruments (assets)	**28**	(91,245)		(21,413)	
Net financial debt *		**3,323,811**		**3,313,080**	
Non-current derivative financial instruments (assets)	**28**	(20,134)		-	
Non-current financial receivables and other assets**	**16**	(123,547)	*(12,576)*	(94,585)	*(12,007)*
Total net financial (liquidity)/debt position		**3,180,130**		**3,218,495**	

* Pursuant to Consob Notice of July 28, 2006 and in compliance with ESMA/2013/319 Recommendations
** The amount of "financial receivables and other assets" is reported net of the relative impairment amounting to euro 6,085 thousand.

SCOPE OF CONSOLIDATION

COMPANIES CONSOLIDATED LINE-BY-LINE

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

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Italy						
Driver Italia S.p.A.	Tyre	Milan	Euro	350,000	71.21%	Pirelli Tyre S.p.A.
Driver Servizi Retail S.p.A.	Tyre	Milan	Euro	120,000	100.00%	Pirelli Tyre S.p.A.
HB Servizi S.r.l.	Services	Milan	Euro	10,000	100.00%	Pirelli & C. S.p.A.
Maristel S.r.l.	Services	Milan	Euro	50,000	100.00%	Pirelli & C. S.p.A.
Pirelli Industrie Pneumatici S.r.l.	Tyre	Settimo Torinese (To)	Euro	40,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli International Treasury S.p.A.	Tyre	Milan	Euro	50,000	70.00%	Pirelli Tyre S.p.A.
					30.00%	Pirelli & C. S.p.A.
Pirelli Servizi Amministrazione e Tesoreria S.p.A.	Services	Milan	Euro	2,047,000	100.00%	Pirelli & C. S.p.A.
Pirelli Sistemi Informativi S.r.l.	Information Systems	Milan	Euro	1,010,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre S.p.A.	Tyre	Milan	Euro	558,154,000	100.00%	Pirelli & C. S.p.A.
Poliambulatorio Bicocca S.r.l.	Services	Milan	Euro	10,000	100.00%	Pirelli Tyre S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104,000	91.32%	Pirelli & C, S.p.A.
					2.95%	Pirelli Tyre S.p.A.
					0.95%	Poliambulatorio Bicocca S.r.l.
					0.95%	Driver Italia S.p.A.
					0.98%	Pirelli Industrie Pneumatici S.r.l.
					0.95%	Pirelli Servizi Amministrazione e Tesoreria S.p.A.
					0.95%	Pirelli Sistemi Informativi S.r.l.
					0.95%	HB Servizi S.r.l.
The Netherlands						
E-VOLUTION Tyre B.V.	Tyre	Rotterdam	Euro	170,140,000	100.00%	Pirelli Tyre S.p.A.
Pirelli China Tyre N.V.	Tyre	Rotterdam	Euro	38,045,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Rotterdam	Euro	18,152	100.00%	Pirelli Tyre (Suisse) SA
Poland						
Driver Polska Sp. z o.o.	Tyre	Warsaw	Pol. Zloty	100,000	64.50%	Pirelli Polska Sp. z o.o.
Pirelli Polska Sp. z o.o.	Tyre	Warsaw	Pol. Zloty	625,771	100.00%	Pirelli Tyre S.p.A.

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
United Kingdom						
CTC 2008 Ltd	Tyre	Burton on Trent	British Pound	100,000	100.00%	Pirelli UK Tyres Ltd
Pirelli Cif Trustees Ltd	Financial	Burton on Trent	British Pound	4	25.00%	Pirelli General Executive Pension Trustees LTD
					25.00%	Pirelli General & Overseas Pension Trustees LTD
					25.00%	Pirelli Tyres Executive Pension Trustees LTD
					25.00%	Pirelli Tyres Pension Trustees LTD
Pirelli International plc	Financial	Burton on Trent	Euro	250,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Motorsport Services Ltd	Tyre	Burton on Trent	British Pound	1	100.00%	Pirelli Tyre S.p.A.
Pirelli General Executive Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli UK Ltd
Pirelli General & Overseas Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli UK Ltd
Pirelli Tyres Executive Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli Tyres Ltd
Pirelli Tyres Ltd	Tyre	Burton on Trent	British Pound	16,000,000	100.00%	Pirelli UK Tyres Ltd
Pirelli Tyres Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli Tyres Ltd
Pirelli UK Ltd	Financial	Burton on Trent	British Pound	163,991,278	100.00%	Pirelli & C, S.p.A.
Pirelli UK Tyres Ltd	Tyre	Burton on Trent	British Pound	85,000,000	100.00%	Pirelli Tyre S.p.A.
Slovakia						
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Euro	6,639	100.00%	Pirelli Tyre S.p.A.
Romania						
Pirelli & C, Eco Technology RO S.r.l.	Sustainable mobility	Slatina	Rom. Leu	20,002,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Romania S.r.l.	Tyre	Slatina	Rom. Leu	853,912,300	100.00%	Pirelli Tyre S.p.A.
Russia						
Closed Joint Stock Company "Voronezh Tyre Plant"	Tyre	Voronezh	Russian Rouble	1,520,000,000	100.00%	Limited Liability Company Pirelli Tyre Russia
Joint Stock Company "Scientific institute of medical polymers"	Tyre	Moscow	Russian Rouble	7,392,000	100.00%	Limited Liability Company Pirelli Tyre Russia
Joint Stock Company "R&D Training Center of New Technologies & Materials "ATOM"	Tyre	Moscow	Russian Rouble	312,411,000	100.00%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company Pirelli Tyre Services	Tyre	Moscow	Russian Rouble	54,685,259	95.00%	Pirelli Tyre (Suisse) SA
					5.00%	Pirelli Tyre S.p.A.
Limited Liability Company "AMTEL-Russian Tyres" (in liquidazione)	Tyre	Moscow	Russian Rouble	10,000	100.00%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company "Industrial Complex "Kirov Tyre"	Tyre	Moscow	Russian Rouble	348,423,221	100.00%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company Pirelli Tyre Russia	Tyre	Moscow	Russian Rouble	6,153,846	65.00%	E-VOLUTION Tyre B,V,

COMPANIES CONSOLIDATED LINE-BY-LINE

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

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Central/South America						
Argentina						
Pirelli Neumaticos S.A.I.C.	Tyre	Buenos Aires	Arg. Peso	2,948,055,176	99.83%	Pirelli Tyre S.p.A.
					0.17%	Pirelli Pneus Ltda
TP Industrial Tyres S.A. (liquidation)	Tyre	Buenos Aires	Arg. Peso	100,000	95.00%	Pirelli Tyre S.p.A.
					5.00%	Pirelli Pneus Ltda
Brazil						
Comercial e Importadora de Pneus Ltda.	Tyre	Sao Paulo	Bra. Real	101,427,384	100.00%	Pirelli Comercial de Pneus Brasil Ltda
CPA - Comercial e Importadora de Pneus Ltda.	Tyre	Sao Paulo	Bra. Real	200,000	100.00%	Comercial e Importadora de Pneus Ltda
JMC Pneus Comercio Importação e Exportação Ltda.	Tyre	Sao Paulo	Bra. Real	1,271,694	100.00%	Comercial e Importadora de Pneus Ltda
Pirelli Comercial de Pneus Brasil Ltda.	Tyre	Sao Paulo	Bra. Real	509,328,303	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda
Pirelli Latam Participaçoes Ltda.	Tyre	Sao Paulo	Bra. Real	247,519,052	100.00%	Pirelli Tyre S.p.A.
Pirelli Ltda.	Financial	Santo Andrè	Bra. Real	14,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Pneus Ltda.	Tyre	Santo Andrè	Bra. Real	1,132,178,494	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda
Comércio e Importação Multimarcas de Pneus Ltda.	Tyre	Sao Paulo	Bra. Real	3,691,500	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda
C.P.Complexo Automotivo de Testes. Eventos e Entretenimento Ltda, (ex RF Centro de Testes de Produtos Automotivos Ltda.)	Tyre	Elias Fausto (Sao Paulo)	Bra. Real	6,812,000	100.00%	Pirelli Pneus Ltda
TLM - Total Logistic Management Serviços de Logistica Ltda.	Tyre	Santo Andrè	Bra. Real	3,074,417	99.99%	Pirelli Pneus Ltda
					0.01%	Pirelli Ltda
Chile						
Pirelli Neumaticos Chile Ltda	Tyre	Santiago	Chile Peso	1,918,450,809	85.25%	Pirelli Comercial de Pneus Brasil Ltda
					14.73%	Pirelli Latam Participaçoes Ltda
					0.02%	Pirelli Ltda
Colombia						
Pirelli Tyre Colombia S.A.S.	Tyre	Santa Fe De Bogota	Chile Peso	222,522,000	85.00%	Pirelli Comercial de Pneus Brasil Ltda
					15.00%	Pirelli Latam Participaçoes Ltda
Mexico						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Silao	Mex. Peso	35,098,400	99.98%	Pirelli Tyre S.p.A.
					0.02%	Pirelli Ltda
Pirelli Neumaticos S.A. de C.V.	Tyre	Silao	Mex. Peso	8,080,816,500	99.76%	Pirelli Tyre S.p.A.
					0.24%	Pirelli Latam Participaçoes Ltda
Pirelli Servicios S.A. de C.V.	Tyre	Silao	Mex. Peso	50,000	99.00%	Pirelli Tyre S.p.A.
					1.00%	Pirelli North America Inc.

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Africa						
Egypt						
Pirelli Egypt Tyre Trading S.A.E.	Tyre	Giza	Egy. Pound	84,250,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Egypt Consumer Tyre Distribution S.A.E.	Tyre	Giza	Egy. Pound	89,000,000	99.89%	Pirelli Egypt Tyre Trading S.A.E.
					0.06%	Pirelli Tyre S.p.A.
					0.06%	Pirelli Tyre (Suisse) SA
South Africa						
Pirelli Tyre (Pty) Ltd	Tyre	Centurion	S.A. Rand	1	100.00%	Pirelli Tyre (Suisse) SA
Oceania						
Australia						
Pirelli Tyres Australia Pty Ltd	Tyre	Sydney	Aus. $	150,000	100.00%	Pirelli Tyre (Suisse) SA
New Zealand						
Pirelli Tyres (NZ) Ltd	Tyre	Auckland	N.Z. $	100	100.00%	Pirelli Tyres Australia Pty Ltd
Asia						
China						
Pirelli Taiwan Co. Ltd	Tyre	New Taipei City	N.T. $	10,000,000	100.00%	Pirelli Tyre (Suisse) SA
Pirelli Trading (Beijing) Co., Ltd.	Tyre	Beijing	Ch. Renminbi	4,200,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyre (Jiaozuo) Co., Ltd.	Tyre	Jiaozuo	Ch. Renminbi	350,000,000	80.00%	Pirelli Tyre S.p.A.
					20.00%	Aeolus Tyre Co., Ltd
Pirelli Tyre Co., Ltd	Tyre	Yanzhou	Ch. Renminbi	1,721,150,000	90.00%	Pirelli China Tyre N.V.
Pirelli Tyre Trading (Shanghai) Co., Ltd	Tyre	Shanghai	US $	700,000	100.00%	Pirelli China Tyre N.V.
Yanzhou HIXIH Ecotech Environment Co., Ltd	Sustainable mobility	Yanzhou	Ch. Renminbi	130,000,000	100.00%	Pirelli Tyre Co. Ltd
Korea						
Pirelli Korea Ltd	Tyre	Seoul	Korean Won	100,000,000	100.00%	Pirelli Asia Pte Ltd
Japan						
Pirelli Japan Kabushiki Kaisha	Tyre	Tokyo	Jap. Yen	2,200,000,000	100.00%	Pirelli Tyre S.p.A.
Singapore						
Pirelli Asia Pte Ltd	Tyre	Singapore	Sing. $	2	100.00%	Pirelli Tyre (Suisse) SA

INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Europe						
Germany						
Industriekraftwerk Breuberg GmbH	Cogeneration	Hoechst / Odenwald	Euro	1,533,876	26.00%	Pirelli Deutschland GmbH
Greece						
Eco Elastika S.A.	Tyre	Athens	Euro	60,000	20.00%	Elastika Pirelli C.S.A.
Italy						
Consorzio per la Ricerca di Materiali Avanzati (CORIMAV)	Financial	Milan	Euro	103,500	100.00%	Pirelli & C. S.p.A.
Eurostazioni S.p.A.	Financial	Rome	Euro	160,000,000	32.71%	Pirelli & C. S.p.A.
Focus Investments S.p.A.	Financial	Milan	Euro	183,333	8.33%	Pirelli & C. S.p.A. (25% of the voting share capital)
Slovakia						
ELT Management Company Slovakia S.R.O.	Tyre	Bratislava	Euro	132,000	20.00%	Pirelli Slovakia S.R.O.
Romania						
S.C. Eco Anvelope S.A.	Tyre	Bucarest	Rom. Leu	160,000	20.00%	S.C. Pirelli Tyres Romania S.r.l.
Russia						
Joint Stock Company "Kirov Tyre Plant"	Tyre	Kirov	Russian Rouble	5,665,418	20.00%	Limited Liability Company Pirelli Tyre Russia
Spain						
Signus Ecovalor S.L.	Tyre	Madrid	Euro	200,000	20.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Asia						
China						
Xushen Tyre (Shanghai) Co, Ltd	Tyre	Shanghai	Ch. Renminbi	1,050,000,000	49.00%	Pirelli Tyre S.p.A.
Jining Shenzhou Tyre Co, Ltd	Tyre	Jining City	Ch. Renminbi	1,050,000,000	100.00%	Xushen Tyre (Shanghai) Co. Ltd
Indonesia						
PT Evoluzione Tyres	Tyre	Subang	US $	68,000,000	60.00%	Pirelli Tyre S.p.A.