CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of euro)

	Note	12/31/2020		12/31/2019	
			of which related parties (note 43)		of which related parties (note 43)
Property, plant and equipment	9	3,159,767		3,649,809	
Intangible assets	10	5,582,033		5,680,175	
Investments in associates and j.v.	11	72,588		80,846	
Other financial assets at fair value through Other Comprehensive Income	12	42,720		58,967	
Deferred tax assets	13	109,378		81,188	
Other receivables	15	402,148	*5,826*	342,397	*5,617*
Tax receivables	16	4,761		9,140	
Other assets (*)	22	80,422		57,829	
Derivative financial instruments	27	-		52,515	
Non-current assets		**9,453,817**		**10,012,866**	
Inventories	17	836,437		1,093,754	
Trade receivables	14	597,669	*12,790*	649,394	*9,823*
Other receivables	15	469,194	*111,325*	451,858	*45,154*
Other financial assets at fair value through Income Statement	18	58,944		38,119	
Cash and cash equivalents	19	2,275,476		1,609,821	
Tax receivables	16	29,153		41,494	
Derivative financial instruments	27	39,327		37,148	
Current assets		**4,306,200**		**3,921,588**	
Total Assets		**13,760,017**		**13,934,454**	
Equity attributable to the owners of the Parent Company:	20.1	**4,447,418**		**4,724,449**	
Share capital		1,904,375		1,904,375	
Reserves		2,513,262		2,381,940	
Net income / (loss)		29,781		438,134	
Equity attributable to non-controlling interests:	20.2	**104,432**		**102,182**	
Reserves		91,540		82,619	
Net income / (loss)		12,892		19,563	
Total Equity	20	**4,551,850**		**4,826,631**	
Borrowings from banks and other financial institutions	23	4,970,986	*14,693*	3,949,836	*17,386*
Other payables	25	77,280	*213*	90,571	*213*
Provisions for liabilities and charges	21	73,257	*5,926*	120,469	*3,065*
Deferred tax liabilities	13	1,006,799		1,058,760	
Provisions for employee benefit obligations	22	243,931	*2,408*	260,832	-
Tax payables	26	10,795		12,555	
Derivative financial instruments	27	87,601		10,327	
Non-current liabilities		**6,470,649**		**5,503,350**	
Borrowings from banks and other financial institutions	23	883,567	*2,192*	1,419,403	*2,267*
Trade payables	24	1,267,971	*134,597*	1,611,488	*171,909*
Other payables	25	374,266	*6,719*	402,757	*7,510*
Provisions for liabilities and charges	21	48,083		43,528	
Provisions for employee benefit obligations	22	5,013	*3,017*	4,104	*2,257*
Tax payables	26	99,505		81,766	
Derivative financial instruments	27	59,113		41,427	
Current liabilities		**2,737,518**		**3,604,473**	
Total Liabilities and Equity		**13,760,017**		**13,934,454**	

(*) In 2020, the amount related to the UK funded pension fund Pirelli General Executive Pension and Life Assurance Fund that has a value of assets exceeding liabilities in the net amount of euro 80,422 thousand was reclassified to Other non-current assets. To ensure comparability with the previous year, the net assets at December 31, 2019 amounting to euro 57,829 thousand were reclassified to Other non-current assets.

CONSOLIDATED INCOME STATEMENT

(in thousands of euro)

	Note	2020		2019	
			of which related parties (note 43)		of which related parties (note 43)
Revenues from sales and services	29	**4,302,131**	*15,074*	**5,323,054**	*19,305*
Other income	30	306,313	*49,392*	486,307	*74,783*
Changes in inventories of unfinished, semi-finished and finished products		(160,223)		5,584	
Raw materials and consumables used (net of change in inventories)		(1,280,361)	*(4,917)*	(1,741,249)	*(4,096)*
Personnel expenses	31	(949,678)	*(14,959)*	(1,072,167)	*(14,498)*
- of which non-recurring events		*(11,205)*		-	
Amortisation, depreciation and impairment	32	(517,152)		(527,818)	
Other costs	33	(1,466,294)	*(241,764)*	(1,713,404)	*(278,155)*
Net impairment loss on financial assets	34	(17,385)		(22,266)	
Increase in fixed assets for internal works		1,788		4,703	
Operating income / (loss)		**219,139**		**742,744**	
Net income / (loss) from equity investments	35	(5,271)		(11,006)	
- share of net income (loss) of associates and j.v.		*(5,629)*	*(5,629)*	*(9,678)*	*(9,678)*
- gains on equity investments		*1,140*		*1,684*	
- losses on equity investments		*(847)*		*(8,538)*	
- dividends		*65*		*5,526*	
Financial income	36	146,384	*2,338*	128,761	*1,160*
Financial expenses	37	(302,886)	*(921)*	(238,240)	*(1,049)*
Net income / (loss) before taxes		**57,366**		**622,259**	
Taxes	38	(14,693)		(164,562)	
Net income / (loss)		**42,673**		**457,697**	
Attributable to:					
Owners of the Parent Company		29,781		438,134	
Non-controlling interests		12,892		19,563	
Total earnings / (losses) per base share (in euro per share)	39	**0.030**		**0.438**	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euro)

		Note	2020	2019
A	**Total Net income / (loss)**		**42,673**	**457,697**
	- Remeasurement of employee benefits	22	18,946	(13,100)
	- Tax effect		(5,271)	(1,365)
	- Fair value adjustment of other financial assets at fair value through Other Comprehensive Income	12	(16,129)	(366)
B	**Total items that may not be reclassified to income statement**		**(2,454)**	**(14,831)**
	Exchange differences from translation of foreign financial statements			
	- Gains / (losses)	20	(373,552)	(3,247)
	- (Gains) / losses reclassified to Income Statement	35	(932)	(1,567)
	Fair value adjustment of derivatives designated as cash flow hedges:			
	- Gains / (losses)	27	(119,247)	73,439
	- (Gains) / losses reclassified to Income Statement	27	124,345	(79,060)
	- Tax effect		(482)	1,989
	Cost of hedging			
	- Gains / (losses)	27	4,496	2,828
	- (Gains) / losses reclassified to Income Statement	27	(7,104)	(7,189)
	- Tax effect		81	546
	Share of other comprehensive income related to associates and j.v. net of taxes	11	(2,093)	(1,176)
C	**Total items reclassified / that may be reclassified to income statement**		**(374,488)**	**(13,437)**
D	**Total other comprehensive income (B+C)**		**(376,942)**	**(28,268)**
A+D	**Total comprehensive income / (loss)**		**(334,269)**	**429,429**
	Attributable to:			
	- Owners of the Parent Company		(336,516)	405,610
	- Non-controlling interests		2,247	23,819

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 12/31/2020

(in thousands of euro)

	Attributable to the Parent Company (note 20.1)					Non-controlling interests (note 20.2)	Total (note 20)
	Share Capital	Translation reserve	Total IAS Reserves *	Other reserves/ retained earnings	**Total attributable to the Parent Company**		
Total at 12/31/2019	**1,904,375**	**(313,805)**	**(89,424)**	**3,223,303**	**4,724,449**	**102,182**	**4,826,631**
Other components of comprehensive income	-	(365,932)	(365)	-	(366,297)	(10.645)	(376,942)
Net income / (loss)	-	-	-	29,781	29,781	12,892	42,673
Total comprehensive income / (loss)	**-**	**(365,932)**	**(365)**	**29,781**	**(336,516)**	**2,247**	**(334,269)**
Convertible bond reserve	-	-	-	41,200	41,200	-	41,200
Effects of Hyperinflation accounting in Argentina	-	-	-	20,041	20,041	-	20,041
Other	-	-	(104)	(1,652)	(1,756)	3	(1,753)
Total at 12/31/2020	**1,904,375**	**(679,737)**	**(89,893)**	**3,312,673**	**4,447,418**	**104,432**	**4,551,850**

(in thousands of euro)

	Breakdown of IAS reserves *					
	Reserve for fair value adjustment of financial assets at fair value through other comprehensive income	Reserve for cost of hedging	Reserve for cash flow hedge	Remeasurement of employee benefits	Tax effect	**Total IAS reserves**
Total at 12/31/2019	**(228)**	**9,898**	**(31,326)**	**(43,946)**	**(23,822)**	**(89,424)**
Other components of Comprehensive Income	(16,129)	(2,608)	5,098	18,946	(5,672)	(365)
Other changes	-	-	-	(104)	-	(104)
Total at 12/31/2020	**(16,357)**	**7,290**	**(26,228)**	**(25,104)**	**(29,494)**	**(89,893)**

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

(in thousands of euro)

	Attributable to the Parent Company (note 20.1)					Non-controlling interests (note 20.2)	Total (note 20)
	Share Capital	Translation reserve	Total IAS Reserves *	Other reserves/ retained earnings	**Total attributable to the Parent Company**		
Total at 12/31/2018	**1,904,375**	**(303,557)**	**(66,714)**	**2,934,017**	**4,468,121**	**82,806**	**4,550,927**
Other components of comprehensive income	-	(10,248)	(22,276)	-	(32,524)	4,256	(28,268)
Net income / (loss)	-	-	-	438,134	438,134	19,563	457,697
Total comprehensive income / (loss)	**-**	**(10,248)**	**(22,276)**	**438,134**	**405,610**	**23,819**	**429,429**
Dividends approved	-	-	-	(177,000)	(177,000)	(8,969)	(185,969)
Transactions with non-controlling interests	-	-	-	-	-	4,200	4,200
Effects of Hyperinflation accounting in Argentina	-	-	-	27,514	27,514	-	27,514
Other	-	-	(434)	638	204	326	530
Total at 12/31/2019	**1,904,375**	**(313,805)**	**(89,424)**	**3,223,303**	**4,724,449**	**102,182**	**4,826,631**

(in thousands of euro)

	Breakdown of IAS reserves *					
	Reserve for fair value adjustment of financial assets at fair value through other comprehensive income	Reserve for cost of hedging	Reserve for cash flow hedge	Remeasurement of employee benefits	Tax effect	**Total IAS reserves**
Total at 12/31/2018	**107**	**14,258**	**(25,705)**	**(30,381)**	**(24,993)**	**(66,714)**
Other components of Comprehensive Income	(366)	(4,360)	(5,621)	(13,100)	1,171	(22,276)
Other changes	31	-	-	(465)	-	(434)
Total at 12/31/2019	**(228)**	**9,898**	**(31,326)**	**(43,946)**	**(23,822)**	**(89,424)**

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of euro)

		Note	2020	2020 of which related parties (note 43)	2019	2019 of which related parties (note 43)
	Net income / (loss) before taxes		57,366		622,259	
	Reversals of amortisation, depreciation, impairment losses and restatement of property, plant and equipment and intangible assets	32	517,152		527,818	
	Reversal of Financial income / (expenses)	36/37	156,502		109,479	
	Reversal of Dividends	35	(65)		(5,526)	
	Reversal of gains / (losses) on equity investments	35	(293)		6,854	
	Reversal of share of net income from associates and joint ventures	35	5,629	*5,629*	9,678	*9,678*
	Reversal of accruals and other		64,781		37,509	
	Net Taxes paid	38	(90,692)		(141,985)	
	Change in Inventories		140,645		28,300	
	Change in Trade receivables		(35,324)	*(4,029)*	(44,637)	*5,844*
	Change in Trade payables		(184,604)	*390*	18,815	*(19,695)*
	Change in Other receivables		21,926	*(6,868)*	(32,161)	*30,644*
	Change in Other payables		60,555	*2,524*	(47,446)	*(2,596)*
	Uses of Provisions for employee benefit obligations		(37,173)	*(2,257)*	(43,029)	*(2,930)*
	Uses of Other provisions		(58,053)		(23,226)	
A	**Net cash flow provided by / (used in) operating activities**		**618,352**		**1,022,703**	
	Investments in owned tangible assets		(177,879)		(365,935)	
	Disposal of owned tangible assets		5,405		7,646	
	Investments in intangible assets		(15,527)		(20,812)	
	Disposal of intangible assets		279		15	
	Disposal of investments in subsidiaries		69		10,700	
	(Acquisition) of investments in associates and joint ventures		-		(8,925)	*(8,925)*
	Change in Financial receivables from associates and joint ventures		(64,093)	*(64,093)*	(13,420)	*(13,420)*
	Dividends received	35	65		14,956	
B	**Net cash flow provided by / (used in) investing activities**		**(251,681)**		**(375,774)**	
	Change in Borrowings from banks and other financial institutions due to draw down	23	2,577,182		1,706,457	
	Change in Borrowings from banks and other financial institutions due to repayments and other	23	(1,806,690)		(1,623,341)	
	Change in Financial receivables / Other current financial assets at fair value through Income statement		(192,666)		(41,715)	
	Financial Income / (expenses)		(38,504)		(85,537)	
	Dividends paid		-		(185,768)	
	Repayment of principal and payment of interest for lease liabilities		(99,924)	*(2,856)*	(101,157)	*(1,921)*
C	**Net cash flow provided by / (used in) financing activities**		**439,398**		**(331,061)**	
D	**Total cash flow provided / (used) during the period (A+B+C)**		**806,069**		**315,868**	
E	**Cash and cash equivalents at the beginning of the financial year**		**1,600,627**		**1,303,852**	
F	**Exchange rate differences from translation of cash and cash equivalents**		(137,013)		(19,092)	
G	**Cash and cash equivalents at the end of the period (D+E+F) (°)**	**19**	**2,269,683**		**1,600,627**	
(°)	**of which:**					
	cash and cash equivalents		2,275,476		1,609,821	
	bank overdrafts		(5,793)		(9,194)	

EXPLANATORY NOTES

1.GENERAL INFORMATION

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

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

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

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

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

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

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

On March 31, 2021 the Board of Directors authorised the publication of these Consolidated Financial Statements.

2. BASIS OF PRESENTATION

COVID–19

During 2020, the tyre sector was strongly impacted by the COVID-19 emergency and by the deterioration in the economic outlook, with a general drop in consumption and production. The demand for car tyres recorded a decline in volumes of -15.3% which was particularly marked for the first half-year (-28.1%), but gradually improved for the second half-year (-3.9%), thanks to the recovery in demand for Car New Premium (+3.6% for the second half-year and -9.5% for the year).

Pirelli responded promptly to the profound change in the global scenario by implementing an action plan, communicated to the financial market on April 3, 2020.

This plan made it possible to:

- guarantee the health and safety of its employees by adopting all necessary preventive measures;
- protect profitability and cash generation through cost containment and the renegotiation of investment programs;
- strengthen the capital structure through the signing of a new sustainable euro 800 million bank credit facility (5-year maturity), the issue of an equity-linked euro 500 million bond (5-year maturity) and in general, to optimise the financial structure through the extension of debt maturities;
- consolidate their collaboration with the main Premium and Prestige vehicle manufacturers and with the sales network, in view of the recovery in demand, while counting on a resilient supply chain and strengthen its leadership in the high-end segment.

In 2020, the Group recorded revenues of 4,302.1 million euros, -19.2% compared to 2019, supported by the market recovery during the fourth quarter and a strengthening of the leadership on the high-end. Regarding the operating result, it should be noted that the impacts of the external scenario, such as weak demand, exchange rate volatility and input cost inflation, were contained thanks to efficiency actions and the cost reduction program related to the Covid-19 emergency.

With regard to the medium term outlook, as well as to the elements of risk and uncertainty, reference should be made to the relevant paragraphs in this document.

On the basis of the measures implemented, and considering the estimated results for the 2021 financial year, as well as for the years 2022-2025, as reported in the *"Outlook for the five-year period"* section of the Directors' Report on Operations, the existence of the going concern assumption underlying the preparation of the Consolidated Financial Statements has been confirmed, using a future period of at least 12 months as of the closing date of the financial year as reference.

The effects deriving from the Covid-19 pandemic, in addition to impacting the Group's economic results, have also been included in the estimates and assumptions, as they have had an impact, in particular, on the assessment of the recoverability of goodwill and other intangible assets with an indefinite useful life, the recoverability of intangible assets with a finite useful life and tangible assets, the recoverability of receivables, the determination of taxes (current and deferred) and the assessment of the recoverability of investments in associates and joint ventures.

These impacts are described in the relevant notes, to which reference should be made for further details.

FINANCIAL STATEMENTS

The Consolidated Financial Statements at December 31, 2020 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 format 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 expenses are recognised directly in equity, in accordance with the IFRS.

The Group has opted for the presentation 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 are adjusted by the effects of non-monetary transactions, by any deferment or accrual of past or future collections or payments for operating activities and by any revenue or cost items connected with the financial flows arising from any investment or financing activity.

SCOPE OF CONSOLIDATION

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

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

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

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

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

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

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

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

- disposal of 100% of the company Omnia Motor S.A. – Sociedad Unipersonal which took place on February 20, 2020;
- disposal of 100% of the Joint Stock company "Scientific institute of medical polymers" which took place on December 24, 2020.

INFORMATION ON SUBSIDIARIES

The Consolidated Financial Statements include the assets and liabilities of 88 legal entities. The following is a list of the significant subsidiaries:

	Headquarter	12/31/2020		12/31/2019	
		% group	% non-controlling interests	% group	% non-controlling interests
Pirelli Tyre Co. Ltd	Yanzhou (China)	90.00%	10.00%	90.00%	10.00%
Pirelli Deutschland GmbH	Breuberg/Odenwald (Germany)	100.00%		100.00%	
Pirelli Tyre S.p.A.	Milano (Italy)	100.00%		100.00%	
Pirelli Industrie Pneumatici S.r.l.	Settimo Torinese (Italy)	100.00%		100.00%	
Pirelli International Treasury S.p.A.	Milano (Italy)	100.00%		100.00%	
Pirelli Neumaticos S.A. de C.V.	Silao (Mexico)	100.00%		100.00%	
Pirelli Pneus Ltda	Santo Andrè (Brazil)	100.00%		100.00%	
Pirelli Comercial de Pneus Brasil Ltda	Sao Paulo (Brazil)	100.00%		100.00%	
Pirelli UK Tyres Ltd	Burton on Trent (United Kingdom)	100.00%		100.00%	
Pirelli Tire LLC	Rome (USA)	100.00%		100.00%	
S.C. Pirelli Tyres Romania S.r.l	Slatina (Romania)	100.00%		100.00%	
Limited Liability Company Pirelli Tyre Russia	Moscow (Russia)	65.00%	35.00%	65.00%	35.00%

The complete list of subsidiaries is contained in the attachment *"Scope of Consolidation – Companies consolidated on a line-by-line basis"*.

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

CONSOLIDATION PRINCIPLES

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

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

The differences arising from the conversion of the initial equity at period-end exchange rates are recognised in the translation reserve, 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 translation reserve is reversed to the Income Statement when the company that originated the reserve is disposed of.

The criteria for consolidation can be summarised as follows:

- subsidiaries are consolidated using the line-by-line method according to which:
  - the assets and liabilities, costs and revenues of the Financial Statements of subsidiaries are assumed in their entirety, regardless of the size of the investment held;
  - the carrying amount of investments is de-recognised against the related portion of equity;

- equity and income related transactions between fully consolidated companies, including dividends distributed within the Group, are eliminated;
- non-controlling interests are shown as a separate item under equity and similarly, the share of gains or losses attributable to non-controlling interests is shown separately in the Income Statement;
- at the time of disposal of the subsidiary and the consequent loss of control, any goodwill allocable to the subsidiary in determining the capital gains or losses arising from the disposal, is taken into account;
- in the case of an equity investments acquired after the assumption of control, any difference between the purchase cost and the corresponding portion of equity acquired, is recognised in equity. Similarly, the effects deriving from the disposal of non-controlling interests without loss of control are also recognised in equity.

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

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

3. ADOPTED ACCOUNTING STANDARDS

Pursuant to Regulation No. 1606 issued by the European Parliament and the European Council in July 2002, the Consolidated Financial Statements of the Pirelli & C. Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) in force, as issued by the International Accounting Standards Board (IASB) and approved by the European Union at December 31, 2020, 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, 2020, as well as all the revised International Accounting Standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC).

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

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

BUSINESS COMBINATIONS

Corporate acquisitions are accounted for using the acquisition method.

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

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

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

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

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

Contingent considerations, that is, the obligations of the acquiring company to transfer additional assets or shares to the seller in cases if 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 recognised in the Income Statement.

INTANGIBLE ASSETS

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

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

Capital gains and capital losses deriving from the sale or retirement 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 tested for impairment, at least annually or whenever there are indicators of impairment. For this purpose goodwill is allocated to the cash generating units (CGUs) or groups of units, in compliance with the maximum restriction, which cannot exceed that of the business sector identified pursuant to IFRS 8. The criterion applied in the allocation of goodwill coincides with the sole business sector in which the Group operates, being Consumer Activities and takes into consideration the minimum level at which goodwill is monitored, for internal management control purposes.

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

SOFTWARE

Software license costs, including incidental expenses, are capitalised and recognised in the 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, 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 and process technology, as well as product development technology identified during the Purchase Price Allocation. This value is recognised in the Financial Statements at fair value at the date of acquisition and is amortised on the basis of its useful life.

RESEARCH AND DEVELOPMENT COSTS

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

OWNED TANGIBLE ASSETS

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

Any costs incurred subsequent to the acquisition 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 actual asset. All other costs are recognised in the Income Statement as they are incurred. When the cost of replacing any parts or portions of the asset is capitalised, the residual value of the replaced parts is recognised in the Income Statement.

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

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

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

Depreciation rates were as follows:

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

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

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

Improvements to third-party (leasehold) assets are classified as tangible assets, consistent with the nature of the cost incurred. The depreciation period corresponds to whichever is shorter between the remaining useful life of the asset and the residual period of the lease agreement.

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

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

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

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

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

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

Right of use and financial liabilities are initially valuated at the current value of future payments.

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

→ fixed payments;
→ variable payments based on an index or rate;
→ the exercise price of a redemption option, in the event that the exercise of the option is considered reasonably certain;
→ the payment of penalties for the termination of the contract, if the exercise of the option to terminate the contract is considered reasonably certain;

- optional payments subsequent to the non-cancellable period, if the extension of the contract beyond the non-cancellable period is considered reasonably certain.

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

Right of use is valuated at cost and composed of the following elements:

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

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

- contracts with a duration of less than twelve months for all asset classes;
- lease contracts for which the underlying asset is configured as a low-value asset, that is, the unit value of the underlying assets is not greater than euro 8 thousand when new;
- contracts for which the payment for the right of use of the underlying asset changes, in accordance with any changes in the facts or circumstances (not linked to sales performances), which were not foreseeable at the starting date.

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

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

IMPAIRMENT OF ASSETS

TANGIBLE AND INTANGIBLE ASSETS AND RIGHT OF USE In the presence of specific indicators of impairment, or at least on an annual basis, intangible assets with an indefinite useful life including goodwill, tangible and intangible assets and right of use, 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 whichever is higher between its fair value less the costs of sale and its value in use.

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

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

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

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

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

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

In the presence of indications that an impairment recognised in previous financial years for property, plant and equipment or intangible assets, other than goodwill or right of use, may no longer exist, or may have decreased, the recoverable amount for the asset is estimated again and 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 may not exceed the carrying amount that would have been determined (net of impairment, depreciation or amortisation) had no impairment been recognised in previous financial years.

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

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

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

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

For the purposes of impairment testing, the fair value of an investment in an associate or joint venture with shares listed on an active share market is always equal to its market value, irrespective of the percentage of ownership. In the case of investments in unlisted companies, the fair value is determined by resorting to 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 owned share of the present 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 from the final disposal of the investment (the so-called Discounted Cash Flow criteria – 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 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 restatement of the value of investments in associates and joint ventures is recognised in the Income Statement.

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

This valuation category includes the equity instruments for which the Group - at the time of their initial detection – had exercised the irrevocable option to report the gains and losses deriving from the changes in fair value in equity (FVOCI), as these are financial assets that do not belong to the Group's usual activity. These are 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 the 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 was not reversed to the Income Statement. In the event of the disposal of the financial asset, the amount suspended in equity is reclassified to retained earnings.

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

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

The items which fall under this evaluation category are:

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

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

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

INVENTORIES

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

RECEIVABLES

Receivables are initially reported at their fair value, which normally corresponds to the agreed consideration or to the present value of the amount that will be collected. They are subsequently measured at their amortised cost, which is reduced in the case of impairment. Amortised cost is calculated by using the effective interest rate method, which is equivalent to the discount rate which, when applied to future cash flows renders the present carrying amount of such cash flows equal to their initial fair value.
Receivables in currencies other than the functional currency of the individual companies are adjusted to the period-end exchange rates, with a counter entry in the Income Statement. Receivables are de-recognised when the right to receive cash flows is extinguished, when all the risks and benefits connected with holding the receivable have been substantially transferred, or in cases when the receivable is deemed to be definitively irrecoverable, after all the necessary collection procedures have been completed. At the same time that the receivable is de-recognised, the relative provision is also reversed, if the receivable had previously been impaired.

IMPAIRMENT OF RECEIVABLES

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

PAYABLES

Payables are initially recognised at their fair value, which normally corresponds to the agreed consideration or to the present value of the amount that will be paid. They are subsequently valued at the amortised cost. Amortised cost is calculated by using the effective interest rate method, which is equivalent to the discount rate which, when applied to future cash flows, renders the present value of such cash flows equal to their initial fair value. Payables in currencies other than the functional currency of the individual companies are adjusted to the period-end exchange rates, with a counter entry in the Income Statement. Payables are de-recognised from Financial Statements when the specific contractual obligation is extinguished. In the event of a change in a financial liability that does not entail its de-recognition, the gain or loss resulting from the change is calculated by discounting the change in the contractual cash flows using the original effective interest rate and is immediately recognised in the Income Statement.
The fair value of the debt component of a convertible bond is equal to the fair value of a liability issued on substantially equivalent market terms, without the right of conversion. This component is subsequently measured at the amortised cost until extinguished at the time of conversion, or until the maturity of the bonds. The residual portion, up to the amount collected, is recognised as an equity component. Issuance costs are allocated proportionally to the debt component and to the equity component.

CASH AND CASH EQUIVALENTS

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

POTENTIAL ASSETS

Any potential 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 reported in the Financial Statements, unless the realisation of 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 present 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 concerned third parties can maintain a valid expectation that the restructuring will take place.

EMPLOYEE BENEFITS

Employee benefits paid after the termination of the employment relationship such as defined benefit plans and other long-term benefits, are subject to actuarial evaluations. 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 from any changes in the actuarial assumptions, are fully recognised in equity for the financial year in which they occur. For other long-term benefits, the actuarial gains and losses are immediately recognised in the Income Statement.

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

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

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

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGING INSTRUMENTS

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

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

These derivative instruments are measured at fair value.

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

- Fair value hedge – if a derivative financial instrument is designated as a hedge against exposure to any changes in the fair value of an asset or liability attributable to a specific risk, the gain or loss deriving from any subsequent changes in the fair value of the hedging instrument is recognised in the Income Statement. For the portion attributable to the hedged risk, the gain or loss on the hedged item modifies the carrying amount of that asset or liability (basis adjustment) and it too is recognised in the Income Statement;
- Cash flow hedge – if a derivative financial instrument is designated as a hedge against exposure to the variability in the financial flows of an asset or liability recognised in the Financial Statements, or to 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. Amounts that have been 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 is recognised in equity (cash flow hedge reserve);
- the single spot component (excluding forward points): the effective portion of the changes in fair value relative to the single spot component, is recognised in equity under the cash flow hedge reserve, while the change in forward points for the hedged item is recorded under the cost of hedging reserve, always in equity.

When a hedging instrument reaches maturity or is sold, terminated early, exercised, or no longer meets the conditions to be designated as a hedging instrument, then hedge accounting is discontinued: fair value adjustments accumulated in equity (both in the cash flow hedge reserve and in the cost of hedging reserve) remain suspended in equity until the hedged item 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 provided for by IFRS 9 for the adoption of hedge accounting, reference should be made to the section *"Financial assets at fair value through the Income Statement"*.
The acquisitions and sales of derivative financial instruments are recorded at the settlement date.

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments listed on an active share market is based on market prices at the reporting date. The market price used for financial assets is the bid price, while for financial liabilities it is the ask price. The fair value of instruments not listed on an active market is determined by using evaluation techniques based on a series of methods and assumptions which are tied to market conditions at the reporting date.
The fair value of an interest rate swap is calculated by discounting estimated future cash flows based on observable yield curves.

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

INCOME TAXES

Current taxes are determined on the basis of a realistic forecast of the tax expenses payable in the application of the current tax regulations of the country.

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

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

Deferred tax assets on tax losses carried forward, as well as on temporary differences, are only recognised when there is a likelihood of future recovery 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 date of the financial year.

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

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

Deferred taxes are not discounted.

Deferred tax assets and liabilities are credited or debited to 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 classified as a reduction of equity.

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

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

SHARE-BASED PAYMENT TRANSACTIONS (CASH SETTLED)

The additional monetary benefits (cash settled) granted to certain Group executives have been recognised under *"Personnel Funds"* (other long-term benefits) with a counter entry under "Personnel costs". 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 revised at each reporting date up until the settlement date.

RECOGNITION OF REVENUES

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

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

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

Retrospective discounts are applied to product sales based on the achievement of the objectives defined within the framework of commercial agreements. Revenues from sales are recognised net of these discounts and estimated on the basis of historical experience with the expected valuation method and for amounts which are not expected to be reversed.

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

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

FINANCIAL INCOME AND EXPENSES

Financial income and expenses are recognised on an accrual basis.

ROYALTIES

Royalties are recognised over time on an accrual basis, according to the provisions 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. 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 ordinary shares during the financial year excluding treasury shares.

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

OPERATING SEGMENTS

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

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

FOREIGN CURRENCY TRANSACTIONS

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

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

ACCOUNTING STANDARDS FOR HYPERINFLATIONARY COUNTRIES

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

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

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

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

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

3.1 ACCOUNTING STANDARDS AND INTERPRETATIONS APPROVED AND IN FORCE AS OF JANUARY 1, 2020

Pursuant to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, the IFRS standards in force as of January 1, 2020 were as follows:

→ Amendments to IFRS 3 - Business Combinations
These changes have introduced a new definition for the term *"business"*, according to which, for an acquisition to qualify as a business combination, it must include inputs and processes which contribute substantially in obtaining an output. The definition of output has been amended in a

restrictive sense, in that it precisely specifies that any cost savings and other financial benefits are to be excluded as an output. This amendment results in multiple acquisitions qualifying as asset acquisitions instead of as business acquisitions. There were no impacts on the Financial Statements of the Group.

- Amendments to IAS 1 - Presentation of Financial Statements and to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors - Key definitions
In addition to clarifying the concept relevant to transactions ("materiality"), these amendments focus on the definition of a relevant concept which is coherent and unique amongst the various accounting standards and also incorporate the guidelines included in IAS 1 which are not irrelevant. There were no impacts on the Financial Statements of the Group or in their disclosures.

- Amendments to IFRS 9, IAS 39 and IFRS 7: Reform of interbank offered rates (IBOR reform)
These changes concern the impacts on the financial statements deriving from the replacement of the current benchmark interest rates with alternative interest rates. In the presence of any hedging relationships impacted by the uncertainty of any benchmark rate reform, these changes make it possible to not carry out the evaluations required by IFRS 9 in the presence of any changes in rates.

  The impacts of these amendments on the Group's outstanding interest rate hedging instruments are subjected to continuous monitoring. There are no impacts as long as the LIBOR is not replaced by a new benchmark rate (expected during 2021).

- Amendment to IFRS 16 Leases - COVID-19 related rent concessions
These amendments introduced an optional accounting treatment for lessees in the presence of reductions in permanent lease payments (rent holidays) or temporary lease payments linked to COVID-19.

  Lessees can choose to account for reductions occurring up to June 30, 2021 as variable lease payments, recognised directly in the Income Statement for the period in which the reduction applies, or treat them as an amendment to the lease, with the consequent obligation to re-measure the lease obligation based on the revised consideration using a revised discount rate. Such reductions in lease payments have been treated as variable lease payments and have therefore been recognised directly in the Income Statement for the period. The positive impact on the Income Statement for 2020 amounted to euro 889 thousand.

3.2 INTERNATIONAL ACCOUNTING STANDARDS AND/OR INTERPRETATIONS ISSUED BUT WHICH DID NOT YET ENTER INTO FORCE DURING 2020

Pursuant to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors - the new standards and interpretations that were issued but had not yet come into force, or had not yet been approved by the European Union at December 31, 2020 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 IAS 1 — Presentation of Financial Statements - Classification of Liabilities as Current or Non-current
The amendments clarify the standards that must be applied for the classification of liabilities as current or non-current. These amendments, which will come into force on January 1, 2023 have not yet been approved by the European Union. No significant impacts on the classification of financial liabilities are foreseen as a result of these amendments.

- Amendments to IAS 16 – Property, Plant and Equipment - Proceeds before intended use
These amendments prohibit the deduction of amounts received from the sale of products from the cost of property, plant and equipment, while the asset is being prepared for its intended use. The proceeds from the sale of products and the relative production cost must be recognised in the Income Statement.

  These amendments, which will come into force on January 1, 2022 have not yet been approved by the European Union. No impacts on the Group's financial statements are forseen as a result of these amendments.

- Amendments to IAS 37 - Provisions, contingent liabilities and contingent assets - Onerous contracts - Cost of fulfilling a contract
These amendments specify the costs to be taken into consideration when evaluating onerous contracts.

  These amendments, which will come into force on January 1, 2022 have not yet been approved by the European Union. No impacts on the Group's financial statements are forseen as a result of these amendments.

- Annual improvements (2018–2020 cycle) issued May 2020
These are limited changes to some principles (IFRS 1 - First time adoption of the International Financial Reporting Standards, IFRS 9 - Financial instruments, IAS 41 - Agriculture and illustrative examples of IFRS 16 Leases) which clarify the wording or correct omissions or conflicts between the requirements of the IFRS principles. These amendments, which will come into force on January 1, 2022 have not yet been approved by the European Union. No impacts on the Group's financial statements are forseen as a result of these amendments.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: (Reform of interbank offered rates - IBOR reform - phase 2)
These changes relate to the operational methods by which the impacts of replacing the current benchmark interest rates with alternative reference interest rates will have to be managed, particularly:

  - the introduction of a practical expedient for the accounting of changes in the calculation basis on

which contractual cash flows of financial assets and liabilities are calculated;
- the introduction of certain exemptions relative to the termination of hedging relationships;
- the temporary exemption from the requirement to separately identify a risk component (where that separate hedged component is an alternative interest rate);
- the introduction of some additional disclosures regarding the impacts of the reform.

These amendments, which came into force on January 1, 2021, whose impact on the Group's financial statements is currently being analysed, have already been approved by the European Union.

4. FINANCIAL RISK MANAGEMENT POLICIES

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

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

4.1 TYPES OF FINANCIAL RISKS

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

a) Transaction risk

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

The Group aims to minimise the impact of transactional risk tied to exchange rate volatility. In order to achieve this objective, the Group's procedures provide that the Operating Units are responsible for the collection of all information inherent to positions subject to transactional exchange rate risk, whose hedging 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 currencies.

The Group Treasury is responsible for hedging the resulting net position for each currency and, in accordance with the established guidelines and predetermined restrictions, 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 transactional exchange rate risk is nevertheless substantially guaranteed even without the Group availing itself of the aforementioned option.

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

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

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

The impacts on the Group's equity and Income Statement, deriving from changes in the exchange rates calculated on outstanding hedging instruments at December 31, 2020, are described in Note 27 - *"Derivative Instruments".*

b) Translation risk

The Group owns controlling interests in companies that prepare their Financial Statements in currencies other than the euro, which is the currency used to prepare the Consolidated Financial Statements. This exposes the Group to currency translation risk, which is generated by the conversion into euro of the assets and liabilities of these subsidiaries.
The main exposures to translation risk are constantly monitored, however it is not currently deemed necessary to adopt specific policies to hedge this exposure.

At December 31, 2020 approximately 36.3% of the total consolidated equity was expressed in euro (approximately 37.9% at December 31, 2019). The most important currencies for the Group, other than the euro, were the Brazilian real (9.8%; 14.7% at December 31, 2019), the Turkish lira (0.4%; 0.5% at December 31, 2019), the Chinese yuan (15.2%; 12.5% at December 31, 2019), the Romanian leu (14.7%; 11.3% at December 31, 2019), the UK pound sterling (3.8%; 3.8% at December 31, 2019), the US dollar (4.2%; 3.6% at December 31, 2019) the Mexican peso (10.4%; 10.1% at December 31, 2019) and the Russian rouble (1.8%; 2.1% at December 31, 2019).

The effects on consolidated equity of 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%	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Brazilian Real	49,534	79,039	(40,528)	(64,668)
Turkish Lira	2,073	2,794	(1,696)	(2,286)
Chinese Yuan	76,782	67,007	(62,822)	(54,824)
Romanian Leu	74,158	60,763	(60,675)	(49,715)
Russian Rouble	9,337	11,329	(7,640)	(9,269)
British Pound	19,402	20,475	(15,875)	(16,752)
Argentinian Peso	8,874	9,737	(7,260)	(7,966)
US Dollar	21,081	19,453	(17,248)	(15,916)
Mexican Peso	52,697	54,371	(43,116)	(44,486)
Total on consolidated equity	**313,938**	**324,968**	**(256,860)**	**(265,882)**

It should be noted that during the course of 2020, due to the worsening of the macroeconomic scenario caused by the COVID-19 pandemic, some currencies suffered a depreciation of more than -10%, particularly the Brazilian real, the Turkish lira, the Argentinian peso and the Mexican peso. For information on the effect on equity, reference should be made to Note 20 *"Equity".*

INTEREST RATE RISK

Interest rate risk is represented by exposure to the variability of the fair value, or of the future cash flows, of the financial assets or liabilities due to changes in the market interest rates. Based on market circumstances, the Group assesses, whether to enter into derivative contracts for hedging interest rate risk, for which hedge accounting is activated when the conditions set forth in the IFRS 9 are met.

The table below shows the effects on the net income/(loss) resulting from an increase or decrease of 0.50% in the interest rates - all other conditions being equal, of all currencies to which the Group is exposed:

(in thousands of euro)

	+0,50%		-0,50%	
	12/31/2020	12/31/2019	12/31/2020	12/31/2019
Impact on Net income / (loss)	(7,332)	(7,949)	7,332	7,949

The effects on the Group's equity resulting from changes in the LIBOR and EURIBOR rates calculated on the interest rate hedging instruments outstanding at December 31, 2020, are described in Note 27 - "*Derivative Instruments*".

PRICE RISK ASSOCIATED WITH FINANCIAL ASSETS

The Group's exposure to price risk is limited to the volatility of financial assets such as listed and unlisted equities and bonds, which constituted approximately 0.74% of the total consolidated assets at December 31, 2020 (0.70% at December 31, 2019). These assets were classified as other financial assets at fair value through other Comprehensive Income and other financial assets at fair value through the Income Statement.

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

These financial assets are subdivided as follows:

- assets at fair value through other Comprehensive Income represented by listed equity securities amounted to euro 14,076 thousand (euro 24,892 thousand at December 31, 2019) and those represented by securities indirectly associated with listed equity securities (Fin. Priv. S.r.l.), amounted to euro 15,902 thousand, (euro 20,565 thousand at December 31, 2019);
- assets at fair value through the Income Statement amounted to euro 34,571 thousand and are represented by Argentinian dollar-linked bonds.

The financial assets at fair value through other Comprehensive Income constituted 29.5% of the total financial assets subject to price risk (45.7% at December 31, 2019). A 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 704 thousand (a positive change of euro 1,245 thousand at December 31, 2019) while a 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 704 thousand (a negative change of euro 1,245 thousand to the Group's equity at December 31, 2019).

The financial assets at fair value through the Income Statement constitute 34% of the total financial assets subject to price risk (zero at December 31, 2019). A change of +5% in the price of the aforesaid listed securities, all other conditions being equal, would result in a positive change to the Group's equity of euro 1,687 thousand, while a change of -5% in the price of the aforesaid listed equities, all other conditions being equal, would result in a negative change of euro 1,687 thousand to the Group's equity.

CREDIT RISK

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

Other instruments used for commercial credit risk management is the taking out of insurance policies. For over 8 years a master agreement has been in place, which was recently renewed for the 2021-2022 two-year period, with a leading insurance company with AA credit rating according to Standard & Poor's ratings, for worldwide coverage for credit risk, mainly relative to sales on the Replacement channel (the coverage ratio at December 31, 2020 was equal to 72%).

However, with regard to the financial counterparties for the management of its temporarily surplus resources, or for trading in derivative instruments, the Group deals only with entities with a high credit standing. Pirelli does not hold public debt instruments from any European country and constantly monitors its net credit exposure to the banking system and does not show significant concentrations of credit risk.

Expected losses on trade receivables are calculated over the life of the receivables, starting from the moment of initial recognition, using a matrix linked to the customer's credit rating and to the ageing of the receivables, which is adjusted to take forecasting factors into account which are specific to some customers, as well as the presence of any collateral and other credit risk mitigation instruments, such as the insurance coverage mentioned above. The calculation of expected losses is based on (i) a matrix which includes the credit ratings of customers provided by independent market assessors, and on (ii) the value of receivables, which takes the collateral and related insurance coverage into account. Consequently, this calculation includes an updated evaluation of the losses forecast due to the impact that COVID-19 has had on the specific markets in which the counterparties operate, with its impact on the probability of default and on the ceilings granted by the insurance company. The provision for bad debts at December 31, 2020 was calculated according to the method described above, and is composed as follows:

(in thousands of euro)

	Due	Past due 1-30 days	Past due 31-90 days	Past due 91 - 180 days	Past due 181 - 365 days	Past due > 1 year	Total
Expected loss rate	2.8%	3.4%	6.8%	10.2%	24.3%	90.1%	12.0%
Exposure net of credit enhancements	387,703	38,564	39,000	15,751	23,235	49,112	553,364
Bad debt provision	(10,866)	(1,326)	(2,658)	(1,614)	(5,639)	(44,243)	(66,345)

The exposure gross of credit risk mitigation instruments amounts to euro 754,771 thousand and the difference with respect to the value of trade receivables of euro 664,014 thousand shown in note 14 is given by the credit notes to be issued not considered for the purposes of calculating the allowance for doubtful accounts.

At December 31, 2020, the maximum exposure to credit risk calculated the allowance for doubtful accounts calculated without considering the presence of collateral and other credit risk mitigation instruments is euro 72,369 thousand.

LIQUIDITY RISK

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

The main instruments used by the Group to manage liquidity risk are comprised of one and three year financial plans and treasury plans. These allow for the complete and correct detection and measurement of cash inflows and outflows. The differences between the plans and final data are constantly analysed.

The Group has implemented a centralised system for managing collection and payment flows, in compliance with the various local currency and tax regulations. The negotiation and management of banking relationships is carried out centrally, in order to ensure hedging for short and medium term financial needs at the lowest possible cost. Even the procurement of medium/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 easily liquidated short-term securities, the availability of funds obtainable through an adequate amount of committed credit facilities and/or the possibility to resort to the capital market, by diversifying products and maturities to seize the best opportunities available.

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

Thanks to this approach, at the outbreak of the COVID-19 pandemic, the Pirelli Group could count on a liquidity margin (total liquidity and committed credit facilities available), which were sufficient enough to cover three years of its financial debt maturities. This level of coverage was maintained throughout all of 2020. This enabled the Group to not have to resort, for liquidity reasons, to financing or guarantees which were granted to support the economy during the pandemic, by the countries in which it operates.

At December 31, 2020 the Group had, in addition to cash and other financial assets at fair value through the Income Statement to the amount of euro 2,334,420 thousand (euro 1,647,940 thousand at December 31, 2019), unused credit facilities to the amount of euro 700,000 thousand (euro 700,000 thousand at December 31, 2019), maturing in the second quarter of 2022.

Maturities for financial liabilities at December 31, 2020 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	1,267,971	-	-	-	1,267,971
Other payables	374,266	13,734	24,326	39,220	451,546
Derivative financial instruments	60,068	67,289	2,835	-	130,192
Borrowings from banks and other financial institutions	1,143,948	1,758,008	3,225,909	239,521	6,367,387
of which financial leasing liabilities	*94,982*	*79,673*	*172,514*	*239,521*	*586,690*
	2,846,254	**1,839,032**	**3,253,070**	**278,740**	**8,217,096**

Maturities for financial liabilities at December 31, 2019 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	1,611,488	-	-	-	1,611,488
Other payables	402,757	4,811	26,142	59,618	493,328
Derivative financial instruments	43,763	4,021	4,656	139	52,579
Borrowings from banks and other financial institutions	1,278,759	229,189	2,989,547	285,457	4,782,952
of which financial leasing liabilities	*102,595*	*87,227*	*188,597*	*265,017*	*643,436*
	3,336,767	**238,021**	**3,020,345**	**345,214**	**6,940,347**

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 as provided for by IFRS 13, which reflects the significance of the inputs used in determining fair value. The levels are defined as follows:

- level 1 – unadjusted prices quoted on an active market for assets or liabilities subject to evaluation;
- level 2 – inputs other than the quoted prices referred to in the previous point, which are observable on the market either directly (as in the case of prices) or indirectly (because they are derived from prices);
- level 3 – inputs that are not based on observable market data.

The following table shows **assets and liabilities measured at fair value at December 31, 2020** subdivided into the three levels defined above:

(in thousands of euro)

	Nota	Carrying amount at 12/31/2020	Level 1	Level 2	Level 3
FINANCIAL ASSETS:					
Financial assets carried at fair value through Income Statement:					
Other current financial assets at fair value through Income Statement	18	58,944	34,571	24,373	-
Current derivative financial instruments	27	39,327	-	39,327	-
Other financial assets at fair value through Other Comprehensive Income:					
Securities and shares		39,934	14,076	15,902	9,956
Investment funds		2,786	-	2,786	-
	12	42,720	14,076	18,688	9,956
TOTAL ASSETS		**140,991**	**48,647**	**82,388**	**9,956**
FINANCIAL LIABILITIES:					
Financial liabilities carried at fair value through Income Statement:					
Current derivative financial instruments	27	(58,741)	-	(58,741)	-
Derivative hedging instruments:					
Current derivative financial instruments	27	(372)	(372)	-	-
Non-current derivative financial instruments	27	(87,601)	-	(87,601)	-
TOTAL LIABILITIES		**(146,714)**	**(372)**	**(146,342)**	**-**

The following table shows **assets and liabilities measured at fair value at December 31, 2019** subdivided into the three levels defined above:

(in thousands of euro)

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

The following table shows **changes in the financial assets** classified as **level 3 that occurred during the course of 2020**:

(in thousands of euro)

Opening balance 01/01/2020	**9,562**
Translation differences	(25)
Decreases	(91)
Fair value adjustments through Other Comprehensive Income	511
Other changes	(1)
Closing balance 12/31/2020	**9,956**

These financial assets are mainly represented by equity investments in the European Institute of Oncology (euro 7,962 thousand) and Tlcom I LP (euro 185 thousand).

Fair value adjustments through other Comprehensive Income equalled a positive value of euro 511 thousand and mainly refers to the fair value adjustment of the investment in the European Institute of Oncology.

During the course of 2020 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. These instruments, included in level 1, primarily comprise of equity investments classified as financial assets at fair value through other Comprehensive Income.

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

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

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 12/31/2020	Carrying amount at 12/31/2019
FINANCIAL ASSETS			
Financial assets at fair value through Income Statement			
Other financial assets at fair value through Income Statement	18	58,944	38,119
Current derivative financial instruments	27	39,327	26,962
		98,271	*65,081*
Financial assets at amortised cost			
Other non-current receivables	15	402,148	342,397
Current trade receivables	14	597,669	649,394
Other current receivables	15	469,194	451,858
Cash and cash equivalents	19	2,275,476	1,609,821
		3,744,487	*3,053,470*
Financial assets at fair value through other comprehensive income (FVOCI)			
Other financial assets at fair value through Other Comprehensive Income	12	42,720	58,967
Financial hedging derivative instruments			
Current derivative financial instruments	27	-	10,186
Non-current financial derivative instruments	27	-	52,515
		-	*62,701*
TOTAL FINANCIAL ASSETS		**3,885,478**	**3,240,219**
FINANCIAL LIABILITIES			
Financial liabilities carried at fair value through Income Statement			
Current derivative financial instruments	27	58,741	41,427
Financial liabilities valuated at amortised cost			
Non-current borrowings from banks and other financial institutions (excl. lease liabilities)	23	4,580,537	3,544,461
Other non-current payables	25	77,280	90,571
Current borrowings from banks and other financial institutions (excl. lease liabilities)	23	808,163	1,341,606
Current trade payables	24	1,267,971	1,611,488
Other current payables	25	374,266	402,757
		7,108,217	*6,990,883*
Lease liabilities			
Non-current lease liabilities	23	390,449	405,375
Current lease liabilities	23	75,404	77,797
		465,853	*483,172*
Derivative financial hedging instruments			
Non-current derivative financial instruments	27	87,601	10,327
Current derivative financial instruments	27	372	-
		87,973	*10,327*
TOTAL FINANCIAL LIABILITIES		**7,720,784**	**7,525,809**

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, as also reported in the section on "Outlook for the next five years" in the Management Report on Operations.

The main indicator that the Group uses for capital management is the R.O.I.C., calculated as the ratio between adjusted EBIT net of tax effect and average net invested capital which does not include investments in associates and joint ventures, "other financial assets at fair value through other Comprehensive Income" and "other non-current financial assets at fair value through Income Statement", intangible assets related to assets recognized as a result of Business Combinations and deferred tax liabilities related to the latter.

The R.O.I.C. for fiscal year 2020 was 10.4% which compares to 18.1% in fiscal year 2019. The reduction compared to the previous year is mainly due to the decrease in Adjusted EBIT due to the effects that the Covid-19 pandemic had on the sector in which the Group operates.

7. ESTIMATES AND ASSUMPTIONS

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

GOODWILL

Pursuant to 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 recorded in the Income Statement. In particular, testing involves the allocation of goodwill to the cash generating units (which for the Group coincide with the business sector that is Consumer Activities), and the subsequent determination of the relative recoverable amount, being the greater amount between 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, the goodwill allocated to them is impaired.

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

The configuration of the value used to determine the recoverable amount for Consumer Activities at December 31, 2020, is that of the value in use, which corresponds to the present value of the future financial flows which are expected to be associated with the group of CGUs, using a rate which reflects the specific risks of the individual group of CGUs at the valuation date.

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

PIRELLI BRAND (INTANGIBLE ASSET WITH AN INDEFINITE USEFUL LIFE)

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

The impairment test at December 31, 2020 was performed using the assistance of an independent third-party professional.

The configuration of the recoverable amount for impairment testing purposes at December 31, 2020, was the fair value, calculated on the basis of the income approach (the so-called Level 3 of the the IFRS 13 hierarchy – Fair Value Measurement).

The key assumptions used by Management were the estimates for future increases in sales, their growth rate beyond the explicit forecast period for the purposes of estimating the terminal value, in the royalty rate, and in the discount rate which is based on the weighted average cost of capital increased by a premium determined on the basis of the riskiness of the specific asset.

OWNED TANGIBLE ASSETS

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

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

RIGHT OF USE AND LEASE LIABILITIES

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

The main ones are summarised as follows:

- renewal clauses in contracts are considered for the purposes of determining the duration of the contract, that is, when the Group has the option to exercise these clauses without the need to obtain the consent of the other party and when their exercise is considered reasonably certain. In the case of clauses which provide for multiple renewals that can be exercised unilaterally by the Group, only the first extension period has been considered;
- automatic renewal clauses in contracts, in which both parties have the right to terminate the contract, were not considered for the purposes of determining the duration of the contract as the ability to extend its duration, is not under the unilateral control of the Group and the penalty to which the lessor could be exposed to is not significant. However, in the event that the lessor is exposed to a significant penalty, the Group evaluates the inclusion of the renewal option in the determination of the duration of the contract. This assessment is also carried out considering the degree of personalisation of the leased asset. If personalisation is high, the lessor could incur a significant penalty if they oppose the renewal;
- early termination clauses in contracts: these clauses are not considered in determining the duration of the contract if they can be exercised only by the lessor or by both parties. In cases where they can be unilaterally exercised by the Group, specific assessments are made contract by contract (for example, the Group is already negotiating a new contract or has already given notice to the lessor);
- the incremental borrowing rate is the risk-free rate of the country in which the contract is negotiated and is based on the duration of the contract itself. It is then adjusted according to the Group's credit spread and the local credit spread.

INCOME TAXES (CURRENT AND DEFERRED)

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

PENSION FUNDS

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

PROVISIONS FOR LIABILITIES AND CHARGES

In view of the legal and tax risks relative to indirect taxes, provisions for the risk of unfavourable outcomes have been recorded. The value of provisions reported 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 problematic issues that are subject to the jurisdiction of different countries. This estimate entails the adoption of assumptions which depend on factors that may change over time and which could therefore have a significant impact on the current estimates made by Management in preparing the Consolidated Financial Statements.

8. OPERATING SEGMENTS

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

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

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

With the aim of accelerating the implementation of the business model focused on High Value, in 2019 the Group adopted a new organisational model at regional level, composed of five Regions.

In 2020, the EMEA and Russia and Nordics regions were renamed into the following two new macro geographical areas:

- Europe and Turkey;
- Russia, Nordics and MEAI.

The comparative data for 2019 have been restated to adapt them to the new repartitions by Regions.

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

(in thousands of euro)

	2020	2019
Europe and Turkey	1,757,359	2,116,885
North America	870,511	1,101,890
APAC	865,988	961,939
South America	458,617	681,995
Russia, Nordics and MEAI	349,656	460,345
TOTAL	**4,302,131**	**5,323,054**

Non-current assets by Region which are allocated on the basis of the country in which the assets are located, are shown below:

(in thousands of euro)

	12/31/2020		12/31/2019	
Europe and Turkey	5,440,542	62.24%	5,697,779	61.08%
North America	389,634	4.46%	468,610	5.02%
APAC	486,468	5.56%	523,549	5.61%
South America	358,383	4.10%	510,318	5.47%
Russia, Nordics and MEAI	182,828	2.09%	242,740	2.60%
Non-current unallocated assets	1,883,945	21.55%	1,886,988	20.22%
TOTAL	**8,741,800**	**100.00%**	**9,329,984**	**100.00%**

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

9. PROPERTY, PLANT AND EQUIPMENT

Their composition was as follows:

(in thousands of euro)

	12/31/2020	12/31/2019
Total Net Value:	**3,159,767**	**3,649,809**
- Tangible assets	2,725,755	3,187,190
- Right of use	434,012	462,619

9.1 OWNED TANGIBLE ASSETS

The composition and changes were as follows:

(in thousands of euro)

	12/31/2020			12/31/2019		
	Gross Value	Accumulated Depreciation	Net Value	Gross Value	Accumulated Depreciation	Net Value
Land	147,406	-	**147,406**	189,417	-	**189,417**
Buildings	787,489	(150,793)	**636,696**	859,506	(133,598)	**725,908**
Plants and machinery	2,458,722	(763,568)	**1,695,154**	2,613,755	(647,884)	**1,965,871**
Industrial and trade equipment	500,443	(303,197)	**197,246**	510,899	(264,423)	**246,476**
Other assets	111,179	(61,926)	**49,253**	114,520	(55,002)	**59,518**
Total	**4,005,239**	**(1,279,484)**	**2,725,755**	**4,288,097**	**(1,100,907)**	**3,187,190**

NET VALUE

(in thousands of euro)

	12/31/2019	Change in consolidation scope	Hyperinflation Argentina	Translation differ.	Increases	Decreases	Depreciation	Devaluation	Recl./ Other	12/31/2020
Land	**189,417**	(666)	740	(20,540)	-	(1,560)	-	-	(19,985)	**147,406**
Buildings	**725,908**	(3,624)	3,253	(68,647)	12,428	(1,125)	(33,069)	(33)	1,605	**636,696**
Plants and machinery	**1,965,870**	(503)	6,268	(155,297)	58,419	(2,247)	(176,389)	(7,074)	6,107	**1,695,154**
Industrial and trade equipment	**246,476**	-	1,083	(27,099)	48,874	(1,395)	(69,237)	(1,974)	518	**197,246**
Other assets	**59,519**	(35)	546	(4,895)	4,787	(100)	(10,683)	(57)	171	**49,253**
Total	**3,187,190**	**(4,828)**	**11,890**	**(276,478)**	**124,508**	**(6,427)**	**(289,378)**	**(9,138)**	**(11,584)**	**2,725,755**

NET VALUE

(in thousands of euro)

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

Hyperinflation Argentina refers to the revaluation of the assets held by the Argentinian company as a consequence of the application of the accounting standard IAS 29 - Financial Reporting in Hyperinflationary Economies. The effect was offset by negative **translation differences** of euro 17,194 thousand.

Increases totalling euro 124,508 thousand, were primarily aimed at High Value activities and to the continuous improvement in the mix and quality in all manufacturing plants.

The ratio of investments to amortisations for 2020 was equal to 0.43 (1.27 for the year 2019).

Reclassification/other was mainly due to the reclassification of government concessions for land in China, to the item *"Concessions, licenses and brands - indefinite useful life"* under intangible assets - (Refer to Note 10).

Devaluation refers mainly to plants and equipment in the UK and Italy.

Property, plant and equipment in progress at December 31, 2020, included in the individual asset categories, amounted to euro 138,012 thousand (euro 217,620 thousand at December 31, 2019).

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

The crisis induced by the COVID-19 pandemic and the New Guidance published by the company on April 3, 2020, which revised the Group's targets for the year 2020 compared to those published on February 19, 2020, on the occasion of the presentation of the 2020-2022 Strategic Plan, represent indicators of possible impairment of the Group's Cash Generating Units. An impairment test was therefore carried out using available updated post-COVID-19 information, consistent with the assumptions made for the purposes of goodwill impairment testing. (Refer to subsequent Note 10 - *"Intangible assets"*).

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

9.2 RIGHT OF USE

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

(in thousands of euro)

	12/31/2020	12/31/2019
Right of use land	13,730	15,323
Right of use buildings	336,740	355,939
Right of use plants and machinery	26,012	30,689
Right of use other assets	57,530	60,668
Total net right of use	**434,012**	**462,619**

Right of use buildings mainly refers to contracts relative to offices, warehouses and points of sale.

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

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

Increases in the right of use during the 2020 financial year amounted to euro 68,532 thousand (euro 51,235 thousand for 2019), for new lease contracts signed mainly in Europe and North America.

There were no reassessments or amendments to any significant contracts during the course of 2020.

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

(in thousands of euro)

	2020	2019
Land	1,121	1,130
Buildings	60,505	60,613
Plants and machinery	7,644	7,789
Other assets	19,356	19,947
Total depreciation of right of use	**88,626**	**89,479**

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

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

With regard to the considerations for impairment, reference should be made to the details provided in Note 9.1.

10. INTANGIBLE ASSETS

Composition and changes were as follows:

(in thousands of euro)

	12/31/2019	Translation differences	Increase	Decrease	Amortisation	Riclass./Other	12/31/2020
Concessions / licenses / trademarks - finite life	**59,834**	(1,608)	430	(6)	(5,061)	20,105	**73,694**
Pirelli Brand - indefinite life	**2,270,000**	-	-	-	-	-	**2,270,000**
Goodwill	**1,886,988**	(2,765)	-	(278)	-	-	**1,883,945**
Customer relationships	**308,585**	(168)	-	-	(34,547)	-	**273,870**
Technology	**1,122,317**	-	-	-	(76,850)	-	**1,045,467**
Software applications	**18,971**	(394)	11,172	(3)	(10,219)	6,654	**26,181**
Patents and design patent rights	**4,490**	-	3,925	-	(726)	-	**7,689**
Other intangible assets	**8,990**	(448)	-	-	(646)	(6,709)	**1,187**
Total	**5,680,175**	**(5,383)**	**15,527**	**(287)**	**(128,049)**	**20,050**	**5,582,033**

(in thousands of euro)

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

Intangible assets were composed as follows:

- the Pirelli Brand valued at euro 2,270,000 thousand (indefinite useful life). It should be noted that the evaluation of the useful life of brands is based on a series of factors including the competitive environment, market share, history of the brand, life cycles of the underlying product, operating plans and the macroeconomic environment of the countries in which the related products are sold. In particular, the useful life of the Pirelli Brand was assessed as indefinite on the basis of its history of over one hundred years of success (established in 1872) and the intention and ability of the Group to continue investing in order to support and maintain the brand;
- the Metzeler Brand (useful life of 20 years) valued at euro 49,133 thousand included under the item *"Concessions, licenses and brands with a finite useful life";*
- customer relationships (useful life of 10-20 years) which mainly includes the value of commercial relationships both for the Original Equipment channel and the Replacement channel;
- technology which includes the value of both product and process technologies as well the value of the *In-Process R&D* (being formed at the time of the acquisition of the Group in 2015 by Marco Polo Industrial Holding S.p.A.) amounted to euro 980,467 thousand and euro 65,000 thousand respectively. The useful

life of product and process Technology was determined to be 20 years, while the useful life for *In-Process R&D* was 10 years. Projected sales in the 2021-2025 Strategic Plan, which are the primary input for determining the Technology's recoverable amount, are higher than those used for impairment testing purposes as of June 30, 2020, therefore there are no signs of impairment with respect to June 30, 2020;

→ goodwill to the amount of euro 1,883,945 thousand, of which euro 1,877,363 thousand was recognised at the time of the acquisition of the Group in September 2015. The residual portion refers to the goodwill determined as part of the acquisition of the company JMC Pneus Comercio Importação e Exportação Ltda, which occurred in 2018.

IMPAIRMENT TESTING OF GOODWILL Pursuant to IAS 36, goodwill is not subject to amortisation, but is tested for impairment annually or more frequently, if specific events or circumstances arise that may suggest 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 business sector identified pursuant to IFRS 8. Goodwill, amounting to euro 1,883,945 thousand, was allocated to the group of *"Consumer Activities"* CGUs, which represent the only sector of activity in which the Group operates and considers to be the minimum level at which goodwill should be monitored, for the purposes of internal management control.

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

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

The value configuration used to determine the recoverable amount of Consumer Assets at December 31, 2020 is value in use, which corresponds to the present value of the future cash flows expected to be generated by the group of CGUs, using a rate that reflects the risks specific to the group of CGUs at the measurement date. The forecasts move from the 2021-2025 plan approved by the parent company's Board of Directors, prudently adjusted downwards to take account of analysts' consensus estimates as external evidence in accordance with IAS 33 letter (a), and also sterilizing cash flows relating to expansion investments and restructuring charges and related benefits to which the Company was not committed at the balance sheet date, in accordance with IAS 36.44.

The average cumulative annual growth rate (CAGR) of revenues for the explicit forecast period used for the calculation of the recoverable amount, which was calculated with respect to revenues recorded for 2020, equalled 6.67%, while the average EBITDA margin for the period used for the calculation of the recoverable amount, equalled 24.3% with an EBITDA CAGR of 10.4% compared to the absolute value recorded for 2020.

The impairment test at December 31, 2020 was performed using the assistance of an independent third-party professional.

The discount rates, defined as the weighted average cost of capital (WACC) net of taxes, which were applied to the prospective cash flows equalled 6.75%, while the growth factor of operating cash flows, for the purpose of estimating the terminal value (g) equalled zero. The capitalisation rate of operating cash flows (WACC - g) therefore equalled 6.75%.

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

The recoverable amount is greater than the carrying amount for Consumer Activities (21%), while, in order for the value in use to be equal to the carrying amount, a downward change in the key parameters is necessary, in particular:

→ an increase in the discount rate of 145 basis points;
→ an annual growth rate beyond the explicit forecast "g" period negative by -198 basis points;
→ a decrease in the EBITDA margin adjusted of 288 basis points.

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

The impairment test at December 31, 2020 was performed using the assistance of an independent third-party professional.

The configuration of the recoverable amount for impairment testing purposes at December 31, 2020, 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) which is based on:

→ the same revenue streams used for the purpose of impairment testing of goodwill i.e. revenues lower than those in the plan, in order to take account of analysts' consensus estimates as external evidence; for the purposes of determining the recoverable value of the brand, given that the value configuration is fair value, the benefits deriving from expansion investments were not sterilized;
→ a sum-of-parts valuation criterion which also takes into account the contribution of royalties from the Prometeon Tyre Group for the use of the Pirelli trademark in relation to the Industrial segment;

- the royalty rates applied to the revenues of the Consumer High Value and Consumer Standard segment was deduced from the royalty rates implicit in the valuations made by an independent entity relative to the main brands of the listed companies of the Tyre sector and equalled an average royalty rate of 4.62%. With reference to the contribution in terms of royalties from the Prometeon Tyre Group, the royalty rates stipulated in existing contracts were used;
- a discount rate of 8.34% which included a premium, compared to the WACC, determined on the basis of the risk level of the specific asset;
- a growth rate of “g” in the terminal value assumed to be equal to zero;
- the TAB (Tax Amortisation Benefit) that is, the tax benefit from which the market participant who acquires the asset separately could in abstract terms benefit, due to the possibility of amortising it for tax purposes.

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

The recoverable amount is greater than the carrying amount of the Brand (19.5%) while, in order for the fair value to be equal to the carrying amount, a downward change in the key parameters is necessary, in particular:

- a reduction in royalty rates for the Consumer valuation units by 77 basis points and the simultaneous zeroing of the balance for royalties from the license agreement with the Prometeon Tyre Group;
- an increase in the discount rate of 144 basis points;
- a g growth rate negative by -265 basis points.

11. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

(in thousands of euro)

	12/31/2020			12/31/2019		
	Associates	JV	Total	Associates	JV	Total
Opening balance	**8,703**	**72,143**	**80,846**	**8,419**	**64,286**	**72,705**
Increases	-	-	-	-	27,580	27,580
Distribution of dividends	(192)	-	(192)	(200)	-	(200)
Share of net income / (loss)	228	(5,857)	(5,629)	249	(9,927)	(9,678)
Share of other components recognised in Equity	-	(2,093)	(2,093)	-	(1,176)	(1,176)
Use of provision for future risks and expenses	-	-	-	-	(8,620)	(8,620)
Other	(344)	-	(344)	235	-	235
Closing balance	**8,395**	**64,193**	**72,588**	**8,703**	**72,143**	**80,846**

11.1 INVESTMENTS IN ASSOCIATES

The item was composed as follows:

(in thousands of euro)

	12/31/2019	Distribution of dividends	Share of net income / (loss)	Other	12/31/2020
Eurostazioni S.p.A.	**6,395**	-	-	-	**6,395**
Joint Stock Company Kirov Tyre Plant	**1,417**	-	42	(338)	**1,121**
Investments in other associates	**891**	(192)	186	(6)	**879**
Total	**8,703**	**(192)**	**228**	**(344)**	**8,395**

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

11.2 INVESTMENTS IN JOINT VENTURES

The details of the item were as follows:

(in thousands of euro)

	12/31/2019	Share of net income / (loss)	Share of other components recognised in Equity	12/31/2020
PT Evoluzione Tyres	**15,015**	(1,299)	(1,613)	**12,103**
Xushen Tyre (Shanghai) Co., Ltd	**57,128**	(4,558)	(480)	**52,090**
Total	**72,143**	**(5,857)**	**(2,093)**	**64,193**

The Group holds:

- an investment of 63.04% in PT Evoluzione Tyres, an entity which operates in Indonesia and is active in the production of tyres for motorcycles. Even though the company is 63.04% owned, as a result of contractual agreements between Shareholders, it falls under the definition of a joint venture, in that the governance regulations explicitly require unanimous consensus for significant business decisions. The investment is evaluated using the equity method;
- a 49% stake in the company Xushen Tyre (Shangai) Co., Ltd, a joint venture which, through the company Jining Shenzhou Tyre Co., Ltd. owns a Consumer tyre manufacturing plant in China. The plant provides the necessary production flexibility for the High Value segment, taking into account the evolution of the Chinese market, the expected developments in the electric car segment and the increasing share of homologations obtained for the Original Equipment channel in China, Japan and Korea. The investment is evaluated using the equity method. As announced on August 1st, 2018 the JV agreement provides for a purchase option in favour of Pirelli Tyre S.p.A., exercisable from January 1, 2021 to December 31, 2025, which – if exercised – would would enable the same to increase its holding in the said company up to 70%. During 2020, Pirelli Tyre S.p.A. represented to the associates in Xushen Tyre (Shanghai) Co., Ltd. its intention not to exercise the option until December 31, 2022.

The **share of net income/(loss)** amounted to euro 5,857 thousand, and refers to the pro-rata share of the loss of euro 4,558 thousand attributable to the joint venture Xushen Tyre (Shanghai) Co., Ltd., and of euro 1,299 thousand attributable to the joint venture PT Evoluzione Tyres.

It should be noted that, with regard to both investments, it was considered that the negative result, deriving from the company which owns the production plant, together with the fact that the company operates in a market affected by the crisis induced by the COVID-19 pandemic, represented impairment indicators and therefore the investments were subjected to an impairment test. The recoverable amount of the investments resulted as higher than the carrying amount of the same and therefore no impairment was recorded.

Investments in joint ventures were not significant in terms of their impact on the total consolidated assets.

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

The changes in other financial assets at fair value through other Comprehensive Income amounted to euro 42,720 thousand at December 31, 2020 (euro 58,967 thousand at December 31, 2019) and were as follows:

(in thousands of euro)

Opening balance at 01/01/2020	**58,967**
Translation differences	(27)
Decreases	(91)
Fair Value adjustment through Other Comprehensive Income	(16,129)
Closing balance 12/31/2020	**42,720**

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

(in thousands of euro)

	12/31/2020	12/31/2019
Listed securities		
RCS Mediagroup S.p.A.	14,076	24,892
Total	**14,076**	**24,892**
Unlisted securities		
Fin. Priv. S.r.l.	15,902	20,565
Fondo Anastasia	2,786	3,947
Istituto Europeo di Oncologia S.r.l.	7,962	7,465
Euroqube	10	10
Tlcom I LP	185	195
Other companies	1,799	1,893
Total	**28,644**	**34,075**
Total other financial assets at Fair Value through Other Comprehensive Income	**42,720**	**58,967**

The **fair value adjustment through other Comprehensive Income** amounted to a net loss of euro 16,129 thousand and mainly refers to the RCS MediaGroup S.p.A. (negative at euro 10,816 thousand), to Fin. Priv. S.r.l. (negative at euro 4,663 thousand) and to Fondo Comune di investimento Anastasia (Anastasia Real Estate Investment Fund), (negative at euro 1,161 thousand), which was offset by the European Oncological Institute (positive at euro 497 thousand). For listed securities, their fair value corresponded to the stock market price at December 31, 2020. The fair value of unlisted securities was determined by using estimates based on the best available information.

13. DEFERRED TAX ASSETS AND LIABILITIES

Their composition is as follows:

(in thousands of euro)

	12/31/2020	12/31/2019
Deferred tax assets	109,378	81,188
Deferred tax liabilities	(1,006,799)	(1,058,760)
Total	**(897,421)**	**(977,572)**

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

The item **deferred tax liabilities** mainly refers to the difference between the tax value and the carrying amount of the of the assets identified during the course of 2016, following the completion of the allocation of the price paid by Marco Polo Industrial Holding S.p.A. for the acquisition of the Pirelli Group, at fair value of the Pirelli assets and liabilities acquired (Purchase Price Allocation or PPA) and recorded in the Consolidated Financial Statements following the merger by incorporation of the Parent company, Marco Polo Industrial Holding S.p.A. into Pirelli, which took place during the course of the same year, 2016. Changes for the year also include the release, for an amount of euro 13,708 thousand, of deferred liabilities relative to the Metzeler trademark, as a result of the tax reassessment of the same, pursuant to Legislative Decree No. 104/2020.

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

(in thousands of euro)

	12/31/2020	12/31/2019
Deferred tax assets	**355,547**	**351,373**
- of which within 12 months	180,958	159,911
- of which beyond 12 months	174,589	191,462
Deferred tax liabilities	**(1,252,968)**	**(1,328,945)**
- of which within 12 months	(12,134)	(5,935)
- of which beyond 12 months	(1,240,834)	(1,323,010)
Total	**(897,421)**	**(977,572)**

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

(in thousands of euro)

	12/31/2020	12/31/2019
Deferred tax assets		
Provisions for liabilities and charges	50,369	62,633
Property, plant and equipment	5,189	6,763
Leases	-	1,511
Provision for employee benefit obligations	55,672	66,389
Inventories	48,670	40,452
Tax losses carried forward	50,094	43,338
Trade receivables and other receivables	30,894	29,307
Trade payables and other payables	5,047	2,210
Other	109,612	98,770
Total	**355,547**	**351,373**
Deferred tax liabilities		
Intangible assets	(1,006,521)	(1,055,683)
Property, plant and equipment	(155,339)	(193,202)
Leases	(7,733)	-
Other	(83,375)	(80,060)
Total	**(1,252,968)**	**(1,328,945)**

The item **other** relative to **deferred tax assets** mainly includes deferred tax assets recorded on non-deducted surplus interest payables (euro 6,793 thousand) and on the ACE (Allowance for Corporate Equity) benefit (euro 66,306 thousand).

The item **other**, relative to the **deferred tax liabilities**, mainly includes deferred tax liabilities recorded on the undistributed gains of subsidiaries, for which distribution of the same in future financial years is probable (euro 48,887 thousand).

At December 31, 2020 the value of deferred tax assets not recognised on tax losses equalled euro 89,796 thousand, while those relative to temporary differences equalled euro 31,756 thousand. The latter item mainly includes deferred tax assets not recognised on interest payables. Deferred tax assets were not reported, in that no taxable income is expected to justify their recovery.

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

(in thousands of euro)

Year of maturity	12/31/2020	12/31/2019
2019	-	1,713
2020	2,663	2,663
2021	2,211	2,211
2022	5,135	5,136
2023	1,280	1,280
2024	1,818	1,818
2025	5,117	5,122
2026	3,648	3,648
2027	424	424
2028	764	764
Without maturity date	316,904	282,512
Total	**339,964**	**307,291**

Of the total tax losses with no maturity date, euro 188,997 thousand refers to losses attributable to the subsidiaries in the UK, Spain, Brazil and Chile, and euro 108,970 thousand to Pirelli & C. S.p.A. deriving from the company Marco Polo Industrial Holding S.p.A., incorporated in 2016.

The tax effect of gains and losses recognised directly in equity, was negative to the amount of euro 5,672 thousand (positive to the amount of euro 1,171 thousand for 2019) and is disclosed in the Statement of Comprehensive Income. These changes were mainly due to tax effects connected to actuarial gains/losses on employee benefits and to the fair value adjustment of cash flow hedge derivatives.

14. TRADE RECEIVABLES

Trade receivables were analysed as follows:

(in thousands of euro)

	12/31/2020			12/31/2019		
	Total	Non-current	Current	Total	Non-current	Current
Trade receivables	664,014	-	664,014	715,361	-	715,361
Provision for bad debts	(66,345)	-	(66,345)	(65,967)	-	(65,967)
Total	**597,669**	**-**	**597,669**	**649,394**	**-**	**649,394**

The gross value of trade receivables amounted to euro 664,014 thousand (euro 715,361 thousand at December 31, 2019). At the reporting date, overdue receivables, gross of credit notes to be issued and net of credit risk mitigation instruments, amount to euro 165,662 thousand.

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

Impaired receivables include both significant individual positions subject to individual impairment and positions with similar credit risk characteristics which were grouped together and impaired on a collective basis. The calculation of impairment is based on (i) a matrix which includes the credit ratings of customers provided by independent market assessors and on (ii) the value of receivables, which takes the collateral and related insurance coverage into account. Consequently, this calculation includes an updated evaluation of the losses forecast due to the impact that COVID-19 has had on the specific markets in which the counterparties operate, with its impact on the probability of default and on the ceilings granted by the insurance company.

Changes in the provision for bad debts were as follows:

(in thousands of euro)

	12/31/2020	12/31/2019
Opening balance	**65,967**	**57,122**
Translation differences	(9,636)	612
Accruals	22,358	30,251
Decreases	(6,788)	(14,433)
Releases	(5,515)	(8,016)
Other	(41)	431
Closing balance	**66,345**	**65,967**

Accruals to the provision for bad debts have been recognised net of releases, in the Income Statement under *"Impairment of net financial assets"* - (Note 34).

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

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

15. OTHER RECEIVABLES

Other receivables were analysed as follows:

(in thousands of euro)

	12/31/2020			12/31/2019		
	Total	Non-current	Current	Total	Non-current	Current
Financial receivables	377,024	273,198	103,826	180,150	140,324	39,826
Trade accruals and deferrals	36,485	11,174	25,311	46,399	15,803	30,596
Receivables from employees	5,038	1,094	3,944	7,513	899	6,614
Receivables from social security and welfare institutions	1,402	-	1,402	2,136	-	2,136
Receivables from tax authorities not related to income taxes	328,654	93,917	234,737	458,921	150,513	308,408
Other receivables	131,986	30,018	101,968	108,080	39,186	68,894
	880,589	**409,401**	**471,188**	**803,199**	**346,725**	**456,474**
Bad debt provision for other receivables and financial receivables	(9,247)	(7,253)	(1,994)	(8,944)	(4,328)	(4,616)
Total	**871,342**	**402,148**	**469,194**	**794,255**	**342,397**	**451,858**

Non-current financial receivables (euro 273,198 thousand) refer mainly to, euro 54,878 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 185,052 thousand in sums deposited into escrow accounts in favour of the pension funds of Pirelli UK Ltd. and Pirelli UK Tyres Ltd., to euro 14,464 thousand in contributions paid in cash at the time of signing an association in participation contract and to euro 5,826 thousand in loans disbursed in favour of the Indonesian joint venture PT Evoluzione Tyres. The increase in escrow accounts was the main reason for the increase in financial receivables. Starting from February 2020, the Group has in fact assessed that it is financially more convenient to not renew the insurance guarantees previously issued to guarantee its obligations towards the pension funds of Pirelli UK Ltd., which have therefore been replaced by escrow account deposits. Depending on market conditions prevailing from time to time, Pirelli will decide whether to restore the insurance guarantees.

Current financial receivables (euro 103,826 thousand) refer mainly to, euro 88,769 thousand for the short-term portion of loans disbursed to the joint venture Jining Shenzhou Tyre Co., Ltd., for which there was no significant increase in credit risk since the date of disbursement.

The **provision for bad debts** (euro 9,247 thousand) mainly includes euro 8,505 thousand relative to the impairment of financial receivables.

Receivables from tax authorities not related to income taxes (euro 328.654 thousand compared to euro 458,921 thousand for 2019) are mainly comprised of receivables for IVA (value added tax) and other indirect taxes, the recoverability of which is expected in subsequent years. This decrease, compared to December 31, 2019, mainly refers to the exchange rate impact (negative to the amount of euro 117,901 thousand), mainly for the Brazilian subsidiaries whose currency depreciated during the course of the year, as well as the off-set of the same to the amount of euro 30,039 thousand.

Other non-current receivables (euro 30,018 thousand) mainly refer to amounts deposited as guarantees for legal and tax disputes involving the Brazilian business units (euro 27,057 thousand) and receivables pledged as collateral to the amount of euro 1,297 thousand in Pirelli's favour, which may be exercised in the event of contingent liabilities arising in relation to the acquisition of the company Campneus Lider de Pneumaticos Ltda (Brazil), which was subsequently merged into the company Comercial and Importadora de Pneus Ltda.

The item **other current receivables** (euro 101,968 thousand) mainly includes:

- → advances to suppliers amounting to euro 43,976 thousand;
- → receivables for the disposal of property owned, but not used for industrial activities in Brazil amounting to euro 1,568 thousand;
- → receivables from associated companies and joint ventures to the amount of euro 12,548 thousand, mainly for royalties and the sale of materials and moulds;
- → receivables from the Prometeon Group to the amount of euro 7,405 thousand;
- → receivables amounting to euro 9,800 thousand from an insurance company for an indemnity not yet paid;
- → a receivable for the disposal of the investment in the Joint Stock company "Scientific institute of medical polymers" to the amount of euro 4,301 thousand, collected during the early days of 2021.

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

16. TAX RECEIVABLES

The item tax receivables refers to income taxes which amounted to euro 33.914 thousand (of which euro 4,761 thousand was non-current) compared to euro 50.634 thousand at December 31, 2019 (of which euro 9,140 thousand was non-current). In more detail, it mainly refers to receivables for advance payments on taxes for the financial year and to income tax receivables from previous financial years recorded by the Brazilian companies.

17. INVENTORIES

The following is an inventories analysis:

(in thousands of euro)

	12/31/2020	12/31/2019
Raw and auxiliary materials and consumables	108,306	121,048
Sundry materials	6,638	7,915
Work in progress and semi-finished products	51,534	58,183
Finished products	669,433	905,713
Advances to suppliers	526	895
Total	**836,437**	**1,093,754**

The restatement of the value of inventories, which was recognised net of impairments, amounted to euro 14,044 thousand (restatement of euro 7,502 thousand for 2019).

The reduction in value compared to December 31, 2019 is mainly due to the sharp reduction in inventories (approximately 3 million pieces of finished Car and Motorcycle products during the second and third quarters of 2020).

Inventories were not subject to any guarantee pledges.

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

Other financial assets at fair value through the current Income Statement amounted to euro 58,944 thousand at December 31, 2020, compared to euro 38,119 thousand at December 31, 2019. The fair value of unlisted securities was determined by using estimates based on the best available information. This increase compared to December 31, 2019 was mainly due to investments made by the Argentinian subsidiary in dollar-linked bonds, with the aim of mitigating the effects of the depreciation of the local currency. Changes in the fair value for the period were recognised in the Income Statement as *"Financial expenses"* - (Note 37).

19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents went from euro 1,609,821 thousand at December 31, 2019 to euro 2,275,476 thousand at December 31, 2020. These were concentrated in the finance companies of the Group and in companies that generate liquidity and use it locally. These were essentially invested in accordance with risk diversification principles and in compliance with minimum rating levels, on the short-term deposits market with banking counterparties, at interest rates consistent with the prevailing market conditions. The credit risk associated with cash and cash equivalents is to be considered as limited, as the counterparties are leading national and international banks.

For the Statement of Cash Flows, the balance of cash and cash equivalents was recorded net of passive current accounts, to the amount of euro 5,793 thousand at December 31, 2020 (euro 9,194 thousand at December 31, 2019).

20. EQUITY

20.1 ATTRIBUTABLE TO THE PARENT COMPANY

Equity attributable to the Parent Company went from euro 4,724,449 thousand at December 31, 2019 to euro 4,447,418 thousand at December 31, 2020.

The subscribed and paid up **share capital** at December 31, 2020 amounted to euro 1,904,375 thousand and was represented by 1,000,000,000 registered ordinary shares without indication of their nominal value.

The **translation reserve**, generated by the conversion into euro of the financial statements of subsidiaries that use a functional currency other than the euro, was negative to the amount of 679,737 thousand at December 31, 2020. Changes for the financial year mainly included a negative change of euro 365,326 thousand, mainly attributable to the subsidiaries in Brazil, Mexico and Argentina, associates and joint ventures, and a negative change of euro 606 thousand relative to the reversal to the Income Statement of the translation reserve accumulated up until the date of disposal of the Joint Stock company "Scientific institute of medical polymers".

IAS reserves went from a negative value of euro 89,424 thousand at December 31, 2019 to a negative value of euro 89,893 thousand at December 31, 2020 mainly due to a combined effect of actuarial gains on pension funds (positive to the amount of euro 18,946 thousand), offset by losses on financial assets at fair value through other Comprehensive Income (negative to the amount of euro 16,129 thousand). The reserves in total mainly include the reserve for the remeasurement of employee benefits which was negative to the amount of euro 25,104 thousand, the cash flow hedge reserve negative to the amount of euro 26,228 thousand and the reserve for adjusting the fair value of financial assets at fair value through other Comprehensive Income, which was negative to the amount of euro 16,357 thousand.

Other reserves/retained earnings went from euro 3,223,303 thousand at December 31, 2019, to euro 3,312,673 thousand at December 31, 2020, essentially due to the net income for the financial year (positive to the amount of euro 29,781 thousand), due to hyperinflation in Argentina (positive to the amount of euro 20,041 thousand, offset by a negative translation reserve of euro 30,559 thousand) and due to a new reserve created to accommodate the equity component recognised in respect of the convertible bond issue (positive to the amount of euro 41,200 thousand).

20.2 ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Equity attributable to non-controlling Interests went from euro 102,182 thousand at December 31, 2019 to euro 104,432 thousand at December 31, 2020. The change was mainly due to the positive result for the year of euro 12,892 thousand, offset by exchange rate losses of euro 10,645 thousand.

21. PROVISIONS FOR LIABILITIES AND CHARGES

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

PROVISION FOR LIABILITIES AND CHARGES - NON-CURRENT PORTION

(in thousands of euro)

	12/31/2019	Translation differences	Increases	Uses	Releases	Reclass.	Other	12/31/2020
Provision for labour disputes	13,520	(4,226)	6,952	(1,107)	(459)	-	17	14,697
Provision for tax risks not related to income taxes	6,019	(1,409)	458	-	(109)	-	28	4,987
Provision for environmental risks	2,575	-	1,180	(114)	-	-	-	3,641
Provision for restructuring and reorganisation	26,181	(3,471)	2,983	(2,494)	(1,232)	(13,582)	-	8,385
Provision for other risks	72,174	(282)	7,991	(36,236)	-	(2,100)	-	41,547
Total	**120,469**	**(9,388)**	**19,564**	**(39,951)**	**(1,800)**	**(15,682)**	**45**	**73,257**

Increases refer mainly to provisions for labour disputes mainly for the Brazilian subsidiaries to the amount of euro 6,880 thousand and to rationalisation measures in Italy to the amount of euro 2,983 thousand.

Uses were mainly attributable to the completion of the antitrust investigation described below, to rationalisation measures in Italy to the amount of euro 2,494 thousand, and to litigation regarding occupational diseases.

On October 28, 2020, the European Court of Justice confirmed in the last instance, the legitimacy of the decision issued on April 2, 2014 by the European Commission, at the conclusion of the antitrust investigation launched in relation to the alleged conduct of restricting competition in the European high voltage electric cables market. The decision had provided for a sanction against Prysmian Cavi e Sistemi S.r.l. (*"Prysmian"*) as it was directly involved in the cartel, a part of which (euro 67 million) Pirelli, despite not having been found directly involved in the activities of the cartel, had been held as jointly liable with Prysmian, based solely on the application of the principle of so-called parental liability in that during part of the period of the infringement, the share capital of Prysmian S.p.A. was held, either directly or indirectly by Pirelli. In this regard, Pirelli had provided, in the Commission's favour (and at the latter's request), a bank guarantee of euro 33.6 million (corresponding to 50% of the aforementioned sanction imposed jointly and severally on Pirelli and Prysmian), in addition to interest, and had consequently made appropriate provisions.

On December 31, 2020, Pirelli paid their portion of the above mentioned sanction to the European Commission.

Reclassifications refer mainly to the reclassification of provisions from current to non-current, relative to provisions for rationalisation measures for Brazilian subsidies. Under *"other risks"*, of note were the reclassifications of the provision for commercial risks of the subsidiary Pirelli Tyre S.p.A., from current to non-current.

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

PROVISION FOR LIABILITIES AND CHARGES - CURRENT PORTION

(in thousands of euro)

	12/31/2019	Translation differences	Increases	Uses	Releases	Reclass.	Other	12/31/2020
Provision for labour disputes	312	(40)	81	(120)	(155)	-	-	78
Provision for tax risks not related to income taxes	2,039	(519)	5,783	-	-	-	-	7,303
Provision for environmental risks	2,665	-	500	-	-	-	-	3,165
Provision for restructuring and reorganisation	13,591	(4,445)	-	(4,583)	(137)	11,492	-	15,918
Provision for claims and warranties	10,226	(783)	950	(388)	(2,178)	-	-	7,827
Provision for other risks	14,695	(313)	5,794	(6,710)	(1,600)	2,100	(174)	13,792
Total	**43,528**	**(6,100)**	**13,108**	**(11,801)**	**(4,070)**	**13,592**	**(174)**	**48,083**

Increases were mainly attributable to tax risks for indirect taxes, to the provisions for insurance risks and work place accidents, the latter relative to the English subsidiary.

Uses of the provision for other risks essentially refers to insurance risks and commercial risks of the subsidiary Pirelli Tyre S.p.A..

Releases relative to other risks mostly refer to adjustments to the provisions for work place accidents and insurance risks.

Reclassifications refer mainly to the provision for commercial risks for the subsidiary Pirelli Tyres S.p.A. from current to non-current.

22. EMPLOYEE BENEFIT OBLIGATIONS AND OTHER ASSETS

PENSION FUNDS – NON-CURRENT PORTION

The item is composed as follows:

(in thousands of euro)

	12/31/2020	12/31/2019
Pension funds:		
- Asset for funded pension fund	80,422	57,829
Total other assets	**80,422**	**57,829**
Pension funds:		
- Liability for funded pension fund	65,028	84,064
- Liability for unfunded pension fund	83,630	89,690
Employee leaving indemnities (TFR - Italian companies)	31,486	32,680
Healthcare plans	16,026	17,825
Other benefits	47,761	36,573
Total provisions for employee benefit obligations	**243,931**	**260,832**

PENSION FUNDS

The following table shows the **composition of pension funds at December 31, 2020.**

(in thousands of euro)

	12/31/2020						
	Germany	Sweden	Total unfunded pension funds	USA	UK	Other countries	Total funded pension funds
Funded funds							
Present value of funded liabilities				107,059	1,215,473	34,384	1,356,916
Fair value of plan assets				(92,526)	(1,251,882)	(27,902)	(1,372,310)
Unfunded funds							
Present value of unfunded liabilities	80,454	3,176	83,630				
Net liabilities recognised in the Financial Statements	**80,454**	**3,176**	**83,630**	**14,533**	**(36,409)**	**6,482**	**(15,394)**

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

(in thousands of euro)

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

The characteristics of the main pension funds in place at December 31, 2020 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 which was administered by a Trust. This fund guaranteed a pension in addition to the state pension. The plan was closed in 2001 and frozen in 2003 for employees who then transferred to a defined contribution scheme. All participants to this plan have since retired;
- **UK**: a funded defined benefit plan based on the last salary. It guaranteed a pension in addition to the state pension and was administered internally by a Trust. These plans, managed by the subsidiary Pirelli Tyres Ltd., were closed in 2001 to new participants and frozen during 2010 for employees hired prior to 2001, who were then offered a transfer to a defined contribution plan. The plan is operated by the subsidiary Pirelli UK Ltd., that includes the employees in the Cables and Systems sector which was sold in 2005, was already frozen at the date of the disposal. At the end of October 2017, three of the smaller UK pension funds - Pirelli General Executive Pension and Life Assurance Fund, Pirelli Tyres Limited Executive Retirement Benefits Scheme and Pirelli General Overseas Retirement Benefits Scheme, entered into so-called buy-in contracts which consist of the purchase of insurance policies (so-called bulk annuities). For the first two abovementioned funds, it is expected that the buy-out (insurance outsourcing) will be finalised by the first months of 2021, followed by the relative wind-up (closure) of the funds themselves;
- **Sweden**: a defined benefits plan (ITP2), which is closed to new participants. The only participants are retired employees and the recipients of deferred pensions, based on percentages applied to different wage and salary ranges.

Changes in the net liabilities of defined benefits for the 2020 financial year (for both funded and non-funded pension funds) were as follows:

(in thousands of euro)

	Present value of gross liabilities	Fair value of plan assets	Total net liabilities
Opening balance at January 1, 2020	1,429,002	(1,313,077)	115,925
Translation difference	(74,152)	73,292	(860)
Movements through Income Statement:			
- current service cost	1,783	-	1,783
- cost of services rendered for previous years	11,403	-	11,403
- interest expense / (income)	27,508	(26,533)	975
	40,694	**(26,533)**	**14,161**
Remeasurements recognised in equity:			
- actuarial (gains) / losses from change in demographic assumptions	(3,297)	-	(3,297)
- actuarial (gains) / losses from change in financial assumptions	130,989	-	130,989
- experience adjustment (gains) / losses	(8,051)	-	(8,051)
- return on plan assets, net of interest income	-	(138,788)	(138,788)
	119,641	**(138,788)**	**(19,147)**
Employer contributions	-	(37,702)	(37,702)
Employee contributions	532	(532)	-
Benefits paid	(74,118)	68,496	(5,622)
Other	(1,053)	2,534	1,481
Closing balance at December 31, 2020	**1,440,546**	**(1,372,310)**	**68,236**

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

(in thousands of euro)

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

The current service cost and cost of services rendered for previous years are included in the item *"Personnel expenses"* - (Note 31), while interest payables are included in the item *"Financial expenses"* - (Note 37).

The cost of services rendered for previous years refers mainly to the adjustment of the value of some pension funds in the UK for inflation revaluations and gender imbalances as part of the completion of the buy-out operation which will be finalised in early 2021.

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

(in thousands of euro)

	12/31/2020				12/31/2019			
	listed	unlisted	total	%	listed	unlisted	total	%
Shares	57,638	315,104	372,742	27.1%	55,412	314,342	369,754	28.2%
Bonds	40,240	94,284	134,524	9.8%	80,590	79,834	160,424	12.2%
Insurance policies	2,835	91,330	94,165	6.9%	83,838	-	83,838	6.4%
Deposits	94,300	8,950	103,250	7.5%	307,900	8,213	316,113	24.1%
Balanced funds	(349)	233,147	232,798	17.0%	(2,546)	237,017	234,471	17.9%
Real Estate	5,112	47,843	52,955	3.9%	3,867	57,447	61,314	4.7%
Derivatives	385,012	(16,490)	368,522	26.8%	-	68,385	68,385	5.2%
Other	13,354	-	13,354	1.0%	18,778	-	18,778	1.3%
Total	**598,142**	**774,168**	**1,372,310**	**100.0%**	**547,839**	**765,238**	**1,313,077**	**100.0%**

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

→ volatility of pension fund assets: in order to be able to balance liabilities, an 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 pension plans to risks, such as the reduction in value of the assets in the short-term and to the consequent increase in imbalances. However, this risk is mitigated by diversifying investments into numerous investment classes, through different investment managers, through different investment styles and with exposures to multiple factors which are not perfectly correlated to each other. Moreover, the investments are continuously revised in response to market conditions and adjusted in order to maintain the overall risk at acceptable levels;
→ changes in the bond yields and in the forecast inflation: the expectations of declining bond yields and/or rising inflation brings about an increase in the value of liabilities. The plans reduce this risk through investments in liability hedging assets. In the United Kingdom, the protection guaranteed by a portfolio of this type has been built up over the years and as of the second quarter of 2014 it has reached a coverage which oscillates between 100% and 115% of the value of the liabilities hedged by assets;
→ life expectancy: the increase in life expectancy entails an increase in the value of a plan's liabilities. The UK plans were completed during the course of 2016, a process which allowed them, through longevity swaps stipulated with a pool of insurance companies, to cover approximately 50% of the risks. Residual risks are evaluated by using prudent assumptions 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 given 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 more than one third compared to the levels which existed prior to its introduction (at the beginning of 2011). In addition, for the 3 smaller funds, the buy-in operation implemented in 2017 and the consequent stipulation of policies on a collective basis (one for each of the three pension funds of the buy-in), not on an individual basis (for each member of the funds), which perfectly replicate the financial profiles of the respective liabilities, has allowed the Group to be relieved of all the aforementioned risks.

The key parameters of this mandate were as follows:

→ a mix of assets managed dynamically over time, rather than a fixed allocation strategy;
→ a hedge which covers approximately 100% - 115% of the risk associated with interest rates and inflation – understood as a percentage of 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 resulting impact on the Group's covenant, an agreement (the Pension Framework Agreement), was entered into as part of the refinancing process with the UK pension funds, through which, through the implementation of a package of measures (Credit Support Guarantees entered into with a pool of insurance companies, comprising of limited deposits into escrow accounts and the definition of an accelerated contributions plan, limited to the period of extraordinary leverage), 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. was guaranteed, in order to be able to continue with 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 2023. In the United States funding evaluations are carried out on an annual basis.

The contributions which are expected to be paid into unfunded pension funds during the 2021 financial year amount to euro 5,384 thousand, while for funded pension funds the amount expected is euro 40,582 thousand.

EMPLOYEES' LEAVING INDEMNITIES (TFR)

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

(in thousands of euro)

	12/31/2020	12/31/2019
Opening balance	**32,680**	**32,175**
Movements through Income Statement:		
- current service cost	41	22
- interest expense	240	498
Remeasurements recognised in equity:		
- actuarial (gains) / losses arising from changes in financial assumptions	292	1,443
Indemnities/advanced payments	(1,273)	(1,364)
Other	(494)	(94)
Closing balance	**31,486**	**32,680**

The current service cost is included in the item *"Personnel expenses"* - (Note 31) while interest payables are included in the item *"Financial expenses*" - (Note 37).

HEALTHCARE PLANS

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

(in thousands of euro)

	USA
Liabilities recognised in the Financial Statements at 12/31/2020	16,026
Liabilities recognised in the Financial Statements at 12/31/2019	17,825

The following changes occurred during the period:

(in thousands of euro)

	12/31/2020	12/31/2019
Opening balance	**17,825**	**17,126**
Translation differences	(1,485)	328
Movements through Income Statement:		
- current service cost	2	2
- interest expense	505	682
Remeasurements recognised in equity:		
- actuarial / (gains) losses arising from changes in financial assumptions	1,061	1,834
- actuarial / (gains) losses arising from changes in demographic assumptions	(467)	(329)
- experience adjustment (gains) losses	(307)	(775)
Benefits paid	(1,108)	(1,043)
Closing balance	**16,026**	**17,825**

The current service cost is included in the item *"Personnel expenses"* - (Note 31), while interest payables are included in the item *"Financial expenses"* - (Note 37).

Contributions which are expected to be paid into the healthcare plan during the 2021 financial year, amount to euro 1,321 thousand.

ADDITIONAL INFORMATION REGARDING POST-EMPLOYMENT BENEFITS

Net actuarial gains accrued during 2020 which were recorded directly in equity amounted to euro 18,946 thousand.

The main actuarial assumptions used at **December 31, 2020** were as follows:

	Italy	Germany	Sweden	UK	USA	Switzerland
Discount rate	0.60%	0.80%	0.75%	1.40%	2.20%	0.15%
Inflation rate	1.00%	1.50%	1.50%	2.85%	N/A	0.50%

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

	Italy	Germany	Sweden	UK	USA	Switzerland
Discount rate	0.70%	0.90%	1.10%	2.10%	3.00%	0.25%
Inflation rate	1.00%	1.50%	1.70%	2.90%	N/A	0.75%

The following table presents an analysis of the payment deadlines for subsequent benefits

(in thousands of euro)

	within 1 year	1 to 2 years	3 to 5 years	over 5 years	Total
Pension funds	65,112	67,304	203,034	345,404	680,854
Employees' leaving indemnities (TFR)	2,622	2,408	7,112	8,393	20,535
Healthcare plans	1,321	1,300	3,714	5,254	11,589
Total	**69,055**	**71,012**	**213,860**	**359,051**	**712,978**

The weighted average duration for post-employment benefit obligations equalled 14.97 years for pension funds (15.04 years at December 31, 2019), 8.65 years for employees' leaving indemnities (TFR) (8.67 years at December 31, 2019) and 8.65 years for medical assistance plans (8.51 years at December 31, 2019).

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

(in %)

	Impact on post employment benefits				
	Change in assumptions	**Increase in assumptions**		**Decrease in assumptions**	
Discount rate	0.25%	decrease of	3.59%	increase of	3.80%
Inflation rate (only UK plans)	0.25%	increase of	2.43%	decrease of	2.29%

At the end of 2019 the situation was as follows:

(in %)

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

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

The sensitivity analysis on the liabilities relative 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)

	12/31/2020	12/31/2019
Long-term incentive plans	11,238	-
Jubilee awards	19,210	19,513
Leaving indemnities	10,366	12,154
Other long-term benefits	6,947	4,906
Total	**47,761**	**36,573**

The item **Long Term Incentive Plans** relates to the amount allocated for the three-year monetary Long Term Incentive 2020 - 2022 plan for Group management (to date around 260 participants) approved by the Board of Directors on February 19, 2020 and correlated with the 2020 - 2022 Business Plan figures presented on the same date. On the occasion of the figures as at 30 June 2020, in order to take account of the radical changes in the macroeconomic scenario, the Board of Directors instructed the Remuneration Committee to draw up a proposal to revise the incentive plan, aligning the targets with the new guidance for 2020 communicated to the market on the same date and with the targets of the new Business Plan for the years 2021 and 2022 approved on March 31, 2021.

EMPLOYEE BENEFIT OBLIGATIONS - CURRENT PORTION The item employee benefit obligations, which amounted to euro 5,013 thousand, refers to the relevant portion at December 31, 2020 of the fourth instalment of the retention plan, which will be liquidated during the first half-year of 2021, while the third portion of the plan was liquidated during the first half-year of 2020. The plan was approved by the Pirelli Board of Directors on February 26, 2018 and is aimed at Key Managers, as well as a select number of senior Managers and Executives.

23. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Borrowings from banks and other financial institution were as follows:

(in thousands of euro)

	12/31/2020			12/31/2019		
	Total	Non-current	Current	Total	Non-current	Current
Bonds	1,524,559	1,442,650	81,909	1,271,392	1,071,475	199,917
Borrowings from banks	3,793,780	3,137,857	655,923	3,532,377	2,472,056	1,060,321
Borrowings from other financial institutions	43,930	-	43,930	56,384	-	56,384
Lease obligations	465,853	390,449	75,404	483,172	405,375	77,797
Accrued financial expenses and deferred financial income	13,512	-	13,512	21,459	-	21,459
Other financial payables	12,919	30	12,889	4,455	930	3,525
Total	**5,854,553**	**4,970,986**	**883,567**	**5,369,239**	**3,949,836**	**1,419,403**

The item **bonds** refers to:

→ a non-interest-bearing senior unsecured guaranteed equity-linked bond loan, for a nominal value of euro 500 million maturiing on December 22, 2025. The loan, reserved for institutional investors, was issued by Pirelli &C S.p.A. on December 22, 2020, guaranteed by Pirelli Tyre S.p.A. and admitted for trading on the Vienna MTF system, the multilateral trading facility managed by the Vienna Stock Exchange. The bond is convertible, at the option of the bondholders, into new ordinary shares of the Company at a price of euro 6.235 per share, subject to the anti-dilutive adjustments provided for by the loan regulations. The convertible bond is a compound financial instrument, consisting of (i) a five-year loan at market rates and (ii) a call option sold to the subscribers of the loan, represented by the option to convert the loan into new ordinary shares of the Company at a predefined price. In accordance with the relevant accounting standards, the Parent Company Pirelli & C. S.p.A. accounted for the two components of the loan separately, recording, against the issue value of 500 million euros (euro 492.9 million net of transaction costs), the fair value of the five-year loan (net of transaction costs) under financial payables, and the fair value of the call option sold (net of transaction costs) under equity reserves, to the amount of euro 451.7 million and euro 41.2 million, respectively;

- the unrated bond loan for the nominal amount of euro 553 million (originally for euro 600 million which was partially repurchased for the total amount of euro 47 million during the last quarter of 2018), placed on January 22, 2018 with a fixed coupon of 1.375% and an original maturity of 5 years. This loan, guaranteed by Pirelli Tyre S.p.A. and placed with international institutional investors, was issued as part of the EMTN (Euro Medium-Term Note) program approved by the Board of Directors at the end of 2017, signed on January 10, 2018 and updated on December 19, 2018;
- the floating rate (Euribor + spread) *"Schuldschein"* loan for the nominal value of euro 525 million placed on July 26, 2018. This loan, guaranteed by Pirelli Tyre S.p.A. and signed by primary market operators, consists of one tranche for the amount of euro 82 million with a 3 year maturity, another for euro 423 million with a 5 year maturity and another for euro 20 million with a 7 year maturity.

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

(in thousands of euro)

	12/31/2020	12/31/2019
Nominal value	1,578,000	1,278,000
Equity component of the convertible bond	(41,791)	-
Transaction costs	(15,133)	(7,683)
Bond discount	(2,988)	(2,988)
Amortisation of effective interest rate	6,275	4,063
Non monetary interest on convertible bond loan	196	-
Total	**1,524,559**	**1,271,392**

The item **borrowings from banks**, which amounted to euro 3,793,780 thousand, mainly refers to:

- the use of unsecured financing (*"Facilities"*) granted to Pirelli & C. S.p.A. for the amount of euro 1,617,504 thousand, classified under non-current payables. The nominal amount of the refinancing operation signed on June 27, 2017, (with a closing date of June 29, 2017) equalled euro 2.45 billion (net amount of repayments made since the date of signing - original amount of the credit facility granted of euro 4.2 billion). The loan is guaranteed by Pirelli Tyre S.p.A., Pirelli Deutschland GmbH, Pirelli Tyres Romania S.r.l. e Pirelli Pneus Ltda. On November 29, 2018 the loan was amended to insert the right for the Pirelli Group to extend, at its own discretion, the expiry of the individual credit facilities of the loan for up to 2 years, with respect to their original contractual maturity of 3 and 5 years. The facilities are denominated in euros and US dollars and carry a floating interest rate of Euribor + spread and Libor + spread, respectively;
- the *"Sustainable Credit Facility"* for euro 794,599 thousand relative to the euro 800 million credit facility with floating interest rate (Euribor + spread) signed on March 31, 2020 with a pool of leading Italian and international banks and with a 5 year maturity. This bank credit facility is entirely sustainable, that is, parameterised to the Group's financial and environmental sustainability objectives and is guaranteed by Pirelli Tyre S.p.A.;
- euro 921,538 thousand relative to three bilateral loans disbursed to Pirelli & C. S.p.A. by primary banks, consisting of a nominal euro 600 million maturing in February 2024 at a floating rate (Euribor + spread) and guaranteed by Pirelli Tyre S.p.A., euro 200 million maturing in September 2021 at a fixed rate and euro 125 million maturing in August 2023 at a floating rate (Euribor + spread);
- euro 337,793 thousand relative to loans mainly fixed rate disbursed in Brazil by local and international banking institutions of which euro 2,159 thousand has been classified under non-current borrowings from banks. This value includes a negative exchange rate effect of euro 139,813 thousand, due to the significant depreciation of the Brazilian currency;

- → borrowings from banks and the use of credit facilities in local currency at local level in Russia, (equivalent to euro 64,296 thousand), in China (equivalent to euro 43,110 thousand) and in Turkey (equivalent to euro 6,660 thousand), classified entirely as current borrowings from banks.

At December 31, 2020 the Group had a liquidity margin equal to euro 3,034,420 million, composed of euro 700,000 thousand in the form of non-utilised committed credit facilities and of euro 2,275,476 thousand in cash and cash equivalents, in addition to financial assets at fair value through the Income Statement to the amount of euro 58,944 thousand.

The item **lease liabilities**, represents the financial liabilities relative to the application of the IFRS 16 accounting standard as of January 1, 2019.

Non-discounted future payments for lease contracts for which the exercise of extension options are not considered to be reasonably certain, amounted to euro 90,373 thousand at December 31, 2020 and were not included in this item (euro 52,124 thousand at December 31, 2019).

Accrued financial expenses and deferred financial income (euro 13,512 thousand) mainly refers to the accrual of interest matured on bond loans to the amount of euro 8,990 thousand (euro 9,082 thousand at December 31, 2019) and to the accrued interest matured on borrowings from banks to the amount of euro 2,062 thousand (euro 11,731 thousand at December 31, 2019).

The **change in the total borrowings from banks and other financial institutions for 2020** is composed as follows:

(in thousands of euro)

Borrowings from banks and other financial institutions at December 31, 2019	**5,369,239**
Bond issuance (Convertible bond)	500,000
Bond repayment (EMTN program)	(200,000)
Drawdowns of unsecured financing (Facilities)	1,127,978
Repayments of unsecured financing (Facilities)	(1,342,297)
New bilateral borrowings	800,000
Financial inflows for the local credit facilties of Group companies	149,204
Financial outflows for the local credit facilties of Group companies	(250,732)
Transaction costs	(13,661)
Repayment of lease liabilities	(99,924)
Cash changes	**670,568**
Reclassification to equity of convertible option at issuance date	(41,200)
Amortised cost for the period	9,813
Translation differences and other changes for the period	(254,287)
Increases in lease liabilities	89,557
Remeasurement and early termination	10,863
Non-cash changes	**(185,254)**
Borrowings from banks and other financial institutions at December 31, 2020	**5,854,553**

The **change in total borrowings from banks and other financial institutions for 2019** is shown below:

(in thousands of euro)

Borrowings from banks and other financial institutions at December 31, 2018	**4,729,224**
Drawdowns of unsecured financing (Facilities)	395,931
Repayments of unsecured financing (Facilities)	(1,097,498)
New bilateral borrowings	720,900
Repayment European Investment Bank (EIB) loan	(10,000)
Financial inflows for the local credit facilties of Group companies	589,626
Financial outflows for the local credit facilties of Group companies	(515,844)
Repayment of lease liabilities	(101,157)
Cash changes	**(18,042)**
IFRS 16 first time adoption impact	494,292
Increases in lease liabilities	72,391
Remeasurement and early termination	15,139
Amortised cost for the period	(15,734)
Translation differences and other changes for the period	91,969
Non-cash changes	**658,057**
Borrowings from banks and other financial institutions at December 31, 2019	**5,369,239**

At December 31, 2020 there were no financial payables secured by collateral (pledges and mortgages). At December 31, 2019 these payables totalled euro 96 thousand.

For current financial payables, it is considered that their carrying amount approximates their relative fair value. For non-current financial payables, their fair value is shown below, compared with their carrying amount:

(in thousands of euro)

	12/31/2020		**12/31/2019**	
	Carrying amount	***Fair value***	**Carrying amount**	***Fair value***
Bonds	1,442,650	1,465,120	1,071,475	1,084,830
Borrowings from banks	3,137,857	3,164,333	2,472,056	2,500,469
Other financial payables	390,479	390,479	406,305	406,305
Total non-current financial payables	**4,970,986**	**5,019,931**	**3,949,836**	**3,991,604**

The public bonds issued by Pirelli & C. S.p.A. are listed and their relative fair value has been measured on the basis of year-end prices. They have therefore been classified in level 1 of the hierarchy provided for by IFRS 13 – Fair Value Measurement. The fair value of the "*Schuldschein*" loan and of borrowings from banks, was calculated by discounting each expected debt cash flow at the market swap rate for the currency and the relevant maturity date and increased by the Group's creditworthiness for other debt instruments similar in nature and technical characteristics, which therefore placed it at level 2 of the hierarchy as provided for by IFRS 13 - Fair Value Measurement.

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

(in thousands of euro)

	12/31/2020	12/31/2019
EUR	3,813,245	2,772,361
USD (US Dollar)	1,770,024	2,303,523
CNY (Chinese Yuan)	62,784	66,284
RUR (Russian Rouble)	66,798	64,939
RON (Romanian Leu)	44,028	28,263
BRL (Brasilian Real)	35,992	52,480
SEK (Swedish Krona)	29,841	29,926
GBP (British Pound)	16,024	19,482
TRY (Turkish Lira)	8,708	16,075
JPY (Japanese Yen)	1,449	10,147
MXN (Mexican Peso)	581	1,684
Other Currencies	5,079	4,075
Total	**5,854,553**	**5,369,239**

At December 31, 2020 there were derivative hedging instruments for interest rates and exchange rates in place for floating rate debt in foreign currencies.

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

- floating rate payables to the amount of euro 2,490,368 thousand, whose interest rate is subject to renegotiation during the course of 2021;
- fixed rate payables to the amount of euro 3,364,185 thousand, whose interest rate was not subject to renegotiation until the natural maturity of the debt to which it refers (euro 300,935 thousand with maturity in the next twelve months and euro 3,063,250 thousand euro with maturity beyond twelve months).

The cost of debt year-on-year stood at 1.94% compared to 2.83% at December 31, 2019.

The reduction in the cost of debt during the course of 2020 mainly reflected:

- the lower impact, to the amount of euro 13 million, deriving from the application of hyperinflation accounting in Argentina;
- the general reduction in interest rates in the currencies in which the Group operates, which resulted in a benefit of less interest paid on debt;
- a lower incidence of debt denominated in high-yield currencies mainly in Brazil and Mexico;
- the temporary reduction of the cost of the central credit facilities due to the improvement in the Group's financial leverage and the consequent reduction in the interest margin, from which the Group benefited until November 2020.

With regard to the existence of financial covenants, it is to be noted that (i) the Group's main bank credit facility (*"Facilities"*), granted to Pirelli & C. S.p.A. and Pirelli International Plc (to date to be utilised solely by Pirelli & C. S.p.A.), (ii) the "*Schuldschein*" loan, (iii) the bilateral euro 600 million credit facility granted to Pirelli & C. S.p.A. during the course of the first quarter of 2019 (*"Bilateral 600"*), (iv) the bilateral euro 125 million credit facility granted to Pirelli & C. S.p.A. during the course of the third quarter of 2019 (*"Bilateral 125"*) and, (v) the *"Sustainable Credit Facility"* signed on March 31, 2020, provide for the compliance with the maximum ratio (*"Total Net Leverage"*) between net debt and the gross operating margin as reported in the Consolidated Financial Statements of Pirelli & C. S.p.A.

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

Specifically, any such default or non-fulfilment event will have the following consequences, if the lending banks exercise their remedies: (i) for the *"Facilities"* loan, only if requested by a number of the lending banks which represents at least 66 2/3% of the total commitment, the early repayment (partial or total) of the loan with the simultaneous cancellation of the relative commitment; (ii) for the *"Schuldschein"* loan, individually and independently if requested by each lending bank for their own share, the early repayment of the loan only for that share; (iii) for both the *"Bilateral 600"* and the *"Bilateral 125"*, if requested by the sole bank that had granted each of the loans, the termination of the contract and early repayment of the full amount disbursed and (iv) for the *"Sustainable Credit Facility"*, only if requested by a number of the lending banks representing at least 50% of the total commitment (or at least 60% if an additional lending bank is added to the current four), the termination of the contract and early repayment of the loan.

During the second quarter of 2020, the Group, in the new context strongly impacted by the Covid-19 emergency, deemed it prudent to proactively approach its main lenders and obtain additional flexibility for the emergency period (estimated until the end of 2021). The process was concluded with the support of all lenders who agreed to review the terms of existing loans including the financial covenant.

In relation to the above, it should be noted that at December 31, 2020 no default or non-fulfilment event had occurred.

The *"Facilities", "Schuldschein", "Bilateral 600", "Bilateral 125"* loans and the *"Sustainable Credit Facility"* also provide for Negative Pledge clauses and other usual provisions whose terms and conditions are consistent with market standards, for each of the aforementioned types of credit facility.

The other outstanding financial payables at December 31, 2020 were not subject to financial covenants.

24. TRADE PAYABLES

Trade payables were composed as follows:

(in thousands of euro)

	12/31/2020			12/31/2019		
	Total	Non-current	Current	Total	Non-current	Current
Trade payables	1,224,863	-	1,224,863	1,546,714	-	1,546,714
Bill and notes payable	43,108	-	43,108	64,774	-	64,774
Total	**1,267,971**	**-**	**1,267,971**	**1,611,488**	**-**	**1,611,488**

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

25. OTHER PAYABLES

Other payables were as follows:

(in thousands of euro)

	12/31/2020			12/31/2019		
	Total	Non-current	Current	Total	Non-current	Current
Accrued expenses and deferred income	82,119	52,292	29,827	83,268	57,684	25,584
Tax payables not related to income taxes	120,470	5,178	115,292	86,252	7,002	79,250
Payables to employees	83,074	2,038	81,036	91,426	62	91,364
Payables to social security and welfare intitutions	55,010	17,008	38,002	67,404	24,131	43,273
Dividends payable	254	-	254	270	-	270
Contract liabilities	4,198	-	4,198	4,754	-	4,754
Other payables	106,421	764	105,657	159,954	1,692	158,262
Total Other payables	**451,546**	**77,280**	**374,266**	**493,328**	**90,571**	**402,757**

Non-current accrued expenses and deferred income refer to euro 46,205 thousand in capital contributions received for investments realised in Romania, whose benefits are recognised in the Income Statement in proportion to the costs for which the contribution was disbursed and to euro 3,726 thousand in costs for commercial initiatives in Brazil.

Current accrued expenses and deferred income include euro 7,575 thousand for various trade initiatives realised in Germany and Brazil, euro 8,009 thousand in government grants and tax incentives received mainly in Italy and Romania and euro 1,357 thousand for costs relative to insurance coverage in some European countries.

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

Current payables to employees mainly includes commissions accrued during the period, but not yet paid.

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

The item **other payables** (euro 106.421 thousand) mainly includes:

→ euro 49,040 thousand for the purchase of property, plant and equipment (euro 109,634 thousand at December 31, 2019); The decrease in this item compared to the previous financial year is due to lower investments in 2020, compared to the previous year;
→ euro 10,642 thousand for the settlement of a dispute with a supplier;
→ euro 4,430 thousand in payables to representatives, agents, professionals and consultants;
→ euro 7,477 thousand in withholding taxes on income;
→ euro 5,563 thousand in payables to Prometeon group companies particularly in Brazil and China;
→ euro 510 thousand in payables to Directors, Auditors and supervisory bodies.

26. TAX PAYABLES

Tax payables were for the most part national and regional income taxes in different countries and amounted to euro 110,300 thousand (of which euro 10,795 thousand was for non-current liabilities), compared to euro 94,321 thousand at December 31, 2019 (of which euro 12,555 thousand was for non-current liabilities), which was substantially consistent with the current taxes recorded for the financial year. Income tax payables include the Management’s assessment of the possible effects of uncertainty on the treatment of income taxes.

27. DERIVATIVE FINANCIAL INSTRUMENTS

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

(in thousands of euro)

	12/31/2020				12/31/2019			
	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	-	4,561	-	(4,815)	-	5,058	-	(9,724)
Exchange rate derivatives - included in net financial position	-	34,422	-	(53,926)	-	21,904	-	(31,703)
Interest rate derivatives - included in net financial position	-	344	-	-	-	-	-	-
Hedge accounting adopted								
Interest rate derivatives - included in net financial position	-	-	(10,623)	-	481	-	(10,327)	-
Other derivatives - included in net financial position	-	-	(76,978)	-	52,034	10,186	-	-
Other derivatives - commercial positions	-	-	-	(372)	-	-	-	-
	-	**39,327**	**(87,601)**	**(59,113)**	**52,515**	**37,148**	**(10,327)**	**(41,427)**
Total derivatives included in net financial position	-	34,766	(87,601)	(53,926)	52,515	32,090	(10,327)	(31,703)

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

(in thousands of euro)

	12/31/2020	12/31/2019
Current assets		
Forward foreign exchange contracts - fair value recognised in the Income Statement	38,983	26,962
Interest rate swaps - fair value recognised in the Income Statement	344	-
Cross currency interest rate swaps - cash flow hedge	-	10,186
Total current assets	**39,327**	**37,148**
Non current assets		
Interest rate swaps - cash flow hedge	-	481
Cross currency interest rate swaps - cash flow hedge	-	52,034
Total non-current assets	**-**	**52,515**
Current liabilities		
Forward foreign exchange contracts - fair value recognised in the Income Statement	(58,741)	(41,427)
Commodity Futures in natural rubber - cash flow hedge	(372)	-
Total current liabilities	**(59,113)**	**(41,427)**
Non-current liabilities		
Interest rate swaps - cash flow hedge	(10,623)	(10,327)
Cross currency interest rate swaps - cash flow hedge	(76,978)	-
Total non-current liabilities	**(87,601)**	**(10,327)**

DERIVATIVE FINANCIAL INSTRUMENTS NOT IN HEDGE ACCOUNTING The value of **foreign exchange derivatives** included in current assets and liabilities corresponds to the fair value measurement of forward currency purchases/sales outstanding at the end of the reporting period. These transactions mirror commercial and financial transactions of the Group for which hedge accounting has not been adopted. The fair value is determined using the forward exchange rate at the balance sheet date.

The **value of interest rate derivatives** included in current assets refers to the fair value measurement of five USD IRS basis swaps for a total notional value of USD 1,761 million, with a term of one year, effective September 2020. These are hedging transactions of the basis of 3-12 months following the change to the interest period on the underlying liability from 3 months to 12 months, for which the hedge accounting option was not adopted. By means of these IRS basis swaps, the Group pays the 3-month USD LIBOR on the one hand, which will net the proceeds from the pre-existing CCIRS and the 12-month USD LIBOR on the other, which will serve the interest flows on the USD liability paid on a quarterly basis with annual fixing.

DERIVATIVE FINANCIAL INSTRUMENTS WITH THE ADOPTION OF HEDGE ACCOUNTING The value of **interest rate derivatives** recorded under current assets to the amount of euro 10,623 thousand refers to the fair value of 10 interest rate swaps.

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

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

- floating rate bank credit facilities denominated in euro, and the relative future cash flows (refer to Note 23 – *"borrowings from banks and other financial institutions"*);
- the combination of a floating rate liability in USD and a CCIRS (Basis Swap).

The change in the fair value for the period which was negative to the amount of euro 3,772 thousand, was entirely suspended in equity, while euro 3,054 thousand was reversed to the Income Statement under the item *"Financial expenses"* - (Note 37), correcting the financial expenses recognised on the hedged liability.

A change of +0.5% in the EURIBOR curve, all other conditions being equal, would result in a positive change of euro 5,359 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 5,455 thousand in the equity of the Group.

The value of **other derivatives,** recognised under non-current liabilities to the amount of euro 76,978 thousand, refers to the fair value measurement of 6 cross currency interest rate swaps with the following characteristics:

Derivative	Notional amount (USD million)	Notional amount (Euro million)	Start date	Maturity	
CCIRS	682	582	July 2017	June 2022	pay floating EURIBOR / receive floating LIBOR USD
CCIRS	1,079	920	July 2019	June 2022	pay fix EUR / receive floating LIBOR USD
Total	**1,761**	**1,501**			

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

The negative change in the fair value for the period was suspended in equity to the amount of euro 110,791 thousand, (the cash flow hedge reserve was negative to the amount of euro 115,287 thousand and the cost of hedging reserve was positive to the amount of euro 4,496 thousand), while costs to the amount of euro 133,595 thousand were reversed to the Income Statement under *"Financial expenses"* - (Note 37), to the item *"net losses on exchange rates"* to offset unrealised exchange rate gains recorded on the hedged liability and income to the amount of euro 19,223 thousand to correct the financial expenses recognised on the hedged liability.

A parallel change of +0.5% in the EURIBOR and LIBOR curves, all other conditions being equal, would result in a positive change of euro 6,467 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 6,550 thousand in the equity of the Group.

A +10% change in the USD/euro exchange rate, all other conditions being equal, would result in a positive change of euro 378 thousand in the Group's equity, and euro 338 thousand in the Income Statement, while a negative change of -10%, instead, would result in a positive change of euro 307 thousand in the Group's equity, and euro 337 thousand in the Income Statement.

Hedging relationships relative to any IRS (interest rate swap) and CCIRS (cross-currency interest rate swap - Basis Swap) are considered prospectively effective when 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 the frequency of interest liquidation) are substantially aligned with those of the hedged item. As a consequence, any changes in the fair value of the hedging instrument regularly offsets that of the hedged item;
- the effect of credit risk is not predominant within the hedging relationship. Based on the Group's operating policy, derivatives are traded only with financial counter-parties with an elevated credit standing, while the credit quality of the outstanding derivatives portfolio is constantly monitored;
- the designated hedge ratio is aligned with that used for financial risk management and is equal to 100% (1:1).

The ineffectiveness of the hedging relationship is calculated at each reporting date using the Dollar Offset method, which provides for the comparison of any changes in the risk adjusted fair value of the hedging instrument (with the exception of those attributable to the currency basis spread), with any changes in the risk-free fair value of the hedged item, through the identification of a hypothetical derivative with the same characteristics as the underlying financial liability.

Possible causes of ineffectiveness include the following:

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

During the month of September 2020, in accordance with the terms and conditions of the loan agreement, the tenor of the reference rate of the hedged item was changed from USD LIBOR 1 month to USD LIBOR 12 month. The change in the tenor of the reference rate of the underlying loan resulted in an ineffectiveness due to the misalignment between the characteristics of the hedge item and the hedging instrument, amounting to euro 338 thousand, which was recognised in the Income Statement under *"Financial expenses"*, as part of the fair value measurement of other derivatives - (Note 37).

The value of **other derivatives**, recognised under non-current liabilities to the amount of euro 372 thousand, refers to the fair value valuation of commodity futures trading in natural rubber.

The objective of these derivatives, for which hedge accounting of the cash flow hedge type was adopted, was to hedge the Group from the risk of costs fluctuations deriving from the variability of future natural rubber prices, through the negotiation of commodity futures listed on a regulated market, whereby the value of the expected purchases of natural rubber is fixed at levels specific to the relative reference price.

The negative change in the fair value for the period, to the amount of euro 188 thousand was suspended in equity, while euro 184 thousand was reversed to the Income Statement to the item *"raw materials and consumables used (net of change in inventories)"* to reduce the purchase cost of natural rubber.

Hedging relationships relative to any commodities futures are considered prospectively effective when 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 notional amounts and the reference price of the underlying future) are substantially aligned with those of the underlying forecast transactions. Therefore, changes in the fair value of the designated hedging instrument are expected to regularly offset those of the relative hedged item;
- the effect of credit risk is not predominant within the hedging relationship. Based on the Group's operating rules, derivatives are negotiated only with banking counterparties of elevated standing. Furthermore, Commodity Futures contracts are listed derivative products subject to central clearing procedures without counter-party risk for all market participants;
- the designated hedge ratio is aligned with that used for financial risk management and is equal to 100% (1:1).

The only potential source of ineffectiveness is represented by a possible over-hedging situation that could occur when the actual volumes of natural rubber purchases are lower than those covered. However, under current risk management policies, over-hedging is considered a remote event.

At December 31, 2020, no ineffectiveness was identified amongst the aforementioned hedging relationships.

28. COMMITMENTS AND RISKS

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

The commitments to purchase property, plant and equipment and intangible assets amounted to euro 77,283 thousand and euro 7,292 thousand respectively and refer mainly to subsidiary companies in Italy, Romania, UK, China, Russia and Mexico.

LEASING CONTRACT COMMITMENTS

At December 31, 2020, the total amount for non-discounted future payments for lease contracts not yet in force and against which no financial debt was recognised, equalled euro

33,446 thousand and mainly referred to rental contracts for warehouses and offices.

COMMITMENTS FOR THE PURCHASE OF EQUITY INVESTMENTS/FUND SHARES

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

OTHER RISKS

LITIGATION AGAINST THE COMPANIES OF THE PRYSMIAN GROUP BEFORE THE COURT OF MILAN

Pending the settlement of the EU Court proceedings referred to in Note 21 - *"Provisions for Risks and Charges"*, in November 2014, Pirelli & C. S.p.A. (*"Pirelli"*) commenced legal action before the Court of Milan in order to obtain an assessment and declaratory judgement of the obligation of Prysmian Cavi e Sistemi S.r.l. to hold Pirelli harmless from any claim relative to the alleged anti-competitive agreement for the energy cables sector, including the penalty imposed by the European Commission.

Prysmian Cavi e Sistemi S.r.l. entered an appearance in the abovementioned proceedings, seeking the dismissal of Pirelli's claims and by way of a counterclaim, to be held harmless and indemnified by Pirelli in relation to any consequences deriving from the European Commission's decision or otherwise related to it. The proceedings had been suspended pending the final ruling of the EU Courts and were resumed by Pirelli on November 30, 2020 following the ruling of the Court of Justice.

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

In this regard, Pirelli also requested that Prysmian Cavi e Sistemi S.r.l. and Prysmian S.p.A. be held liable for certain unlawful conduct connected with the abovementioned anti-competitive agreement and accordingly, that they be ordered to pay compensation for all damages suffered and to be suffered by Pirelli.

Pirelli lastly, requested the assessment and declaratory judgement of the joint and several liability of Prysmian S.p.A. with Prysmian Cavi e Sistemi S.r.l. in relation to the amounts that will be paid both due to these new proceedings and those brought in November 2014 and that they should not be satisfied by the latter.

Prysmian Cavi e Sistemi S.r.l. and Prysmian S.p.A. entered an appearance in the above proceedings in November 2020, seeking the dismissal of Pirelli's claims and, by way of counterclaim, to be held harmless and indemnified by Pirelli in relation to any consequences deriving from the claims of private and/or public third parties relating to, connected with and/or consequential to the facts covered by the European Commission's decision.

On the basis of thorough analysis supported by authoritative external legal opinions, the evaluation of the risk relative to the disputes described above is such as to not require the allocation of any specific provision in the Consolidated Financial Statements at December 31, 2020.

OTHER LITIGATION IN CONNECTION WITH THE EUROPEAN COMMISSION DECISION In November 2015, some of the companies of Prysmian Group served Pirelli with a summons for compensation proceedings brought before the London High Court of Justice against them and other defendants named in the European Commission decision of April 2, 2014, by National Grid and Scottish Power, companies who claim to have been harmed by the alleged unlawful agreement. Specifically, the companies of Prysmian Group have filed a petition requesting that Pirelli and Goldman Sachs, in view of their role as Parent companies, hold them harmless with respect to any (as yet unquantifiable) damages obligations towards National Grid and Scottish Power. Pending the aforementioned pending action before the Court of Milan brought in November 2014, Pirelli challenged the lack of jurisdiction of the London High Court of Justice claiming that, that any decision on the merits must be referred to the previous Court of appeal. In April 2016, the High Court of Justice, at the request of Pirelli and the companies in the Prysmian Group, suspended the proceedings until the judgment that will define the Italian proceedings already pending, becomes final.

In April 2019, before the Court of Milan, Terna S.p.A. - National Electricity Grid (*"Terna"*) jointly and severally sued Pirelli, three Prysmian Group companies and another defendant named in the aforementioned European Commission decision, to obtain compensation for the damages allegedly suffered as a result of the anti-competitive conduct, to date quantified by the plaintiff to be euro 199.9 million. Pirelli appeared in court contesting Terna's claims and like the other defendants and against them, has filed a counterclaim for recourse in the unlikely event that it is held jointly and severally liable for the anti-competitive conduct.

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

On the basis of thorough analysis supported by authoritative external legal opinions, the evaluation of the risk relative to the disputes described above is such as to not require the allocation of any specific provision in the Consolidated Financial Statements at December 31, 2020, even with the initial status of proceedings having been taken into consideration.

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

DISPUTES CONCERNING THE ICMS TAX RECEIVABLES ASSIGNED BY THE STATE OF SANTA CATARINA With reference to the dispute concerning the ICMS tax receivables (*Imposto Sobre Operações Relativas à Circulação* or state value added tax) assigned by the State of Santa Catarina, Pirelli Pneus Ltda received notices of assessment which disavowed the ICMS tax receivables. The claim was motioned by the State of São Paulo, according to which Pirelli Pneus benefited from the ICMS tax credits assigned by the State of Santa Catarina, but which were deemed to have been unlawful from the start, in that they were assigned by the latter in violation of the Brazilian Constitution, in the absence of a previous agreement between the various States. This litigation was brought before the competent administrative-tax commissions. On August 8, 2017, despite the fact that the initial decisions were not in favour of Pirelli Pneus, a legislative provision (Complementary Law No. 160) came into force, capable of putting an end to the dispute between the various states in Brazil. This regulation validates the incentives, which up to now have been considered illegitimate and therefore also extinguishes the relative sanctions imposed by the Brazilian tax authorities. The implementative aspects of this new provision have to date been defined by the Brazilian States and, therefore, Pirelli Pneus has also already filed a petition for amnesty for the dispute in question. This petition does not interrupt the ongoing litigation in court, which can therefore continue in case the petition for amnesty should have a negative outcome.

It should be noted that, to date, for two of the cases involving Pirelli Pneus in the above dispute, the petition for amnesty has already been granted, respectively in January and February 2021.

The risk is estimated at approximately euro 122 million, inclusive of taxes, interest and sanctions. The risk of losing the case has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for this dispute.

CONTESTATION CONCERNING THE IPI TAX 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 (*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 Sports Utility Vehicle (SUV), vans and other industrial transportation vehicles (such as, for example, trucks). According to statements by the Brazilian tax authorities in the tax assessment notices issued during the course of 2015, 2017 and 2021, the aforementioned tyres should have been subjected to the IPI tax for the production and importation of tyres for cars – with an applicable rate of 15% - instead of the 2% rate applied by Pirelli Pneus, as is provided for the production and importation of tyres destined for heavy industrial use vehicles. To date, the dispute is pending before the competent administrative and tax commissions and, also in light of the recent rulings in favour of Pirelli Pneus, the Group maintains that it has a good chance of winning. This position is also supported by an appraisal prepared by a Brazilian government institution (the INT - National Institute of Technology) specifically commissioned by Pirelli Pneus, who concluded their analysis by equating the tyres discussed, in light of their similar characteristics, with those used for heavy industrial vehicles.

The risk is estimated at approximately euro 30 million, inclusive of taxes, interest and sanctions. The risk of losing the case has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for this dispute.

LITIGATION CONCERNING TRANSFER PRICING APPLIED TO SOME INTER-GROUP TRANSACTIONS
Pirelli Pneus is currently in litigation with the Brazilian tax authorities for income tax (IRPJ - *Imposto sobre a renda das pessoas jurídicas*) and social security contributions (CSLL - *Contribuição Social sobre o Lucro Líquido*) due from the Company for the 2008, 2011 and 2012 fiscal years, deriving from the application of transfer pricing regulations to import transactions with related parties. Based on the notices of assessment served on 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 the time (IN - *Instrução Normativa 243*), for the valuation of transfer prices applied to imports of goods from related parties. To date, the dispute filed by the Company is pending before the competent administrative-judicial courts. The Group maintains that it has a good chance of winning and, in this regard, Pirelli Pneus has already obtained a favourable ruling from the administrative court, which recognised the Company's arguments by reducing the amount originally contested by the Brazilian tax authorities.

In light of the above, the risk is estimated at approximately euro 14 million inclusive of taxes, sanctions and interest. The risk of losing the case 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 WITH RESPECT TO THE SALE OF TYRES TO THE AUTOMOTIVE SECTOR Pirelli Pneus is involved in a dispute concerning the IPI tax, (*Imposto sobre Produtos Industrializados* or tax on industrialised products) which also refers to the particular case of the sale of components to companies operating in the automotive sector. According to the Brazilian tax authority's claim as stated in a notice of assessment issued in 2013, Pirelli Pneus should not benefit, as regards its secondary office established in the city of Ibiritè in the Federal State of Minas Gerais, from the IPI tax exemption as provided for by law in the case of sales of particular components to companies operating in the automotive sector.

The dispute is under discussion before the competent administrative-judicial courts, however the Group maintains that it has well founded reasons to object to the tax administration's claim.

The risk is estimated at approximately euro 17 million, inclusive of taxes, interest and sanctions. The risk of losing the case has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for this dispute.

DISPUTE CONCERNING THE TAX IMPACT DERIVING FROM THE SO CALLED "PLANO VERÃO" (GOVERNMENT STABILISATION PLAN) Pirelli Pneus is involved in dispute over taxes with the Brazilian tax authorities, which, in the opinion of the Company - for the period between 1989 and 1994 - were collected by the Brazilian tax authorities in amounts that exceeded what was actually due following the so called *"Plano Verão"*, the economic measure introduced by the then Brazilian government, to control the phenomenon of hyperinflation that was affecting the country through price freezes. However, the difference between the real and indexed inflation had the effect of creating significant distortions in the financial statements of companies and, last but not least, the amount of taxes paid by the same. Pirelli Pneus made use of the real inflation rate for its own financial statement valuations and, at the same time, commenced legal proceedings aimed at asserting its reasons for the correct amount of taxes owed. In the course of the aforementioned proceedings, Pirelli Pneus first adhered to an amnesty for the tax disputes in order to define the dispute in question and, only subsequently, on the basis of a ruling with binding effectiveness towards everyone by the Brazilian Supreme Court, requested the annulment of the effects of the amnesty, to which it had previously adhered.

The proceeding is underway before the competent judicial courts and the risk is estimated as up to approximately euro 27 million, inclusive of taxes, interest and sanctions. The risk of losing the case 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 other tax disputes relevant to federal taxes and excises, (such as the IPI (*Imposto sobre Produtos Industrializados*) tax, the PIS (*Programa de Integração Social*) and COFINS (*Contribução para Financiamento de Seguridade Social*) unemployment insurance and social security contributions), as well as the ICMS state value added tax. In particular, Pirelli Pneus is involved in certain administrative and judicial proceedings aimed at ensuring that their own reasons prevail over those of the tax authorities, with reference to:

(i) the so called *"Desenvolve*" litigation relative to a fiscal incentive 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 6 million inclusive of taxes, sanctions and interest;
(ii) a dispute relative to import customs costs for natural rubber which, in the opinion of the Brazilian tax authorities, was underestimated by not taking into account the value of the intra-group royalties paid - approximately euro 6 million inclusive of taxes, sanctions and interest.
(iii) a new dispute, relative to the method of calculating the taxable base of PIS and COFINS social security contributions and to the right to deduct the ICMS reported in invoices, on the basis of the interpretation provided by the tax authorities in the Solução - COSIT Internal Consultation Solution No. 13 - approximately euro 15 million in taxes, sanctions and interest.

For the aforementioned disputes, the risk of losing the case has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for these disputes.

29. REVENUES FROM SALES AND SERVICES

Revenues from sales and services were as follows:

(in thousands of euro)

	2020	2019
Revenues from sales of goods	4,191,752	5,174,701
Revenues from services	110,379	148,353
Total	**4,302,131**	**5,323,054**

These revenues refer to contracts with customers.

For further information on the performance of revenues from sales and services, refer to the section *"Group performance and results"* in this document.

30. OTHER REVENUES

The item is composed as follows:

(in thousands of euro)

	2020	2019
Other income from the Prometeon Group	38,897	60,922
Sales of industrial products	136,305	158,709
Gains on disposal of property, plant and equipment	6,187	1,298
Rent income	2,907	3,780
Income from sublease of rights of use assets	922	1,662
Recoveries and reimbursements	38,598	164,475
Government grants	13,613	13,343
Other income	68,884	82,118
Total	**306,313**	**486,307**

The item **other income from the Prometeon Group** includes the sale of raw materials, semi-finished and finished products to the amount of euro 7,598 thousand, royalties recorded for the trademark license agreement to the amount of euro 13,218 thousand, royalties recorded for the know-how license contract to the amount of euro 6,500 thousand and services rendered to the amount of euro 11,575 thousand. The decrease in other income compared to the previous year, was mainly attributable to lower sales in raw materials, finished goods and semi-finished goods, as well as the renegotiation of know-how royalties for 2020 only.

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

Gains on the disposal of property, plant and equipment refers to the disposal of buildings carried out in 2020 in Milan and Settimo Torinese.

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

→ refunds of taxes and duties for a total of euro 3,515 thousand, received mainly from the Brazilian subsidiary. For 2019 the item included euro 73,938 thousand attributable to the benefit recorded following the attainment of favourable rulings by the Federal Regional Court, with registered office in in Brasilia, which recognised the right to exclude the ICMS tax (*Imposto Sobre Operações Relativas à Circulação* or state Value Added Tax for the circulation of goods and the provision of interstate and inter-municipal transport and communication services) from the basis for the calculation of PIS (*Programa de Integração Social*) and COFINS (*Contribução para Financiamento de Seguridade Social*) social security contributions for the 2003-2014 period;
→ tax refunds totalling euro 7,918 thousand deriving from tax incentives obtained mainly in the state of Bahia, Brazil for commercial exports;
→ proceeds from the sale of tyres and scrap materials carried out in the United Kingdom for a total of euro 1,010 thousand;
→ income from the sale of tyres for testing and the recovery of transport expenses incurred in Germany to the amount of euro 1,761 thousand.

The item **other income** includes income from the sale of goods and services in connection with sporting activities, to the amount of euro 33,352 thousand.

31. PERSONNEL EXPENSES

The item is composed as follows:

(in thousands of euro)

	2020	2019
Wages and salaries	721,058	822,647
Social security and welfare contributions	140,469	167,184
Costs for employee leaving indemnities and similar	11,474	16,887
Costs for defined contribution pension funds	23,143	23,583
Costs for defined benefit pension funds	13,210	1,627
Costs for jubilee awards	6,630	3,622
Costs for defined contribution healthcare plans	3,180	5,290
Other costs	30,514	31,327
Total	**949,678**	**1,072,167**

The item **other costs** includes the portion of the retention plan (equal to euro 8,423 thousand in 2020 and euro 6,891 thousand in 2019) which was approved by the Pirelli Board of Directors on February 26, 2018 and intended for Key Managers with strategic responsibilities, as well as a select number of senior Managers and Executives whose contribution to the implementation of the Strategic Plan is considered particularly significant.

The item personnel expenses for 2020 **includes non-recurring events** for a total of euro 11,205 thousand (1.2% of the total) and refers to the buy-out operation of the UK pension funds.

32. DEPRECIATION, AMORTISATION AND IMPAIRMENTS

The item is composed as follows:

(in thousands of euro)

	2020	2019
Amortisation	128,049	125,823
Depreciation (excl. depreciation of right of use)	289,379	292,045
Depreciation of right of use	88,626	89,479
Impairment of property, plant and equipment and intangible assets (excl. right of use)	9,138	18,556
Impairment of right of use	1,960	1,915
Total	**517,152**	**527,818**

The item **impairment of property, plant and equipment** mainly refers to property, plant and equipment in the UK and Italy due to plant decommissioning.

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

33. OTHER COSTS

This item is subdivided as follows:

(in thousands of euro)

	2020	2019
Selling costs	255,395	320,189
Purchases of goods for resale	326,737	367,365
Fluids and energy	142,214	181,650
Advertising	193,039	214,919
Warehouse operating costs	67,045	71,226
IT expenses	38,376	34,537
Consultants	48,038	48,522
Maintenance	41,436	50,494
Insurance	30,401	31,476
Leases and rentals	24,281	36,905
Outsourcing	24,561	34,944
Duty stamps, duties and local taxes	24,190	27,507
Other provisions	32,673	41,785
Travel expenses	16,676	37,311
Key managers compensations	7,469	7,235
Cleaning expenses	13,092	14,836
Canteen	12,811	16,091
Security expenses	10,214	9,714
Waste disposal	8,010	7,558
Telephone expenses	5,427	8,744
Other	144,209	150,396
Total	**1,466,294**	**1,713,404**

The total decrease in the item was mainly attributable to the costs of sales and the purchases of goods held for resale, linked to the drop in volumes as well as to savings on the item *"fluids and energy",* due to the temporary lock-down of factories during the first half-year of 2020, as well as to savings on travel expenses mainly due to the limitations imposed due to the pandemic.

The item **leases and rentals** includes:

- euro 12,358 thousand for lease contracts with a duration of less than twelve months (euro 23,555 thousand for 2019);
- euro 6,820 thousand for lease contracts for low unit value assets (euro 7,394 thousand for 2019);
- euro 5,103 thousand for lease contracts with variable payments (euro 5,956 thousand for 2019).

The item relative to variable lease instalments includes the positive effect of the changes in payments for leasing contracts due to reductions in permanent lease payments (rent holidays), or temporary lease payments linked to COVID-19 (euro 889 thousand) and which was recognised directly in the Income Statement in that the Group made use of the practical expedient provided by the amendments to IFRS 16.

The item **other** includes, amongst others, labour provided by third parties to the amount of euro 27,230 thousand, (euro 31,083 thousand for 2019) and expenses for technological testing to the amount of euro 11,974 thousand (euro 20,190 thousand for 2019).

34. IMPAIRMENT OF NET FINANCIAL ASSETS

This item, which was negative to the amount of euro 17,385 thousand compared to euro 22,266 thousand for 2019, mainly includes the net impairment of trade receivables to the amount of euro 16,843 thousand (euro 22,235 thousand for 2019).

35. NET INCOME (LOSS) FROM EQUITY INVESTMENTS

35.1 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 amounted to a loss of euro 5,629 thousand, and refers mainly to investments in the joint venture Xushen Tyre (Shanghai) Co., Ltd which recorded a loss of euro 4,558 thousand (a loss of euro 7,158 thousand for 2019), and in the joint venture PT Evoluzione Tyres in Indonesia, which recorded a loss of euro 1,299 thousand (a loss euro 2,769 thousand for 2019).

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

35.2 GAINS ON EQUITY INVESTMENTS

The amount euro 1,140 thousand mainly refers to the reversal to the Income Statement of the foreign currency translation reserve, accumulated up until the date of disposal of the subsidiary, of the Joint Stock Company "Scientific institute of medical polymers" equalling euro 932 thousand.

35.3 LOSSES ON EQUITY INVESTMENTS

For 2020 the item amounted to euro 847 thousand and refers to the disposal of the investment in Omnia Motor S.A.

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

35.4 DIVIDENDS

For 2020 this item amounted to euro 65 thousand compared to euro 5,526 thousand for 2019 and mainly includes dividends received from the RCS Mediagroup S.p.A. (euro 1,482 thousand), from the Fondo Comune di investimento Anastasia (Anastasia Real Estate Investment Fund) (euro 2,434 thousand), from Fin. Priv. S.r.l. (euro 957 thousand) and from Genextra S.p.A. (euro 178 thousand).

36. FINANCIAL INCOME

The item is composed as follows:

(in thousands of euro)

	2020	2019
Interests	15,707	13,774
Other financial income	5,379	112,443
Net gains on exchange rates	-	2,461
Fair value measurement of currency derivatives	124,631	-
Fair value measurement of other derivatives	667	83
Total	**146,384**	**128,761**

The item **interests** includes euro 3,760 thousand for interest on fixed income securities and euro 6,078 thousand for interest receivables from financial institutions and associated companies and joint ventures.

The item **other financial income** mainly includes interest matured on tax credits and on security deposits provided by the Brazilian subsidiaries as a guarantee for legal and tax disputes. The amount for the previous year included the interest accrued on receivables from the Brazilian tax authorities which was recorded following the attainment, during the first-half year of 2019, of a favourable judgement by the Federal Regional Court, with registered offices in Brasilia and San Paolo, which recognised the right to deduct the state tax on goods and services (ICMS) from the calculation basis for the PIS (*Programa de Integração Social*) and COFINS (*Contribução para Financiamento de Seguridade Social*) social security contributions.

The item **fair value measurement of currency derivatives** refers to forward currency purchase/sale transactions to hedge commercial and financial transactions, in accordance with the Group's exchange risk management policy. For transactions still open at the end of the financial year, the fair value was determined by applying the forward exchange rate at the closing date of the Consolidated Financial Statements. The valuation at fair value is composed of two elements: the interest component which is linked to the interest rate differential between the currencies covered by the individual hedges, equal to a net cost of euro 15,618 thousand and the exchange rate component equal to a net cost of euro 140,249 thousand. The foreign exchange component of the fair value measurement of the cross currency interest rate swaps, for which hedge accounting of the cash flow hedge type was adopted, was negative to the amount of euro 133,595 thousand and was reclassified under the item net losses on exchange rates, offsetting the unrealised exchange gains recorded on the hedged liability. Net of the aforementioned reclassification, in comparing the net losses on exchange rates, which totalled euro 147,683 thousand, recorded for receivables and payables in currencies, other than the functional currency, used by the various subsidiaries, with the fair value valuation of the foreign exchange component of the derivatives to hedge foreign exchange, which amounted to a net income of euro 140,249 thousand, there resulted a negative imbalance of euro 7,434 thousand.

Fair value measurement of other derivative mainly includes:

- the ineffectiveness of cross currency interest rate swaps to the amount of euro 338 thousand, due to the misalignment between the characteristics of the hedge item and the hedging instrument - (Note 27 - "*Derivative financial instruments*");
- the fair value valuation of the IRS basis swap which was positive to the amount of euro 1,045 thousand - (Note 27 - *"Derivative financial instruments"*).

37. FINANCIAL EXPENSES

The item is composed as follows:

(in thousands of euro)

	2020	2019
Interests	101,602	107,166
Commissions	11,712	20,298
Hyperinflation effect	6,592	19,995
Other financial expenses	11,108	9,303
Interest expenses on lease liabilities	21,334	23,480
Net losses on exchange rates	147,683	-
Net interest costs on provision for employee benefit obligations	2,142	4,612
Fair value measurement of other financial assets	713	-
Fair value measurement of exchange rate derivatives	-	53,386
Total	**302,886**	**238,240**

Interests which totalled euro 101,602 thousand included:

- euro 65,406 thousand for bank credit facilities held by Pirelli & C. S.p.A., and euro 15,059 thousand in financial expenses relative to bond loans, of which euro 9,658 thousand refers to unrated bonds and euro 5,175 thousand is relative to the *"Schuldschein"* loan, both issued by Pirelli & C. S.p.A.. The amount is reported net of net interest income on Cross Currency Interest Rate Swaps and Interest Rate Swaps to the amount of euro 16,169 thousand. For further details reference should be made to Note 27 - *"Derivative financial instruments";*
- euro 24,280 thousand in financial expenses relative to bank finance for foreign affiliates.

The item **commissions** includes, in particular, euro 3,523 thousand in costs for the assignment of receivables without recourse mainly in South America, Italy and Germany and euro 8,190 thousand relative to expenses for sureties and other bank commissions.

The item **Hyperinflation effect** refers to the effect on monetary items deriving from the application of IAS 29 - Hyperinflation, by the subsidiary company Pirelli Neumaticos SAIC. Reference should be made to Note 41 - "*Hyperinflation*" for more details.

The item **net losses on exchange rates** which amounted to euro 147,683 thousand (gains amounted to euro 2,805,187 thousand and losses amounted to euro 2,952,870 thousand) refers to, the adjustment of period-end exchange rates for items expressed in currencies other than the functional currency and still outstanding at the closing date of the Consolidated Financial Statements and to the net losses realised on items closed during the course of the period. They also include losses to the amount of euro 133,595 thousand due to the exchange rate component of the fair value valuation of the cross currency interest rate swaps, for which hedge accounting of the cash flow hedge type was adopted, to offset unrealised exchange gains recorded on the hedged liability.

38. TAXES

Taxes were composed as follows:

(in thousands of euro)

	2020	2019
Current taxes	106,938	198,460
Deferred taxes	(92,245)	(33,898)
Total	**14,693**	**164,562**

Tax expenses for 2020 amounted to euro 14,693 thousand against pre-tax earnings of euro 57,366 thousand, compared to the amount of euro 164,562 thousand for 2019 against pre-tax earnings of euro 622,259 thousand. The tax rate for 2020 stood at 25.6% compared to 26.5% for 2019.

The reconciliation between theoretical and effective taxes is as follows:

(in thousands of euro)

	2020	2019
A) Net income / (loss) before taxes	**57,366**	**622,259**
B) Theoretical taxes	**5,924**	**172,424**
Main causes for changes between estimated and effective taxes:		
Taxes incentives	(9,710)	(38,787)
Non-deductible costs	12,965	8,924
Withholding taxes not recoverable	2,175	15,895
Other	3,339	6,106
C) Effective taxes	**14,693**	**164,562**

The difference between the nominal and effective Group tax rate was mainly due to non-deductible costs which were considered irrecoverable net of tax incentives.

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

	2020	2019
Europe and Turkey		
Italy	27.90%	27.90%
Germany	30.00%	30.00%
Romania	16.00%	16.00%
Great Britain	19.00%	19.00%
Turkey	22.00%	22.00%
Russia, Nordics and MEAI		
Russia	20.00%	20.00%
North America		
USA	25.00%	25.00%
Mexico	30.00%	30.00%
South America		
Argentina	30.00%	30.00%
Brazil	34.00%	34.00%
APAC		
China	25.00%	25.00%

The incidence of taxes paid according to geographical Region during the course of the financial year, equal to euro 90,692 thousand, (euro 141,985 thousand for 2019), was as follows:

- 38% South America (14% for 2019);
- 36% APAC (41% for 2019);
- 13% Europe and Turkey (35% for 2019);
- 8% North America (7% for 2019);
- 5% Russia, Nordics and MEAI (3% for 2019).

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 advances payments paid in 2020, to income taxes paid during the course of 2020 but relative to previous financial years (e.g. income tax balances relative to 2019) or to payments relative to tax assessments for previous financial years. Taxes paid also include withholding taxes incurred on the cross-border payments such as dividends, interest and royalties which have been reported in the tax residence jurisdictions of the recipient.
The increase in taxes paid in the South America area (14% in 2019) was mainly attributable to the withholding taxes incurred by the Brazilian subsidiary Pirelli Pneus on the cash flows received at the time of closing derivative contracts, which had been entered into to hedge exchange rate risk.

39. 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)

	2020	2019
Net income/(loss) attributable to the Parent Company	29,781	438,134
Weighted average number of ordinary shares outstanding (in thousands)	1,000,000	1,000,000
Earnings /(losses) per share (in euro per share)	**0.030**	**0.438**

It should be noted that the basic and diluted earnings/(loss) per share coincide. The share conversion option relating to the convertible bond has no dilutive effect as the market price of the shares was lower than the exercise price of the option itself from the date of issue of the loan to December 31, 2020.

40. DIVIDENDS PER SHARE

The Board of Directors meeting on March 2, 2020 Pirelli & C.S.p.A. resolved to approve the proposal to distribute a unit dividend of euro 0.183. However, this resolution was subsequently cancelled by the Board of Directors meeting on April 3, 2020 as part of the Covid-19 containment actions.

41. HYPERINFLATION

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

For the Consolidated Financial Statements at December 31, 2020 the official inflation index of 37.8% was used.

Losses on the net monetary position were recorded in the Income Statement as “*Financial expenses*” (Note 37) to the amount of euro 6,592 thousand.

42. NON-RECURRING EVENTS

Pursuant to CONSOB Communication No. DEM/6064293 of July 28, 2006, information regarding the impact of non-recurring events and transactions on the Group's Income Statement, Statement of Financial Position and Financial Statement is presented below:

(in millions of euro)

	Equity	Net income/(loss)	Cash flow
Financial statement (a)	**4,551.9**	**42.7**	**806.1**
Operating costs	(11.2)	(11.2)	(9.2)
Total impact non recurring items (b)	**(11.2)**	**(11.2)**	**(9.2)**
Total adjusted (a-b)	**4,563.1**	**53.9**	**815.3**

The impact on the consolidated Income Statement items is detailed as follows:

(in millions of euro)

	2020
Personnel expenses:	
- UK pension fund buy-out	*(11.2)*
Impact on operating income	**(11.2)**
Impact on net income/(loss) before taxes	**(11.2)**
Impact on net income/(loss)	**(11.2)**

43. RELATED-PARTY TRANSACTIONS

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

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

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

STATEMENT OF FINANCIAL POSITION

(in millions of euro)

	12/31/2020	of which related parties	% incidence	12/31/2019	of which related parties	% incidence
Non-current assets						
Other receivables	**402.1**	5.8	1.4%	**342.4**	5.6	1.6%
Current assets						
Trade receivables	**597.7**	12.8	2.1%	**649.4**	9.8	1.5%
Other receivables	**469.2**	111.3	23.7%	**451.9**	45.2	10.0%
Non-current liabilities						
Borrowings from banks and other financial institutions	**4,971.0**	14.7	0.3%	**3,949.8**	17.4	0.4%
Other payables	**77.3**	0.2	0.3%	**90.6**	0.2	0.2%
Provisions for liabilities and charges	**73.3**	5.9	8.1%	**120.5**	3.1	2.5%
Provisions for employee benefit obligations	**243.9**	2.4	1.0%	**203.0**	-	n.a.
Current liabilities						
Borrowings from banks and other financial institutions	**883.6**	2.2	0.2%	**1,419.4**	2.3	0.2%
Trade payables	**1,268.0**	134.6	10.6%	**1,611.5**	171.9	10.7%
Other payables	**374.3**	6.7	1.8%	**402.8**	7.5	1.9%
Provisions for employee benefit obligations	**5.0**	3.0	60.2%	**4.1**	2.3	55.0%

INCOME STATEMENT

(in millions of euro)

	2020	of which related parties	% incidence	2019	of which related parties	% incidence
Revenue from sales and services	**4,302.1**	15.1	0.4%	**5,323.1**	19.3	0.4%
Other income	**306.3**	49.4	16.1%	**486.3**	74.8	15.4%
Raw materials and comsumables used (net of changes in inventories)	**(1,280.4)**	(4.9)	0.4%	**(1,741.2)**	(4.1)	0.2%
Personnel expenses	**(949.7)**	(15.0)	1.6%	**(1,072.2)**	(14.5)	1.4%
Other costs	**(1,466.3)**	(241.8)	16.5%	**(1,713.4)**	(278.2)	16.2%
Financial income	**146.4**	2.3	1.6%	**128.8**	1.2	0.9%
Financial expenses	**(302.9)**	(0.9)	0.3%	**(238.2)**	(1.0)	0.4%
Net income / (loss) from equity investments	**(5.3)**	(5.6)	n.a.	**(11.0)**	(9.7)	n.a.

CASH FLOW

(in thousands of euro)

	2020	of which related parties	% incidence	2019	of which related parties	% incidence
Net cash flow operating activities:						
Change in Trade receivables	**(35.3)**	(4.0)	n.a.	**(44.6)**	5.8	n.a.
Change in Trade payables	**(184.6)**	0.4	n.a.	**18.8**	(19.7)	n.a.
Change in Other receivables	**21.9**	(6.9)	n.a.	**(32.2)**	30.6	n.a.
Change in Other payables	**60.6**	2.5	n.a.	**(47.4)**	(2.6)	n.a.
Uses of Provisions for employee benefit obligations	**(37.2)**	(2.3)	n.a.	**(43.0)**	(2.9)	n.a.
Net cash flow investing activities:						
(Acquisition) of investments in associates and joint venture	**-**	-	-	**(8.9)**	(8.9)	n.a.
Change in Financial receivables from associates and joint venture	**(64.1)**	(64.1)	n.a.	**(13.4)**	(13.4)	n.a.
Net cash flow financing activities:						
Repayment of principal and payment of interest for lease obligations	**(99.9)**	(2.9)	n.a.	**(101.2)**	(1.9)	n.a.

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

STATEMENT OF FINANCIAL POSITION

(in millions of euro)

	12/31/2020	12/31/2019
Other non current receivables	5.8	5.6
of which financial	*5.8*	*5.6*
Trade receivables	6.9	3.4
Other current receivables	102.3	40.7
of which financial	*88.8*	*26.5*
Borrowings from banks and other financial institutions non-current	13.7	15.4
Borrowings from banks and other financial institutions current	1.7	1.6
Trade payables	30.6	36.2

INCOME STATEMENT

(in millions of euro)

	2020	2019
Revenues from sales and services	12.8	19.0
Other income	3.4	6.8
Raw materials and consumables used (net of change in inventories)	(2.6)	(0.4)
Other costs	(98.2)	(85.4)
Financial income	2.3	1.0
Financial expenses	(0.5)	(0.6)
Net income/ (loss) from equity investments	(5.6)	(9.7)

CASH FLOW

(in millions of euro)

	2020	2019
Change in Trade receivables	(3.6)	0.2
Change in Trade payables	(5.2)	13.1
Change in Other receivables	(1.2)	11.9
Change in Financial receivables from associates and joint venture	(64.1)	(13.4)
Repayment of principal and payment of interest for lease liabilities	(2.2)	(1.6)
Net cash flows provided by / (used in) investing activities	-	(8.9)

TRANSACTIONS – STATEMENT OF FINANCIAL POSITION

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

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

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

- receivables for Pirelli Tyre S.p.A. for royalties, from PT Evoluzione Tyres and Jining Shenzhou Tyre Co., Ltd. to the amount of euro 2.5 million each;
- receivables for the sale of materials and moulds to the Joint Stock Company "Kirov Tyre Plant" to the amount of euro 4.1 million;
- receivables for service fees for the Pirelli Tyre Co., Ltd from Jining Shenzhou Tyre Co., Ltd. to the amount of euro 2 million.

The financial portion refers to two loans:

- one granted by Pirelli Tyre Co., Ltd to Jining Shenzhou Tyre Co., Ltd. for euro 88.8 million;
- the other granted by Pirelli Tyre S.p.A. to the Indonesian joint venture PT Evoluzione Tyres for euro 5.1 million.

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

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

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

TRANSACTIONS - INCOME STATEMENT

The item **revenues from sales and services** mainly refers to sales of materials and services to the Jining Shenzhou Tyre Co., Ltd. to the amount of euro 10 million, as well as to royalties charged to PT Evoluzione Tyres and to Jining Shenzhou Tyre Co., Ltd. for a total of euro 2.7 million.

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

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

- the purchase of tyres from Jining Shenzhou Tyre Co., Ltd. to the amount of euro 44.8 million;
- the purchase of motorcycle products from PT Evoluzione Tyres to the amount of euro 30.8 million;
- the purchase of energy and machine hire from Industriekraftwerk Breuberg Gmbh to the amount of euro 15.4 million.

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

TRANSACTIONS WITH OTHER RELATED PARTIES

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

Also included is the remuneration paid to Directors and Key Managers.

STATEMENT OF FINANCIAL POSITION

(in millions of euro)

	12/31/2020	12/31/2019
Trade receivables	5.9	6.4
Other current receivables	9.0	4.4
Borrowings from banks and other financial institutions non-current	1.0	2.0
Other non-current payables	0.2	0.2
Provisions for liabilities and charges non-current	5.9	3.1
Provisions for employee benefit obligations non-current	2.4	-
Borrowings from banks and other financial institutions current	0.5	0.6
Trade payables	104.0	135.7
Other current payables	6.7	7.5
Provisions for employee benefit obligations current	3.0	2.3

INCOME STATEMENT

(in millions of euro)

	2020	2019
Revenues from sales and services	2.3	0.3
Other income	46.0	68.0
Raw materials and consumables used (net of change in inventories)	(2.3)	(3.7)
Personnel expenses	(15.0)	(14.5)
Other costs	(143.5)	(185.5)
Financial income	0.1	0.1
Financial expenses	(0.4)	(0.4)

CASH FLOW

(in millions of euro)

	2020	2019
Change in Trade receivables	(0.5)	5.6
Change in Trade payables	5.6	(32.8)
Change in Other receivables	(5.7)	18.7
Change in Other payables	2.5	(2.6)
Uses of Provisions for employee benefit obligations	(2.3)	(2.9)
Repayment of principal and payment of interest for lease liabilities	(0.7)	(0.3)

TRANSACTIONS – STATEMENT OF FINANCIAL POSITION

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

The item **other current receivables** refers to receivables from companies of the Prometeon Group to the amount of euro 7.4 million and from the Aeolus Tyre Co., Ltd. to the amount of euro 1.6 million.
The item **non-current borrowings from banks and other financial institutions** refers to payables of the company Pirelli Otomobil Lastikleri A.S. for machine hire from the Prometeon company Turkey Endüstriyel ve Ticari Lastikler A.S. to the amount of euro 0.7 million and to the payables of Pirelli Pneus Ltda to the Prometeon Tyre Group Industria Brasil LTDA to the amount of euro 0.3 million.

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

The item **trade payables** almost exclusively refers to payables to companies of the Prometeon Group to the amount of euro 102.7 million.

The item **other current payables** mainly refers to other current payables to companies of the Prometeon Group to the amount of euro 5.7 million.

TRANSACTIONS - INCOME STATEMENT

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

→ royalties recorded in respect of the license agreement for the use of the Pirelli trademark to the amount of euro 13.2 million;

- the sale of raw materials, finished and semi-finished products for the total amount of euro 7.6 million, of which euro 5.8 million was carried out by Pirelli Pneus Ltda;
- the licence agreement for know-how charged by Pirelli Tyre S.p.A. to the amount of euro 6.5 million;
- the Long-Term Service Agreement to the amount of euro 5.7 million of which euro 2.7 million was earned by Pirelli Sistemi Informativi S.r.l. and euro 1 million by Pirelli Pneus Ltda;
- logistic services for a total of euro 1.1 million, rendered by the Spanish company Pirelli Neumaticos S.A. - Sociedad Unipersonal.

The decrease in other income compared to the same period of the previous financial year was mainly attributable to lower sales of raw materials, finished and semi-finished products, as well as the renegotiation of royalties for know-how for 2020 only.

The item **raw materials and consumable materials used** refers to costs payable to companies of the Prometeon Group for the purchase of direct materials/consumables/compounds, of which euro 1 million was carried out by the Brazilian company Pirelli Pneus Ltda and euro 0.6 million 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 79.7 million, of which euro 64.5 million was carried out by the Brazilian company Comercial e Importadora de Pneus Ltda and subsequently resold to retail customers and euro 4.1 million was carried out by the German company Driver Reifen und KFZ-Technik Gmbh;
- the purchase of Car/Motorcycle and semi-finished products for a total amount of euro 36.3 million of which euro 34.2 million was carried out by the Turkish company Pirelli Otomobil Latikleri A.S. in respect of the off-take contract and euro 2.1 million by Pirelli Pneus Ltda for the purchase of inner tubes for tyres;
- costs to the amount of euro 6 million incurred by Pirelli Pneus Ltda for services for the transformation of raw materials as a result of activities pertinent to the toll manufacturing contract.

The item **financial income** refers to interest between Pirelli Tyre S.p.A. and the Prometeon Group.

BENEFITS FOR KEY MANAGERS OF THE COMPANY

Statement of Financial Position and Income Statement transactions regarding Directors and Key Managers can be summarised as follows:

- the Statement of Financial Position items **provisions for liabilities and charges** and **provisions for employee benefit obligations – non-current,** include long-term benefits to the amount of euro 5.9 million and euro 2.4 million, respectively, relative to the monetary three-year 2020-2022 Long Term Incentive Plan, as well as employee leaving indemnities;
- the Statement of Financial Position item **provisions for employee benefit obligations – current,** includes short-term benefits for the year (euro 3 million), relative to the fourth installment of the retention plan;
- the Income Statement items **personnel expenses** and **other costs,** include the remuneration for the financial year equal to euro 15 million (euro 14.5 million for 2019) and euro 7.5 million (euro 7.2 million for 2019) respectively. It should be noted that the amounts mentioned include euro 1.2 million relative to employees' leaving indemnity (TFR) and retirement benefits (euro 1.5 million for 2019), as well as short-term benefits to the amount of euro 6.1 million (euro 7 million for 2019), and long-term benefits to the amount of euro 4.4 million.

NON-FINANCIAL DISCLOSURES ON CLIMATE CHANGE

With regard to non-financial disclosures, and in particular the risks relating to climate change as well as the objectives of sustainable development and the main international commitments for sustainability, reference should be made to the relevant sections of the Report on Responsible Management on the Value Chain within this Annual Report.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

During **January and February 2021**, Pirelli repaid some of its maturing debt in advance, which had been scheduled for 2021 and 2022 to the total amount of euro 838 million. In particular, a tranche of the *"Schuldschein"* loan, to the amount of euro 82 million with original maturity on July 31, 2021 was repaid, plus a portion of the unsecured *("Facilities")* loan to the amount of euro 756 million with original maturity in 2022, was repaid. These repayments, for which part of the liquidity raised in 2020 was used, made it possible to reduce financial expenses, thereby optimising the financial structure of the debt.

On **February 25, 2021** Pirelli announced the terms of the termination of the employment relationship, effective February 28, 2021, with the General Manager, co-CEO Angelos Papadimitriou, already announced to the market on **January 20, 2021**.

In accordance with the current Remuneration Policy of the Pirelli Group, the Board of Directors granted to Mr. Papadimitriou, in addition to the amounts due by way of compensation and other legal benefits accrued up to the date of his termination: (i) 10 months' gross annual remuneration as a redundancy incentive, equal to the value of what would have been the compensation in lieu of notice, based on conventional seniority recognised at the time of recruitment as an executive, to be paid by April 20, 2021; (ii) euro 100,000 gross by way of a general novative settlement, to be paid once the termination has been defined in accordance with the existing labour law procedures, by April 20, 2021, as well as the maintenance until December 31, 2021 of certain non-monetary benefits granted at the time of recruitment as an executive. As provided for at the time of his recruitment, subordinate to the suspensory condition of the approval of the 2021 Remuneration Policy by the Shareholders' Meeting, Mr. Papadimitriou will be bound, for the two years following his termination of office as Director, to a non-compete agreement, valid for the main countries in which Pirelli operates, in exchange for a consideration, for each year, equal to 100% of his gross annual remuneration, to be paid in 8 deferred quarterly instalments starting from July 1, 2021. The non-compete agreement includes a *non-solicit* clause as well as penalties, in the event of any breach of the obligations pursuant to the non-compete agreement.

On **March 24, 2021**, in order to provide support for the execution of the Industrial Plan, the Executive Vice Chairman and CEO, Marco Tronchetti Provera, decided to propose the appointment of Giorgio Luca Bruno to the office of Deputy-CEO, which reports directly to him.

This proposal - shared with the Chairman of the Board of Directors, Ning Gaoning, and the Nominations and Successions Committee, whose Directors were informed - aims also at strengthening the management team in view of the future succession path in-line with the Procedure already adopted by the Company, and provides that the Deputy-CEO may also contribute to the development of internal management. The Executive Vice Chairman and CEO will therefore propose on March 31, to the Board of Directors, to invite the Shareholders' Meeting scheduled for June 15, 2021, to appoint Giorgio Luca Bruno as a Director, and will also propose that once appointed as a Director, he assumes the role of Deputy-CEO.

Following the proposal, Angelos Papadimitriou renounced his candidacy for Director. Therefore, the Shareholders' Meeting, which **met on the same date** with, amongst other things, his reappointment on the Agenda, decided to postpone the appointment of a new Director until June 15, which the Board of Directors will nominate in the person of Giorgio Luca Bruno. Angelos Papadimitriou, who had previously been co-opted, has therefore ceased to be a Director. The Shareholders' Meeting, also approved, during an extraordinary session, the convertibility of the *"euro 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025"*, issued on December 22, 2020, as well as approved a divisible share capital increase, with the exclusion of option rights, to service the conversion of the aforementioned bond, for a total counter-value, including any share premium, of euro 500 million. On the basis of the initial conversion ratio of the Bond Loan of euro 6.235 this increase will correspond to the issue of a maximum of 80,192,461 Pirelli & C. ordinary shares (notwithstanding that the maximum number of Pirelli & C. ordinary shares could increase on the basis of the effective conversion ratio applicable from time to time).

On **March 31, 2021**, the Board of Directors approved the 2021-2022|2025 Industrial Plan, which was presented to the financial community on the same date. For further information, reference should be made to the section "Outlook for the five-year period" in this document.

44. OTHER INFORMATION

RESEARCH AND DEVELOPMENT EXPENSES

Research & Development expenses for 2020 amounted to euro 194.6 million and represented 4.5% of sales and mainly included expenses destined for High Value activities (euro 182.5 million, equal to 6.0% of High Value revenues). Research and development costs refer to expenses for product and process innovation, as well as to the development of new materials. For further details, reference should be made to the section *"Research and development activities*" within the Directors' Report on Operations in this document.

REMUNERATION FOR DIRECTORS AND STATUTORY AUDITORS

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

(in thousands of euro)

	2020	2019
Directors	5,507	6,020
Statutory Auditors	315	315
Total	**5,822**	**6,335**

EMPLOYEES- AVERAGE HEADCOUNTS

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

	2020	2019
Executives and white collar staff	6,082	6,755
Blue collar staff	23,708	23,920
Temporary workers	898	993
Total	**30,688**	**31,668**

REMUNERATION FOR INDEPENDENT AUDITORS

Pursuant to the applicable laws, the total fees for the 2020 financial year for auditing services and for services other than auditing, rendered by the company PricewaterhouseCoopers S.p.A. and by other entities belonging to its network were as follows:

(in thousands of euro)

	Company that provided the service	Company that received the service	Partial fees	Total fees	
Independent auditing services	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	79		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	1,147		
	Network PricewaterhouseCoopers	Subsidiaries	1,222	**2,448**	*78%*
Independent certification services (1)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	150		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	334		
	Network PricewaterhouseCoopers	Subsidiaries	33	**517**	*17%*
Services other than auditing	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	150		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	-		
	Network PricewaterhouseCoopers	Subsidiaries	5	**155**	*5%*
				3,120	*100%*

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

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

Pirelli Tyre S.p.A. also obtained a non-refundable grant from the Lombardy Region for euro 1,695 thousand and euro 2,462 thousand for the implementation of two research and development projects on Safety and Smart Manufacturing issues, for which euro 1,695 thousand and euro 972 thousand were received during the year, respectively. With reference to the agreement signed with the MiSE (Ministry of Economic Development) during the previous year for the subsidisation of three R&D projects, for up to a maximum of euro 6.3 million in total for the current year, the Company has completed the approval process with the submission of the final applications for subsidies and the subsequent preliminary assessments by the competent body.

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

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 2020 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		Change in %	Average exchange rates		Change in %
	12/31/2020	12/31/2019		2020	2019	
Swedish Krona	**10.0375**	10.4489	(3.94%)	**10.4862**	10.5907	(0.99%)
Australian Dollar	**1.5896**	1.5995	(0.62%)	**1.6549**	1.6109	2.73%
Canadian Dollar	**1.5633**	1.4598	7.09%	**1.5300**	1.4855	3.00%
Singaporean Dollar	**1.6218**	1.5111	7.33%	**1.5742**	1.5273	3.07%
U.S. Dollar	**1.2271**	1.1234	9.23%	**1.1422**	1.1195	2.03%
Taiwan Dollar	**34.4742**	33.6919	2.32%	**33.6519**	34.5990	(2.74%)
Swiss Franc	**1.0802**	1.0854	(0.48%)	**1.0705**	1.1125	(3.77%)
Egyptian Pound	**19.3879**	18.0936	7.15%	**18.1303**	18.8758	(3.95%)
Turkish Lira (new)	**9.0079**	6.6506	35.44%	**8.0186**	6.3512	26.25%
New Romanian Leu	**4.8694**	4.7793	1.89%	**4.8376**	4.7451	1.95%
Argentinian Peso	**103.2605**	67.2804	53.48%	**103.2605**	67.2804	53.48%
Mexican Peso	**24.4791**	21.1707	15.63%	**24.5637**	21.5622	13.92%
South African Rand	**18.0219**	15.7773	14.23%	**18.7655**	16.1757	16.01%
Brazilian Real	**6.3779**	4.5305	40.78%	**5.8989**	4.4169	33.55%
Chinese Yuan	**8.0067**	7.8371	2.16%	**7.8802**	7.7226	2.04%
Russian Rouble	**90.6824**	69.3406	30.78%	**82.4781**	72.3888	13.94%
British Pound	**0.8990**	0.8508	5.67%	**0.8897**	0.8778	1.36%
Japanese Yen	**126.4900**	121.9400	3.73%	**121.8458**	122.0058	(0.13%)

NET FINANCIAL POSITION

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

(in thousands of euro)

	Note	12/31/2020		12/31/2019	
			of which related parties (note 43)		of which related parties (note 43)
Current borrowings from banks and other financial institutions	**23**	883,567	*2,192*	1,419,404	*2,267*
Current derivative financial instruments (liabilities)	**27**	53,926		31,703	
Non-current borrowings from banks and other financial institutions	**23**	4,970,986	*14,693*	3,949,836	*17,386*
Non-current derivative financial instruments (liabilities)	**27**	87,601		10,327	
Total gross debt		**5,996,080**		**5,411,270**	
Cash and cash equivalents	**19**	(2,275,476)		(1,609,821)	
Other financial assets at fair value through income statement	**12**	(58,944)		(38,119)	
Current financial receivables and other assets**	**15**	(102,574)	*(88,769)*	(35,503)	*(26,486)*
Current derivative financial instruments (assets)	**27**	(34,766)		(32,090)	
Net financial debt *		**3,524,320**		**3,695,737**	
Non-current derivative financial instruments (assets)	**27**	-		(52,515)	
Non-current financial receivables and other assets**	**15**	(265,945)	*(5,826)*	(135,996)	*(5,617)*
Total net financial (liquidity) / debt position		**3,258,375**		**3,507,226**	

* Pursuant to Consob Notice of July 28, 2006 and in compliance with ESMA/2013/319 Recommendations
** The item "financial receivables and other assets" is reported net of the relative provision for impairment which amounted to euro 8,505 thousands at December 31, 2020 (euro 8,651 thousands at December 31, 2019).

SCOPE OF CONSOLIDATION

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Europe						
Austria						
Pirelli GmbH	Tyre	Wien	Euro	726,728	100.00%	Pirelli Tyre (Suisse) SA
Belgium						
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700,000	100.00%	Pirelli Tyre (Suisse) SA
					0.004%	Pneus Pirelli S.A.S.
France						
Pneus Pirelli S.A.S.	Tyre	Villepinte	Euro	1,515,858	100.00%	Pirelli Tyre S.p.A.
Germany						
Deutsche Pirelli Reifen Holding GmbH	Tyre	Breuberg / Odenwald	Euro	7,694,943	100.00%	Pirelli Tyre S.p.A.
Driver Handelssysteme GmbH	Tyre	Breuberg / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Deutschland GmbH	Tyre	Breuberg / Odenwald	Euro	23,959,100	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Personal Service GmbH	Tyre	Breuberg / Odenwald	Euro	25,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
PK Grundstuecksverwaltungs GmbH	Tyre	Hoechst / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Driver Reifen und KFZ-Technik GmbH (ex Pneumobil Reifen und KFZ-Technik GmbH)	Tyre	Breuberg / Odenwald	Euro	259,225	100.00%	Deutsche Pirelli Reifen Holding GmbH
Greece						
Elastika Pirelli C.S.A.	Tyre	Elliniko-Argyroupoli	Euro	11,630,000	99.90%	Pirelli Tyre S.p.A.
					0.10%	Pirelli Tyre (Suisse) SA
Pirelli Hellas S.A. (in liquidation)	Tyre	Athens	US $	22,050,000	79.86%	Pirelli Tyre S.p.A.
The Experts in Wheels - Driver Hellas C. S.A.	Tyre	Elliniko-Argyroupoli	Euro	100,000	73.20%	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.	Finance	Milano	Euro	125,000,000	70.00%	Pirelli Tyre S.p.A.
					30.00%	Pirelli & C. S.p.A.
Pirelli Servizi Amministrazione e Tesoreria S.p.A.	Services	Milan	Euro	2,047,000	100.00%	Pirelli & C. S.p.A.
Pirelli Sistemi Informativi S.r.l.	Information Systems	Milan	Euro	1,010,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre S.p.A.	Tyre	Milan	Euro	558,154,000	100.00%	Pirelli & C. S.p.A.
Poliambulatorio Bicocca S.r.l.	Services	Milan	Euro	10,000	100.00%	Pirelli Tyre S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104,000	90.35%	Pirelli & C. S.p.A.
					2.95%	Pirelli Tyre S.p.A.
					0.95%	Poliambulatorio Bicocca S.r.l.
					0.98%	Pirelli International Treasury S.p.A.
					0.95%	Driver Italia S.p.A.
					0.98%	Pirelli Industrie Pneumatici S.r.l.
					0.95%	Pirelli Servizi Amministrazione e Tesoreria S.p.A.
					0.95%	Pirelli Sistemi Informativi S.r.l.
					0.95%	HB Servizi S.r.l.
The Netherlands						
E-VOLUTION Tyre B.V.	Tyre	Rotterdam	Euro	170,140,000	100.00%	Pirelli Tyre S.p.A.
Pirelli China Tyre N.V.	Tyre	Rotterdam	Euro	38,045,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Rotterdam	Euro	18,152	100.00%	Pirelli Tyre (Suisse) SA
Poland						
Driver Polska Sp. z o.o.	Tyre	Warsaw	Pol. Zloty	100,000	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 Limited (ex Pirelli International plc)	Financial	Burton on Trent	Euro	5,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Motorsport Services Ltd	Tyre	Burton on Trent	British Pound	1	100.00%	Pirelli UK Ltd
Pirelli General Executive Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli UK Ltd
Pirelli General & Overseas Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli UK Ltd
Pirelli Tyres Executive Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli Tyres Ltd
Pirelli Tyres Ltd	Tyre	Burton on Trent	British Pound	16,000,000	100.00%	Pirelli UK Tyres Ltd
Pirelli Tyres Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli Tyres Ltd
Pirelli UK Ltd	Financial	Burton on Trent	British Pound	163,991,278	100.00%	Pirelli & C. S.p.A.
Pirelli UK Tyres Ltd	Tyre	Burton on Trent	British Pound	85,000,000	100.00%	Pirelli Tyre S.p.A.
Slovakia						
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Euro	6,639	100.00%	Pirelli Tyre S.p.A.
Romania						
Pirelli & C, Eco Technology RO S.r.l.	Sustainable mobility	Slatina	Rom. Leu	20,002,000	99.995%	Pirelli Tyre S.p.A.
					0.005%	Pirelli Tyres Romania S.r.l.
Pirelli Tyres Romania S.r.l.	Tyre	Slatina	Rom. Leu	2,189,797,300	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
Limited Liability Company Pirelli Tyre Services	Tyre	Moscow	Russian Rouble	54,685,259	95.00%	Pirelli Tyre (Suisse) SA
					5.00%	Pirelli Tyre S.p.A.
Limited Liability Company “Industrial Complex “Kirov Tyre”	Tyre	Kirov	Russian Rouble	348,423,221	100.00%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company Pirelli Tyre Russia	Tyre	Moscow	Russian Rouble	6,153,846	65.00%	E-VOLUTION Tyre B.V.

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
Neumaticos Arco Iris, S.A.	Tyre	Barcellona	Euro	302,303	66.20%	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	Stockholm	Swed. Krona	31,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyre Nordic Aktiebolag	Tyre	Stockholm	Swed. Krona	950,000	100.00%	Pirelli Tyre S.p.A.
Switzerland						
Driver (Suisse) SA	Tyre	Bioggio	Swiss Franc	100,000	100.00%	Pirelli Tyre (Suisse) SA
Pirelli Group Reinsurance Company SA	Reinsurance	Basel	Swiss Franc	3,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre (Suisse) SA	Tyre	Basel	Swiss Franc	1,000,000	100.00%	Pirelli Tyre S.p.A.
Turkey						
Pirelli Lastikleri Dis Ticaret A.S.	Tyre	Istanbul	Turkey Lira	50,000	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	Los Angeles	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
Brazil						
Comercial e Importadora de Pneus Ltda.	Tyre	Sao Paulo	Bra. Real	381,473,982	100.00%	Pirelli Comercial de Pneus Brasil Ltda
Pirelli Comercial de Pneus Brasil Ltda.	Tyre	Sao Paulo	Bra. Real	1,149,296,303	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda
Pirelli Latam Participaçoes Ltda.	Tyre	Sao Paulo	Bra. Real	343,514,252	100.00%	Pirelli Tyre S.p.A.
Pirelli Ltda.	Financial	Santo Andrè	Bra. Real	14,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Pneus Ltda.	Tyre	Campinas (Sao Paulo)	Bra. Real	1,132,178,494	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda
Comércio e Importação Multimarcas de Pneus Ltda.	Tyre	Sao Paulo	Bra. Real	3,691,500	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda
C.P.Complexo Automotivo de Testes, Eventos e Entretenimento Ltda.	Tyre	Elias Fausto (Sao Paulo)	Bra. Real	89,812,000	60.00%	Pirelli Pneus Ltda
					40.00%	Pirelli Comercial de Pneus Brasil 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	US $	3,520,000	85.25%	Pirelli Comercial de Pneus Brasil Ltda
					14.73%	Pirelli Latam Participaçoes Ltda
					0.02%	Pirelli Ltda
Colombia						
Pirelli Tyre Colombia S.A.S.	Tyre	Santa Fe De Bogota	Col. Peso/000	1,863,222,000	85.00%	Pirelli Comercial de Pneus Brasil Ltda
					15.00%	Pirelli Latam Participaçoes Ltda
Mexico						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Silao	Mex. Peso	335,691,500	100.00%	Pirelli Tyre S.p.A.
					0.003%	Pirelli Ltda.
Pirelli Neumaticos S.A. de C.V.	Tyre	Silao	Mex. Peso	11,260,032,348	99.83%	Pirelli Tyre S.p.A.
					0.17%	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	Gauteng 2090	S.A. Rand	1	100.00%	Pirelli Tyre (Suisse) SA
Oceania						
Australia						
Pirelli Tyres Australia Pty Ltd	Tyre	Pyrmont	Aus. $	150,000	100.00%	Pirelli Tyre (Suisse) SA
Asia						
China						
Pirelli Taiwan Co. Ltd	Tyre	New Taipei City	N.T. $	10,000,000	100.00%	Pirelli Tyre (Suisse) SA
Pirelli Trading (Beijing) Co., Ltd.	Tyre	Beijing	Ch. Yuan	4,200,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyre (Jiaozuo) Co., Ltd.	Tyre	Jiaozuo	Ch. Yuan	350,000,000	80.00%	Pirelli Tyre S.p.A.
Pirelli Tyre Co., Ltd	Tyre	Yanzhou	Ch. Yuan	2,071,150,000	90.00%	Pirelli China Tyre N.V.
Pirelli Tyre Trading (Shanghai) Co., Ltd	Tyre	Shanghai	US $	700,000	100.00%	Pirelli China Tyre N.V.
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)
Polonia						
Centrum Utylizacji Opon Organizacja Odzysku S,A,	Tyre	Warsaw	Pln	1,008,000	20.00%	Pirelli Polska Sp. z o.o.
Slovakia						
ELT Management Company Slovakia S.R.O.	Tyre	Bratislava	Euro	132,000	20.00%	Pirelli Slovakia S.R.O.
Romania						
S.C. Eco Anvelope S.A.	Tyre	Bucarest	Rom. Leu	160,000	20.00%	S.C. Pirelli Tyres Romania S.r.l.
Russia						
Joint Stock Company "Kirov Tyre Plant"	Tyre	Kirov	Russian Rouble	5,665,418	20.00%	Limited Liability Company Pirelli Tyre Russia
Spain						
Signus Ecovalor S.L.	Tyre	Madrid	Euro	200,000	20.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Asia						
China						
Xushen Tyre (Shanghai) Co, Ltd	Tyre	Shanghai	Ch. Yuan	1,050,000,000	49.00%	Pirelli Tyre S.p.A.
Jining Shenzhou Tyre Co, Ltd	Tyre	Jining City	Ch. Yuan	1,050,000,000	100.00%	Xushen Tyre (Shanghai) Co, Ltd
Indonesia						
PT Evoluzione Tyres	Tyre	Subang	Rupees	1,313,238,780,000	63.04%	Pirelli Tyre S.p.A.