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Consolidated Financial Statements at December 31, 2021

(in thousands of euro)

	Note	12/31/2021		12/31/2020	
			of which related parties (note 43)		of which related parties (note 43)
Property, plant and equipment	9	3,288,914		3,159,767	
Intangible assets	10	5,485,665		5,582,033	
Investments in associates and joint ventures	11	80,886		72,588	
Other financial assets at fair value through other Comprehensive Income	12	56,907		42,720	
Deferred tax assets	13	137,643		109,378	
Other receivables	15	362,944	*6,664*	402,148	*5,826*
Tax receivables	16	27,564		4,761	
Other assets	22	153,205		80,422	
Derivative financial instruments	27	4,612		-	
Non-current assets		**9,598,340**		**9,453,817**	
Inventories	17	1,092,162		836,437	
Trade receivables	14	659,209	*19,474*	597,669	*12,790*
Other receivables	15	470,577	*105,942*	469,194	*111,325*
Other financial assets at fair value through Income Statement	18	113,901		58,944	
Cash and cash equivalents	19	1,884,649		2,275,476	
Tax receivables	16	17,773		29,153	
Derivative financial instruments	27	46,562		17,900	
Current assets		**4,284,833**		**4,284,773**	
Total Assets		**13,883,173**		**13,738,590**	
Equity attributable to the owners of the Parent Company:	**20,1**	**4,908,112**		**4,447,418**	
Share capital		1,904,375		1,904,375	
Reserves		2,700,941		2,513,262	
Net income / (loss)		302,796		29,781	
Equity attributable to non-controlling interests:	**20,2**	**134,527**		**104,432**	
Reserves		115,730		91,540	
Net income / (loss)		18,797		12,892	
Total Equity	**20**	**5,042,639**		**4,551,850**	
Borrowings from banks and other financial institutions	23	3,789,369	*13,210*	4,970,986	*14,693*
Other payables	25	76,485	*213*	77,280	*213*
Provisions for liabilities and charges	21	81,170	*22,028*	73,257	*5,926*
Deferred tax liabilities	13	1,033,892		1,006,799	
Provisions for employee benefit obligations	22	220,598	*7,157*	243,931	*2,408*
Tax payables	26	11,512		10,795	
Derivative financial instruments	27	3,519		87,601	
Non-current liabilities		**5,216,545**		**6,470,649**	
Borrowings from banks and other financial institutions	23	1,489,249	*2,751*	883,567	*2,192*
Trade payables (*)	24	1,626,367	*144,122*	1,316,971	*134,597*
Other payables (*)	25	314,203	*13,376*	325,266	*6,719*
Provisions for liabilities and charges	21	43,594		48,083	
Provisions for employee benefit obligations	22	-		5,013	*3,017*
Tax payables	26	134,388		99,505	
Derivative financial instruments	27	16,188		37,686	
Current liabilities		**3,623,989**		**2,716,091**	
Total Liabilities and Equity		**13,883,173**		**13,738,590**	

(*) At December 31, 2021, payables for investments inproperty, plant and equipment and intangible assets are classified under Trade payables. In order to ensure compatibility with the previous financial year, payables for investments in property, plant and equipment and intangible assets at December 31, 2020, to the amount of euro 49,000 thousand, were reclassified from Other payables to Trade payables.

(in thousands of euro)

	Note	2021		2020	
			of which related parties (note 43)		of which related parties (note 43)
Revenues from sales and services	**29**	**5,331,450**	*23,659*	**4,302,131**	*15,074*
Other income	**30**	303,868	*56,294*	306,313	*49,392*
Changes in inventories of unfinished, semi-finished and finished products		157,813		(160,223)	
Raw materials and consumables used (net of change in inventories)		(1,820,615)	*(3,577)*	(1,280,361)	*(4,917)*
Personnel expenses	**31**	(1,101,913)	*(23,085)*	(949,678)	*(14,959)*
- of which non-recurring events		*(2,537)*		*(11,205)*	
Amortisation, depreciation and impairment	**32**	(517,192)		(517,152)	
Other costs	**33**	(1,770,518)	*(312,465)*	(1,466,294)	*(241,764)*
Net impairment loss on financial assets	**34**	(7,950)		(17,385)	
Increases in fixed assets due to internal works		2,111		1,788	
Operating income/(loss)		**577,054**		**219,139**	
Net income/(loss) from equity investments	**35**	3,978		(5,271)	
- share of net income/(loss) of associates and joint ventures		*1,697*	*1,697*	*(5,629)*	*(5,629)*
- gains on equity investments		*27*		*1,140*	
- losses on equity investments		*(20)*		*(847)*	
- dividends		*2,274*		*65*	
Financial income	**36**	35,000	*3,651*	149,134	*2,338*
Financial expenses	**37**	(179,281)	*(1,505)*	(305,636)	*(921)*
Net income / (loss) before taxes		**436,751**		**57,366**	
Taxes	**38**	(115,158)		(14,693)	
- of which non-recurring events		*23,223*		-	
Net income / (loss)		**321,593**		**42,673**	
Attributable to:					
Owners of the Parent Company		302,796		29,781	
Non-controlling interests		18,797		12,892	
Total earnings / (losses) per share (in euro per basic share)	**39**	**0.303**		**0.030**	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euro)

		Note	2021	2020
A	**Net income / (loss)**		**321,593**	**42,673**
	- Remeasurement of employee benefits	**22**	91,168	18,946
	- Tax effect		(30,173)	(5,271)
	- Fair value adjustment of other financial assets at fair value through Other Comprehensive Income	**12**	13,764	(16,129)
B	**Total items that may not be reclassified to Income Statement**		**74,759**	**(2,454)**
	Exchange differences from translation of foreign Financial Statements			
	- Gains / (losses)	**20**	119,201	(373,552)
	- (Gains) / losses reclassified to Income Statement	**35**	-	(932)
	- Tax effect		-	-
	Fair value adjustment of derivatives designated as cash flow hedges:			
	- Gains / (losses)	**27**	95,523	(119,247)
	- (Gains) / losses reclassified to Income Statement	**27**	(72,380)	124,345
	- Tax effect		(4,638)	(482)
	Cost of hedging			
	- Gains / (losses)	**27**	1,175	4,496
	- (Gains) / losses reclassified to Income Statement	**27**	(6,870)	(7,104)
	- Tax effect		878	81
	Share of other comprehensive income related to associates and joint ventures, net of taxes	**11**	6,694	(2,093)
C	**Total items reclassified / that may be reclassified to Income Statement**		**139,583**	**(374,488)**
D	**Total other comprehensive income (B+C)**		**214,342**	**(376,942)**
A+D	**Total comprehensive income / (loss)**		**535,935**	**(334,269)**
	Attributable to:			
	- Owners of the Parent Company		505,837	(336,516)
	- Non-controlling interests		30,098	2,247

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

(in thousands of euro)

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

(in thousands of euro)

	OTHER O.C.I. 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	Other O.C.I. reserves
Total at 12/31/2020	**(16,357)**	**7,290**	**(26,228)**	**(25,104)**	**(29,494)**	**(89,893)**
Other components of comprehensive Income	13,764	(5,695)	23,143	91,168	(33,933)	88,447
Other changes	(4)	-	-	43	(1)	38
Total at 12/31/2021	**(2,597)**	**1,595**	**(3,085)**	**66,107**	**(63,428)**	**(1,408)**

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	Other O.C.I. 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)

	OTHER O.C.I. 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	Other O.C.I. 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)**

(in thousands of euro)

		Note	2021		2020	
				of which related parties (note 43)		of which related parties (note 43)
	Net income / (loss) before taxes		436,751		57,366	
	Reversals of amortisation, depreciation, impairment losses and restatement of property, plant and equipment and intangible assets	32	517,192		517,152	
	Reversal of Financial (income) / expenses	36/37	144,281		156,502	
	Reversal of Dividends	35	(2,274)		(65)	
	Reversal of gains / (losses) on equity investments	35	(7)		(293)	
	Reversal of share of net income from associates and joint ventures	35	(1,697)	*(1,697)*	5,629	*5,629*
	Reversal of accruals and other		133,963		64,781	
	Net Taxes paid	38	(125,634)		(90,692)	
	Change in Inventories		(222,495)		140,645	
	Change in Trade receivables		(51,352)	*(6,359)*	(35,324)	*(4,029)*
	Change in Trade payables		214,512	*19,478*	(184,604)	*390*
	Change in Other receivables		23,745	*(1,197)*	21,926	*(6,868)*
	Change in Other payables		(59,096)	*(5,158)*	60,555	*2,524*
	Uses of Provisions for employee benefit obligations		(48,751)	*(3,017)*	(37,173)	*(2,257)*
	Uses of Other provisions		(40,064)		(58,053)	
A	**Net cash flow provided by / (used in) operating activities**		**919,074**		**618,352**	
	Investments in owned tangible assets		(256,092)		(177,879)	
	Disposal of owned tangible assets		8,534		5,405	
	Investments in intangible assets		(30,579)		(15,527)	
	Disposal of intangible assets		243		279	
	(Investments) in other financial assets at fair value through Other Comprehensive Income		(450)		-	
	Loss of control in subsidiaries		4,407		69	
	Change in Financial receivables from associates and joint ventures		15,272	*15,272*	(64,093)	*(64,093)*
	Dividends received	35	2,274		65	
B	**Net cash flow provided by / (used in) investing activities**		**(256,391)**		**(251,681)**	
	Change in Borrowings from banks and other financial institutions due to draw down	23	886,242		2,577,182	
	Change in Borrowings from banks and other financial institutions due to repayments and other	23	(1,649,448)		(1,806,690)	
	Change in Financial receivables / Other current financial assets at fair value through income statement		(21,079)		(192,666)	
	Financial income / (expenses)		(115,071)		(38,504)	
	Dividends paid		(79,935)		-	
	Repayment of principal and payment of interest for lease liabilities		(105,355)	*(3,830)*	(99,924)	*(2,856)*
C	**Net cash flow provided by / (used in) financing activities**		**(1,084,646)**		**439,398**	
D	**Total cash flow provided / (used) during the period (A+B+C)**		**(421,963)**		**806,069**	
E	**Cash and cash equivalents at the beginning of the financial year**		**2,269,683**		**1,600,627**	
F	**Exchange rate differences from translation of cash and cash equivalents**		35,824		(137,013)	
G	**Cash and cash equivalents at the end of the period (D+E+F) (°)**	**19**	**1,883,544**		**2,269,683**	
(°)	**of which:**					
	cash and cash equivalents		1,884,649		2,275,476	
	bank overdrafts		(1,105)		(5,793)	

Explanatory notes

1. GENERAL INFORMATION

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

Founded in 1872, Pirelli & C. S.p.A. is - also by way of its subsidiaries in Italy and abroad - a Pure Consumer Tyre Company (which includes tyres for 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 Company's registered office is in Milan, 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 execution of the resolution passed by the Shareholders' Meeting of August 1, 2017, which conferred the mandate to the aforesaid company for each of the nine financial years with closings from December 31, 2017 to December 31, 2025.

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

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

On March 17, 2022 the Board of Directors authorised the publication of these Consolidated Financial Statements.

2. BASIS OF PRESENTATION

COVID-19

During 2021, the car tyre market recorded growth globally, despite volumes still remaining below the pre-pandemic levels of 2019. There was growth for the Original Equipment channel, even if far from pre-pandemic levels, impacted by the shortage in semi-conductors, particularly during the third and fourth quarters of 2021. There was sustained growth for the Replacement channel, supported by the recovery in mobility following the easing of restrictions put in place to combat contagions.

Pirelli's results for 2021 reflect the recovery in demand, and the implementation of the key programmes of the 2021-2022|2025 Industrial Plan with revenues amounting to euro 5,331.5 million (+23.9% compared to 2020), and an operating result amounting to euro 577.1 million.

As regards the medium-term Outlook and the elements of risk and uncertainty, reference should be made to the relevant sections in this document.

Considering the results for 2021 and those estimated for 2022, as reported in the *"Outlook for 2022"* section of the *Directors' Report on Operations*, the conditions required for the going concern assumption underlying the preparation of the Consolidated Financial Statements have been met, using a future period of at least 12 months from the closing date of the financial year as reference.

FINANCIAL STATEMENTS

The Consolidated Financial Statements at December 31, 2021 consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Cash Flow Statement and the Explanatory Notes, which are accompanied by the *Directors' Report on Operations*.

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

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

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

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

The Group has opted to present the tax effects and reclassifications to the Income Statement of the gains/losses which had been 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 movements which occurred during the financial year in the reserves.

In the Statement of Cash Flow, the cash flows from operating activities are reported using the indirect method, whereby the gains or losses for the financial year are adjusted by the effects of non-monetary transactions, by any deferrals or accruals of past or future collections or payments for operating activities, and by revenue or expense item, connected with the cash flows derived from any investment or financing activity.

SCOPE OF CONSOLIDATION

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

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

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

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

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:

- incorporation on May 19, 2021 of the company Pirelli Logistics (Yanzhou) Co., Ltd. which is wholly owned by Pirelli Tyre Co., Ltd.
- incorporation on December 20, 2021 of the company Pirelli Digital Solutions S.r.l., which is wholly owned by Pirelli Tyre S.p.A.

It should also be noted that the Mexican companies Pirelli Servicios S.A. de C.V. and Pirelli Neumaticos de Mexico S.A. de C.V. were merged by incorporation into Pirelli Neumaticos S.A. de C.V. effective December 31, 2021. The merger had no impact on the Group's Consolidated Financial Statements.

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	12/31/2021		12/31/2020	
		% group	% non-controlling interests	% group	% non-controlling interests
Pirelli Tyre Co. Ltd	Yanzhou (China)	90.00%	10.00%	90.00%	10.00%
Pirelli Deutschland GmbH	Breuberg/Odenwald (Germany)	100.00%		100.00%	
Pirelli Tyre S.p.A.	Milan (Italy)	100.00%		100.00%	
Pirelli Industrie Pneumatici S.r.l.	Settimo Torinese (Italy)	100.00%		100.00%	
Pirelli International Treasury S.p.A.	Milan (Italy)	100.00%		100.00%	
Pirelli Neumaticos S.A. de C.V.	Silao (Mexico)	100.00%		100.00%	
Pirelli Pneus Ltda	Campinas (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 were used, which were prepared at the reporting date of the Financial Statements of the Parent Company and appropriately adjusted in order to render them compliant with the IAS/IFRS accounting standards applied by the Group.

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

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

The criteria for consolidation can be summarised as follows:

- subsidiaries are consolidated on a line-by-line basis, according to which:
    - the assets and liabilities, costs and revenues of the Financial Statements of subsidiaries are assumed in their entirety, regardless of the percentage of investment held;
    - the carrying amount of investments is de-recognised against the 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 reported under the appropriate equity item, and similarly, the share of gains or losses attributable to non-controlling interests is reported separately in the Income Statement;

- at the time of disposal of the subsidiary and the consequent loss of control, any goodwill allocable to the subsidiary in determining the capital gains or losses arising from the disposal, is taken into account;
- in the case of an equity investments acquired after the assumption of control, any difference between the purchase cost and the corresponding portion of equity acquired, is reported 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, whereby the carrying amount of the investments is adjusted to take into account:

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

3. ADOPTED ACCOUNTING STANDARDS

Pursuant to Regulation No. 1606 issued by the European Parliament and the European Council in July 2002, the Consolidated Financial Statements of the Pirelli & C. Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) in force, as issued by the International Accounting Standards Board (IASB) and approved by the European Union at December 31, 2021, as well as the provisions issued with the implementation of Article 9 of Legislative Decree no. 38/2005. The term IFRS and IAS signifies the IFRS and IAS international accounting standards in force as issued by the International Accounting Standards Board (IASB) and approved by the European Union at December 31, 2021 and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC).

The Consolidated Financial Statements have been prepared using the historical costs method with the exception of the following items which have been measured at 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 (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 divestment or disposal of an intangible asset are determined as the difference between the net proceeds from disposal and the carrying amount of the asset.

GOODWILL

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

TRADEMARKS AND LICENSES

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

SOFTWARE

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

CUSTOMER RELATIONSHIPS

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

TECHNOLOGY

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

RESEARCH AND DEVELOPMENT COSTS

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

OWNED TANGIBLE ASSETS

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

Any costs incurred subsequent to the acquisition the assets, plus the cost of replacing any parts or portions of the assets of this category, are capitalised only if they increase the future financial benefits inherent to the asset to which they relate. 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 recognised on a monthly basis and on a straight-line basis at rates that allow for the depreciation of assets until the end of their useful life or, in the case of disposals, until the last month of use.

Depreciation rates were as follows:

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

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

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

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

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

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

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

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

RIGHT OF USE

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

The cost of lease payments is separated into two components; as a financial expense which is recognised in the Income Statement for period of 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 depreciated 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 is initially valuated at the present value of future payments.

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

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

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

The right 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 decommissioning or restatement.

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

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

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

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

IMPAIRMENT OF ASSETS

PROPERTY, PLANT AND EQUIPMENT EXCLUDING RIGHT OF USE Whenever there are specific indicators of impairment, at least on an annual basis, intangible assets with an indefinite useful life including goodwill, property, plant and equipment, intangible assets and right of use, are 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 corresponds to the higher amount between the fair value less the costs of sale, and the value in use.

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

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

For the right of use, the value in use is the present value of the estimated future cash flows originating from the right of use for period of 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).

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, for the purpose of the impairment test, the allocation is made at Group level of CGU (Cash Generating Unit), "Consumer Activities". The latter represents the minimum level at which goodwill is monitored for internal management control purposes.

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

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

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

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

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

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

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

The value in use of an associate or joint venture is determined by estimating the future net operating cash flows discounted from the associate's or joint venture's net financial position at the measurement date (the so-called Discounted Cash Flow – Asset side criteria).

When there is evidence that an impairment recognised in previous financial years may no longer exist or may have been reduced, the recoverable amount of the investment is estimated again, and if it results 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)

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

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

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

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

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

The items which fall under this evaluation category are:

- equity instruments for which the Group - at the time of their initial detection - did not exercise the irrevocable option to present the gains and losses deriving from the changes in their fair value in equity. They are classified as non-current assets under the item *"Other financial assets at Fair Value through the Income Statement";*

- debt instruments for which the Group's business model for asset management provides that the sale of the debt instruments and the cash flows associated with the financial asset, represent the payment of the outstanding capital. They are classified as current assets under item *"Other financial assets at Fair Value through the Income Statement";*
- derivative instruments, with the exception of those designated as hedging instruments.

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

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

INVENTORIES

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

Costs are determined as follows:

- Raw materials: the purchase cost is calculated using the FIFO method;
- Finished and semi-finished goods: the direct costs of materials and labour and indirect costs.

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

The cost is increased by incremental expenses similarly to that described with respect to property, plant and equipment.

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

The impairment provisions for obsolete and low rotation inventories are calculated by taking their estimated future use and their realisable value into account.

RECEIVABLES

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

IMPAIRMENT OF RECEIVABLES

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

PAYABLES

Payables are initially recorded at their fair value, which normally corresponds to the agreed consideration or to the present value of the amount that will be paid. They are subsequently 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 the initial fair value. Payables in currencies other than the functional currency of the individual companies are adjusted to the year-end exchange rates with a counter entry in the Income Statement. Payables are de-recognised from Financial Statements when the specific contractual obligation is extinguished. In the event of a change in a financial liability that does not entail its derecognition, 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 is recognised, up to the amount collected, as a component of equity. Issuance costs are allocated proportionally to the debt component and 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 and which are readily convertible into a given amount of money and subject to an insignificant risk of change in value.

Bank overdrafts are classified under financial payables as current liabilities.

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

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

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 recognised 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 under 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), while after that date it qualifies as 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.

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

In the case of the purchase of qualifying insurance policies through the use of plan assets, any additional contributions requested by the insurance company are recognised in 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 objectives for the management of risk, and of the strategy for implementing the hedge cover;
- → the hedging relationship meets all the following efficiency requirements:
    - → there is a financial relationship between the hedged item and the hedging instrument;
    - → the effect of credit risk is not dominant compared to any changes associated with the hedged risk;
    - → the hedge ratio defined in the hedging relationship is respected, also by way of rebalancing measures, and is coherent with the risk management strategy adopted by the Group.

These derivative instruments are measured at fair value.

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

- → Fair value hedge – if a derivative financial instrument is designated as a hedge against exposure to any changes in the fair value of an asset or liability attributable to a specific risk, the gain or loss 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 instrument is designated as a hedge against exposure to the variability in the cash flows of an asset or liability recognised in the Financial Statements, or against a highly probable future transaction, the effective portion of the change in the fair value of the hedging instrument is recognised directly in equity, while the ineffective portion is immediately recognised in the Income Statement. The amounts recognised directly in equity are reclassified to the Income Statement for the financial year in which the hedged item produced an effect on the Income Statement. If the hedge of a highly probable future transaction subsequently entails the recognition of a non-financial asset or liability, the amounts that are suspended in equity are included in the initial value of the non-financial asset or liability.

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

→ the full fair value (including forward points): the effective portion of the changes in fair value of the entire derivative instrument 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 matures or is sold, terminated early, exercised, or no longer meets the conditions to be designated as a hedge, then hedge accounting is discontinued. The fair value adjustments accumulated in equity (either in the cash flow hedge reserve or in the cost of hedging reserve) remain suspended in equity until the hedged item manifests its effects in 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 interest rate swaps is calculated by discounting estimated future cash flows based on observable yield curves. The fair value of forward foreign 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 of the Financial Statements. The fair value of natural rubber futures is determined by using the closing price of the contract at the reporting date of the Financial Statements.

TAXES

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

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

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

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

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

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

Deferred taxes are not discounted.

Deferred tax assets and liabilities are credited or debited to 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 in equity.

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

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

SHARE BASED PAYMENTS (CASH SETTLED)

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

RECOGNITION OF REVENUES

Revenues are recognised 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.

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

PRODUCT SALES Revenues from product sales are recognised when the performance obligations towards customers have been satisfied. A performance obligation is deemed to have been 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 from services are recognised when the rendered service 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 ordinary share - basic: basic earnings/(losses) per share are calculated by dividing the earnings/(losses) attributable to the Group by the weighted average number of ordinary shares outstanding during the financial year excluding treasury shares.

Earnings/(losses) per share - diluted: diluted earnings per share are calculated by dividing the earnings/(losses) attributable to the Group by the weighted average number of ordinary shares outstanding during the financial year, excluding treasury shares. 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 purposes of taking decisions on the 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 extinguishment or extinction of monetary items or their translation at rates other than those of their initial recognition at the beginning of the financial year, or different to those at the end of the previous financial, are recognised in the Income Statement.

Whenever the conditions for the designation of inter-company monetary items such as *"Net Investment in Foreign Operations"* are met, 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

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

Group companies operating in 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, with a balancing entry in Financial income and expenses.

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 previous three year period 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 Argentinian subsidiary Pirelli Neumaticos S.A.I.C.

ENVIRONMENTAL CERTIFICATES

In some European countries, the Group receives greenhouse gas emission allowances free of charge, as provided for by the European Emission Trading Schemes. These rights are received on an annual basis and must be surrendered to the relevant national authority based on actual emissions.

If the rights received for free are not sufficient to cover actual emissions, the Group purchases the missing rights.

The rights received either for free or purchased are recognised at cost.

Costs related to greenhouse gas emissions are recognised on an accrual basis, in proportion to the emissions produced during the financial year and are recognised under other costs.

A provision is recognised for the obligation to deliver allowances in an amount equal to the actual emissions. These rights reduce the provision when they are used to meet the Group's obligations to deliver these rights to the competent authority.

The Group also purchases renewable energy certificates (for example, Guarantees of Origin - GO, Renewable Energy Certificates - REC, International Renewable Energy Certificates - IREC, Renewable Energy Guarantee of Origin - REGO), which are instruments that certify the renewable origin of the energy sources used. The cost of purchasing these certificates is recognised in other expenses.

3.1. APPROVED ACCOUNTING STANDARDS AND INTERPRETATIONS IN FORCE AS OF JANUARY 1, 2021

Pursuant to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, the IFRS standards that came into force as of January 1, 2021 were as follows:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Benchmark interest rate reform - IBOR reform - phase 2).
  These amendments introduce a temporary relaxation of the manner in which the impact of replacing an interest rate offered on the interbank market (IBOR) with an alternative risk-free rate must be managed. Specifically, the amendments provide for the following practical approaches:
  - treating contractual changes or changes in cash flows which are directly required by the reform as changes in a variable market interest rate;
  - 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 changes do not impact on the Group's Financial Statements in that the maturity of the potentially impacted instruments is scheduled to occur prior to the transition to the new IBOR.

- Amendment to IFRS 16 Leases - COVID-19 Related Rent Concessions
  These amendments extend by one year the possibility of applying 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. The amendments were intended to be applicable until June 30, 2021, but because the impact of the pandemic continues, this option has been extended until June 30, 2022.

  Lessees can choose to account for reductions 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 liability based on the revised consideration using a revised discount rate. The Group expects to apply this optional accounting treatment if it occurs within the permitted period of application. There were no impacts on the Group's Financial Statements.

3.2. INTERNATIONAL ACCOUNTING STANDARDS AND/OR INTERPRETATIONS ISSUED BUT NOT YET IN FORCE IN 2021

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, 2021, and which were therefore not applicable, along with any expected impacts on the Consolidated Financial Statements, were as follows:

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

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

- Amendments to IAS 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. Revenues from sales of products and the relative production cost must be recognised in the Income Statement.
  These amendments, approved by the European Union, came into force on January 1, 2022. No impacts on the Group's financial statements are expected as a result of these amendments.

- Amendments to IAS 37 - Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of Fulfilling a Contract
  These amendments specify that the costs to be taken into account when measuring onerous contracts are both the incremental costs of fulfilling the contract (for example, direct labour and materials) and a proportion of other costs that relate directly to fulfilling the contract (for example, an allocation of the depreciation rate of the assets used in fulfilling the contract).
  These amendments, approved by the European Union, came into force on January 1, 2022. No impacts on the Group's financial statements are expected as a result of these amendments.

- Annual Improvements (2018 - 2020 cycle) issued in May 2020
  These amendments are limited to some standards (IFRS 1 - First time adoption of the International Financial Reporting Standards, IFRS 9 - Financial instruments, IAS 41 – Agriculture, and explanatory examples of IFRS 16 - Leases) which clarify the wording or correct omissions or conflicts between the requirements of the IFRS standards.
  These amendments, approved by the European Union, came into force on January 1, 2022. No impacts on the Group's financial statements are expected as a result of these amendments.
- Amendments to IAS 1 - Presentation of Financial Statements, and IFRS Practice Statement 2: Disclosure on Accounting Standards
  These amendments provide guidance on the application of materiality judgements to accounting standard disclosures in a way that is more useful; particularly:

  - the requirement to disclose *"significant"* accounting standards has been replaced with a requirement to disclose *"relevant"* accounting standards;
  - guidance has been added on how to apply the concept of materiality to accounting standard disclosures.

  In assessing the relevance of accounting standard disclosures, entities must consider both the size of transactions, other events or conditions and their nature. These amendments, which will come into force on January 1, 2023, have not yet been approved by the European Union. No impacts on the disclosures in the Group's Financial Statements are expected as a result of these amendments.

- Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors
  These amendments introduce a new definition of *"accounting estimates"*, by distinguishing them more clearly from accounting policies, and provide guidance on whether changes should be treated as changes in estimates, changes in accounting standards or errors.
  These amendments, which will come into force on January 1, 2023, have not yet been approved by the European Union. No impacts on the Group's Financial Statements are expected as a result of these amendments.

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

4. FINANCIAL RISK MANAGEMENT POLICIES

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

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

4.1. TYPES OF FINANCIAL RISKS

EXCHANGE RATE RISK

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

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

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

The positions subject to 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 transaction 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 transaction risk for future transactions.

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

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, 2021, are described in Note 27 - *"Derivative Financial 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, 2021 approximately 36.3% of the total consolidated equity was expressed in euro (36.3% at December 31, 2020). The most significant currencies for the Group other than the euro were the Brazilian real (8.5%; 9.8% at December 31, 2020), the Turkish lira (0.4%; 0.4%; at December 31, 2020), the Chinese renminbi (17.7%, 15.2% at December 31, 2020), the Romanian leu (12.5%; 14.7% at December 31, 2020), the British pound sterling (4.0%, 3.8% at December 31, 2020), the US dollar (4.4%; 4.2% at December 31, 2020) the Mexican peso (10.1%, 10.4% at December 31, 2020), and the Russian rouble (2.2%; 1.8% at December 31, 2020).

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

(in thousands of euro)

	Appreciation of 10%		Depreciation of 10%	
	12/31/2021	12/31/2020	12/31/2021	12/31/2020
Brazilian Real	47,609	49,534	(38,953)	(40,528)
Turkish Lira	2,013	2,073	(1,647)	(1,696)
Chinese Renmimbi	98,871	76,782	(80,894)	(62,822)
Romanian Leu	70,086	74,158	(57,343)	(60,675)
Russian Rouble	12,061	9,337	(9,868)	(7,640)
British Pound Sterling	22,528	19,402	(18,432)	(15,875)
Argentinian Peso	13,767	8,874	(11,264)	(7,260)
US Dollar	24,675	21,081	(20,189)	(17,248)
Mexican Peso	56,501	52,697	(46,228)	(43,116)
Total on consolidated equity	**348,111**	**313,938**	**(284,818)**	**(256,860)**

It should be noted that, during the course of 2021, the Turkish lira and the Argentinian peso suffered a depreciation of more than -10%. For information on the effect on equity, reference should be made to Note 20 – *"Equity".*

INTEREST RATE RISK

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

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

(in thousands of euro)

	+0.50%		-0.50%	
	12/31/2021	12/31/2020	12/31/2021	12/31/2020
Impact on Net income/(loss)	(5,986)	(7,332)	5,986	7,332

The effects on the Group's equity resulting from changes in the LIBOR and EURIBOR rates, calculated on the hedging instruments for interest rates which are outstanding at December 31, 2021, are described in Note 27 - *"Derivative Financial Instruments".*

PRICE RISK ASSOCIATED WITH FINANCIAL ASSETS

The Group's exposure to price risk is limited to the volatility of financial assets such as listed and unlisted equities and bonds, which constituted approximately 1.23% of the total consolidated assets at December 31, 2021 (0.74% at December 31, 2020. 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 whose fair value is recognised through other Comprehensive Income is represented by listed equity securities which amounted to euro 21,855 thousand (euro 14,076 thousand at December 31, 2020) and those represented by securities indirectly associated with listed equity securities (Fin. Priv. S.r.l.) amounted to euro 21,171 thousand (euro 15,902 thousand at December 31, 2020);
- assets whose fair value is recognised through the Income Statement amounted to euro 85,912 thousand and are represented by Argentinian dollar-linked bonds (euro 34,571 thousand at December 31, 2020).

Financial assets at fair value through other Comprehensive Income constituted 25.2% of the total financial assets subject to price risk (29.5% at December 31, 2020). A positive change of +5% in the prices of the aforesaid listed securities, all other conditions being equal, would result in a positive change to the Group's equity of euro 1,093 thousand (a positive change of euro 704 thousand at December 31, 2020) while a negative change of -5% in the prices of the aforesaid listed equities, all other conditions being equal, would result in a negative change to the Group's equity of euro 1,093 thousand (a negative change of euro 704 thousand to the Group's equity at December 31, 2020).

Financial assets at fair value through the Income Statement constituted 50.3% of the total financial assets subject to price risk (34% at December 31, 2020). A change positive 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 net income of euro 4,041 thousand (euro 1,706 thousand at December 31, 2020), while a negative change of -5% in the prices of the aforesaid listed equities, all other conditions being equal, would result in a negative change to the Group's net income of euro 3,882 thousand (euro 1,668 thousand at December 31, 2020).

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

Other instruments used for commercial credit risk management is the taking out of insurance policies. A master agreement has been in place for more than 10 years with a leading insurance company with an AA credit rating according to Standard & Poor's ratings, which was recently renewed for the 2021-2022 two-year period, for worldwide coverage for credit risk mainly relative to sales on the Replacement channel (the coverage ratio at December 31, 2021 exceeded 70%).

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

Expected losses on trade receivables are calculated throughout the life of the receivables, starting from the moment of initial recognition, using a matrix linked to the customer's credit rating and credit ageing which is adjusted to take into account forecasting factors specific to certain creditors as well as the presence of any collateral and other credit enhancement instruments, such as the insurance policies mentioned above. The calculation of expected losses is based on (i) a matrix which includes the credit ratings of customers provided by independent market assessors, and on (ii) the value of receivables, which takes the collateral and related insurance coverage into account. This calculation also includes an updated assessment of expected losses due to exogenous events, such as COVID-19 and climate change, in the specific markets in which the counterparties operate, impacting their probability of default and the ceiling levels granted by the insurance company. The provision for bad debts at December 31, 2021 was calculated according to the method described above, and is composed as follows:

(in thousands of euro)

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

The situation at December 31, 2020 was as follows:

(in thousands of euro)

	Current	Past due > 30 days	Past due > 90 days	Past due > 180 days	Total
Expected loss rate	2.9%	6.8%	10.2%	68.9%	12.0%
Exposure net of credit enhancements	426,267	39,000	15,751	72,346	553,364
Bad debt provision	(12,191)	(2,658)	(1,614)	(49,882)	(66,345)

At December 31, 2021, the exposure gross of credit enhancements amounted to euro 900,303 thousand, and the provision for bad debts, which was calculated without considering the presence of any collateral securities and other credit enhancement instruments, amounted to euro 75,632 thousand.

The difference between the exposure gross of credit enhancements amounting to euro 900,303 thousand, and the value of the trade receivables amounting to euro 732,188 thousand reported in Note 14 - "*Trade receivables*", was mainly due to credit notes to be issued, that were not taken into account in the calculation of the provision for bad debts.

LIQUIDITY RISK

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

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

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

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

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

At December 31, 2021 the Group had, a liquidity margin of euro 2,698,550 thousand, calculated as the sum of cash and cash equivalents and other financial assets at fair value through the Income Statement – current to the amount of euro 1,998,550 thousand (euro 2,334,420 thousand at December 31, 2020), and unused credit facilities to the amount of euro 700,000 thousand (euro 700,000 thousand at December 31, 2020). The aforementioned liquidity margin is sufficient to cover financial debt maturities until February 2024. In addition, considering the Company's optional right to extend the maturity of the unsecured *"Facilities"* loan by a further two years (therefore until June 2024), this coverage would be guaranteed until June 2024.

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

(in thousands of euro)

	within 1 year	1 to 2 years	2 to 5 years	over 5 years	Total
Trade payables	1,626,367	-	-	-	1,626,367
Other payables	314,203	11,509	26,310	38,666	390,688
Derivative financial instruments	18,936	1,769	148	-	20,853
Borrowings from banks and other financial institutions	1,543,592	1,220,559	2,535,452	226,980	5,526,583
of which lease liabilities	*98,638*	*86,353*	*193,246*	*226,980*	*605,218*
	3,503,098	**1,233,837**	**2,561,910**	**265,646**	**7,564,491**

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	1,316,971	-	-	-	1,316,971
Other payables	325,266	13,734	24,326	39,220	402,546
Derivative financial instruments	38,641	67,289	2,835	-	108,765
Borrowings from banks and other financial institutions	1,143,948	1,758,008	3,225,910	239,521	6,367,387
of which lease liabilities	*94,982*	*79,673*	*172,514*	*239,521*	*586,690*
	2,824,826	**1,839,031**	**3,253,071**	**278,741**	**8,195,669**

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 their fair value. The levels are defined as follows:

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

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

(in thousands of euro)

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

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

(in thousands of euro)

	Note	Carrying amount at 12/31/2020	Level 1	Level 2	Level 3
FINANCIAL ASSETS:					
Financial assets at fair value through Income Statement:					
Other current financial assets at fair value through Income Statement	18	58,944	34,571	24,373	-
Current derivative financial instruments	27	17,900	-	17,900	-
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		**119,564**	**48,647**	**60,961**	**9,956**
FINANCIAL LIABILITIES:					
Financial assets at fair value through Income Statement:					
Current derivative financial instruments	27	(37,314)	-	(37,314)	-
Derivative hedging instruments:					
Current derivative financial instruments	27	(372)	(372)	-	-
Non-current derivative financial instruments	27	(87,601)	-	(87,601)	-
TOTAL LIABILITIES		**(125,287)**	**(372)**	**(124,915)**	**-**

The following table shows **changes in the financial assets that occurred at level 3 during the course of 2021**:

(in thousands of euro)

Opening balance 01/01/2021	**9,956**
Translation differences	8
Increases	450
Decreases	(39)
Fair value adjustments through Other Comprehensive Income	677
Other changes	4
Closing balance 12/31/2021	**11,056**

These financial assets are mainly represented by equity investments in the European Institute of Oncology (euro 8,006 thousand), Telco S.r.l (euro 450 thousand), Genextra (euro 635 thousand and Tlcom I LP (euro 193 thousand).

The **fair value adjustments through other Comprehensive Income** equalled a positive net amount of euro 677 thousand, and mainly refers to the fair value adjustment of the investment in the Genextra.

During the course of 2021 there were no transfers from level 1 to level 2 or vice versa, nor from level 3 to other levels and vice versa.

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

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

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

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 12/31/2021	Carrying amount at 12/31/2020
FINANCIAL ASSETS			
Financial assets at fair value through Income Statement			
Other financial assets at fair value through Income Statement	18	113,901	58,944
Current derivative financial instruments	27	17,345	17,900
		131,246	*76,844*
Financial assets at amortised cost			
Other non-current receivables	15	362,944	402,148
Current trade receivables	14	659,209	597,669
Other current receivables	15	470,577	469,194
Cash and cash equivalents	19	1,884,649	2,275,476
		3,377,379	*3,744,487*
Financial assets at fair value through other comprehensive income (FVOCI)			
Other financial assets at fair value through Other Comprehensive Income	12	56,907	42,720
Financial hedging derivative instruments			
Current derivative financial instruments	27	29,217	-
Non-current financial derivative instruments	27	4,612	-
TOTAL FINANCIAL ASSETS		**3,599,361**	**3,864,051**

(in thousands of euro)

	Note	Carrying amount at 12/31/2021	Carrying amount at 12/31/2020
FINANCIAL LIABILITIES			
Financial liabilities at fair value through Income Statement			
Current derivative financial instruments	27	15,209	37,314
Financial liabilities valuated at amortised cost			
Non-current borrowings from banks and other financial institutions (excl. lease liabilities)	23	3,376,573	4,580,537
Other non-current payables	25	76,485	77,280
Current borrowings from banks and other financial institutions (excl. lease liabilities)	23	1,397,638	808,163
Current trade payables	24	1,626,367	1,316,971
Other current payables	25	314,203	325,266
		6,791,266	*7,108,217*
Lease liabilities			
Non-current lease liabilities	23	412,796	390,449
Current lease liabilities	23	91,611	75,404
		504,407	*465,853*
Derivative financial hedging instruments			
Non-current derivative financial instruments	27	3,519	87,601
Current derivative financial instruments	27	979	372
		4,498	*87,973*
TOTAL FINANCIAL LIABILITIES		**7,315,380**	**7,699,357**

6. CAPITAL MANAGEMENT POLICY

The Group's objective is to maximise the return on net invested capital while maintaining the ability to operate over time, guaranteeing adequate returns for shareholders and benefits for other stakeholders, foreseeing a gradual deleverage of the Group's financial structure to be achieved over the short to medium-term period, as reported in the "Outlook for 2022" section of the Directors' Report on Operations.

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

The R.O.I.C. for the 2021 financial year stood equal to 17.6% compared to 10.4% for 2020. This increase compared to the previous financial year, was mainly due to the increase in the EBIT adjusted thanks to the recovery in demand, following the fall in 2020 due to the effects of the COVID-19 pandemic 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 could therefore differ from these estimates. The estimates and assumptions are reviewed periodically and the effects of any changes made to them are reflected in the Income Statement for the period in which the estimate is revised. If such estimates and assumptions, based on the best valuation available at the time, should differ from actual circumstances, they are consequentially modified for the period in which the change of circumstances occurred. The estimates and assumptions refer mainly to assessments of the recoverability of goodwill and other intangible assets with an indefinite useful life, to the definition of the useful lives of property, plant and equipment and intangible assets, to the recoverability of receivables, to the determination of taxes (current and deferred), to the evaluation of pension plans and other post-employment benefits, and to the recognition/valuation of the provisions for liabilities and charges.

GOODWILL

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

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

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, 2021 was the fair value determined using the stock market capitalisation of the Parent Company at the date of the impairment test (December 31, 2021), where the stock market capitalisation was calculated on the number of outstanding shares, and adjusted upwardly or downwardly according to the fair value of the financial statement items not included in the carrying amount of the Consumer Activities, mainly the net financial position.

PIRELLI BRAND (INTANGIBLE ASSET WITH AN INDEFINITE USEFUL LIFE)

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

The impairment test at December 31, 2021 was performed using the assistance of an independent third-party professional.

The configuration of the recoverable amount for impairment testing purposes at December 31, 2021 was the fair value, calculated on the basis of the income approach (the so-called Level 3 of the IFRS 13 hierarchy – Fair Value measurement).

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

RIGHT OF USE AND LEASE LIABILITIES

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

The main are summarised as follows:

- → contract renewal clauses 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 was considered;
- → automatic renewal clauses in contracts, in which both

parties have the right to terminate the contract, were not considered for the purposes of determining the duration of the contract, as the ability to extend its duration, is not under the unilateral control of the Group, and the penalty to which the lessor could be exposed to is not significant. However, in the event that the lessor is exposed to a significant penalty, the Group 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: not taken into account when determining the duration of the contract if they are exercisable only by the lessor and not by both parties. In cases where they can be unilaterally exercised by the Group, specific assessments are made 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 traded, and is based on the duration of the contract itself. It is then adjusted according to the Group's credit spread and the local credit spread.

INCOME TAXES (CURRENT AND DEFERRED)

Income taxes (current and deferred) are determined in each country in which the Group operates according to a prudent interpretation of the tax regulations in force. This process sometimes involves complex estimates in determining taxable income and temporary deductible and taxable differences between carrying amounts and tax amounts. Specifically, deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which they can be recovered. The assessment of the recoverability of deferred tax assets, recorded in relation both to tax losses that may be used in subsequent financial years, and to temporary deductible differences, takes into account the estimate of future taxable income and is based on prudent tax planning. As regards the situations in which the tax legislation in force lends itself to interpretation, if the Group considers it probable (more than 50%), that the tax authority will accept the tax treatment adopted, the net income/(loss) before tax is determined in accordance with the tax treatment applied in the tax return, otherwise the effect of any uncertainty is reflected in the determination of the net income/(loss) before tax. The probability refers to the 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 the previous deficit. Management, through the use of a leading consulting firm, uses actuarial assumptions to calculate the liabilities and assets servicing these pension plans. The actuarial assumptions of a financial nature concern the discount rate, the rate of inflation and the trend in medical costs. The actuarial assumptions of a demographic nature are essentially concerned with mortality rates. The Group has identified discount rates which it has deemed are balanced, given their context.

PROVISIONS FOR LIABILITIES AND CHARGES

In view of the legal and tax risks relative to indirect taxes, provisions for the risk of unfavourable outcomes have been recognised. The value of provisions recognised in the Financial Statements 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 role as Chief Operating Decision Maker (CODM);
- for which separate income, financial position, and equity data is available.

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

For 2021, the Group has adopted the same organisational model used in 2020 composed of five Regions.

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

(in thousands of euro)

	2021	2020
Europe and Turkey	2,058,539	1,756,112
North America	1,145,656	870,511
APAC	1,018,817	865,988
South America	667,567	458,617
Russia, Nordics and MEAI	440,871	350,903
Total	**5,331,450**	**4,302,131**

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

(in thousands of euro)

	12/31/2021		12/31/2020	
Europe and Turkey	5,352,217	61.00%	5,440,542	62.24%
North America	416,304	4.74%	389,634	4.46%
APAC	539,778	6.15%	486,468	5.56%
South America	384,362	4.38%	358,383	4.10%
Russia, Nordics and MEAI	198,153	2.26%	182,828	2.09%
Non-current unallocated assets	1,883,765	21.47%	1,883,945	21.55%
Total	**8,774,579**	**100.00%**	**8,741,800**	**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)

	12/31/2021	12/31/2020
Total Net Value:	**3,288,914**	**3,159,767**
- Owned Tangible Assets	2,823,765	2,725,755
- Right of use	465,149	434,012

9.1. OWNED TANGIBLE ASSETS

The composition and changes were as follows:

(in thousands of euro)

	12/31/2021			12/31/2020		
	Gross Value	Accumulated Depreciation	Net Value	Gross Value	Accumulated Depreciation	Net Value
Land	144,121	-	**144,121**	147,406	-	**147,406**
Buildings	848,138	(196,180)	**651,958**	787,489	(150,793)	**636,696**
Plants and machinery	2,704,531	(949,926)	**1,754,605**	2,458,722	(763,568)	**1,695,154**
Industrial and trade equipment	574,926	(361,250)	**213,676**	500,443	(303,197)	**197,246**
Other assets	124,286	(64,881)	**59,405**	111,179	(61,926)	**49,253**
Total	**4,396,002**	**(1,572,237)**	**2,823,765**	**4,005,239**	**(1,279,484)**	**2,725,755**

NET VALUE

(in thousands of euro)

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

NET VALUE

(in thousands of euro)

	12/31/2019	Change in consolidation scope	Hyperinflation Argentina	Currency translation differences	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**

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. This was partially offset by a negative **translation difference** of euro 4,573 thousand.

Increases, totalling euro 314,975 thousand, were primarily aimed at the High Value segment, to the continuous improvement in the mix and quality in all manufacturing plants, and increased production capacity in Mexico, China, Russia and Romania.

The ratio of investments to depreciation for 2021 was equal to 1.08, (0.43 for the financial year 2020).

Devaluation refers mainly to property, plant and machinery that are obsolete and no longer used.

Property, plant and equipment in progress at December 31, 2021, included in the individual fixed asset categories, amounted to euro 183,468 thousand (euro 138,012 thousand at December 31, 2020). The main projects included under property, plant and equipment in progress were the initiation of new projects to increase production capacity, the constant technological upgrading of manufacturing plants and of machinery, also aimed at increasing their safety from an Environmental, Health and Safety (EHS) perspective and at investments in machinery for the development of new product lines and the improvement of existing products.

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

9.2. RIGHT OF USE

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

(in thousands of euro)

	12/31/2021	12/31/2020
Right of use land	17,312	13,730
Right of use buildings	366,512	336,740
Right of use plants and machinery	27,382	26,012
Right of use other assets	53,943	57,530
Total net right of use	**465,149**	**434,012**

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

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

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

Increases in the right of use for the 2021 financial year, also including remeasurements, amounted to euro 122,416 thousand (euro 87,698 thousand for 2020), mainly for new lease contracts for logistics warehouses signed mainly in Europe and North America.

During the course of 2021, the following contracts were subject to reassessment and amendments:

- → the lease agreement for a warehouse in the UK was extended for 5 years, with a corresponding increase in the right of use to the amount of euro 10,847 thousand;
- → the lease agreement for a warehouse in Romania was extended for 4 years, with a corresponding increase in the right of use to the amount of euro 3,115 thousand.

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

(in thousands of euro)

	2021	2020
Land	1,154	1,121
Buildings	61,014	60,505
Plants and machinery	7,374	7,644
Other assets	18,866	19,356
Total depreciation of right of use	**88,408**	**88,626**

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

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

10. INTANGIBLE ASSETS

The composition and changes were as follows:

NET VALUE

(in thousands of euro)

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

NET VALUE

(in thousands of euro)

	12/31/2019	Currency translation differences	Increase	Decrease	Amortisation	Riclass./ Other	12/31/2020
"Concessions, licenses and trademarks - finite useful life"	**59,834**	(1,608)	430	(6)	(5,061)	20,105	**73,694**
Pirelli Brand - indefinite useful 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**

Intangible assets were composed as follows:

- the Pirelli Brand (indefinite useful life) amounted to euro 2,270,000 thousand. It should be noted that the evaluation of the useful life of brands is based on a series of factors including the competitive environment, market share, history of the Brand, life cycles of the underlying product, operating plans and the macroeconomic environment of the countries in which the related products are sold. Specifically, the useful life of the Pirelli Brand was assessed as indefinite on the basis of its history of over one hundred and fifty years of success (established in 1872), and on the intention and ability of the Group to continue investing in order to support and maintain the Brand;
- the Metzeler Brand (useful life of 20 years) amounted to euro 46,677 thousand included under the item *"Concessions, licenses and trademarks – finite useful life";*
- Customer relationships (useful life of 10-20 years) which mainly includes the value of commercial relationships 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 913,617 thousand and euro 55,000 thousand respectively. The useful life of product and process Technology was determined to be 20 years, while the useful life for In-Process R&D was 10 years.
- Goodwill to the amount of euro 1,883,765 thousand, of which euro 1,877,363 thousand was recorded at the time of acquisition of the Group in September 2015. The residual portion refers to the goodwill provisionally determined as part of the acquisition of the company JMC Pneus Comercio Importação e Exportação Ltda which occurred in 2018.

During the course of 2021, investments were also made in software applications (26,548 additions in total) as part of the Digitisation Programme to transform the Group's key processes by 2023. This aim of this programme is to enable the real-time integration of the exchange of information between thethe exchange of information between different business functions and their external partners/customers through digital platforms, using artificial intelligence models.

IMPAIRMENT TESTING OF GOODWILL Goodwill, amounting to euro 1,883,765 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 internal management control purposes.

The impairment testing of goodwill consists of comparing the recoverable value of the Consumer Activities to which goodwill is allocated and their carrying amount, including its operating assets and goodwill.

The configuration of the value used to determine the recoverable amount for Consumer Activities (including goodwill) at December 31, 2021 is the fair value determined by using the market capitalisation of the Parent Company at the date of the impairment test (December 31, 2021), where the market capitalisation is calculated on the number of outstanding shares without consideration of any control premium, adjusted upwards or downwards by the fair value of Financial Statement items not included in the carrying amount of Consumer Activities, mainly the Net Financial Position.

The impairment test at December 31, 2021 did not reveal any impairment, as the fair value of Consumer Activities was significantly higher than the carrying amount.

The difference between the recoverable amount and the carrying amount of the group of CGUs related to Consumer Activities was reset to zero, against a potential contraction of -20% in the stock market price of Pirelli & C. S.p.A. ordinary shares.

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, 2021 was performed using the assistance of an independent third-party professional.

The configuration of the recoverable amount for the purposes of impairment testing purposes at December 31, 2021 is the fair value, calculated on the basis of the income approach (the so-called Level 3 of the IFRS 13 hierarchy – Fair Value measurement) and is based on:

- management's forecasts which are based, with reference to 2022, on the Guidance presented to the financial community on 23 February 2022 and, with reference to the years 2023 - 2025, on the Industrial Plan at 31 March 2021. It should be noted that analysts' consensus forecasts for the period 2022 - 2024 are higher than management's projections and therefore have not been considered for the purposes of the financial statements. The revenue growth rate for the period 2022 - 2025, calculated with respect to 2021 revenues, is 4.5%;
- 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 rate applied to the revenues of the Consumer High Value and Consumer Standard segment was deduced from the royalty rates implicit in the valuations made by an independent entity relative to the main brands of the listed companies of the Tyre sector, and was equal to an average royalty rate of 3.94%. With reference to the contribution in terms of royalties from the Prometeon Tyre Group, the royalty rates used were those already forecast;
- a discount rate of 7.90% which included a premium compared to the WACC which is 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 that could potentially benefit the market participant which acquired the asset separately as a result of the possibility of amortising the asset for tax purposes.

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

The recoverable amount is greater than the carrying amount of the Brand (12.5%), while, in order for the Fair Value to be equal to the carrying amount, a downward change in the key parameters is necessary, particularly:

- a decrease in the royalty rates for the Consumer valuation units of 45 basis points, and the simultaneous resetting to zero of the balance for royalties from the license agreement with Prometeon Tyre Group;
- an increase in the discount rate by 89 basis points;
- a negative *"g"* growth rate of -141 basis points.

11. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

(in thousands of euro)

	12/31/2021			12/31/2020		
	Associates	JV	Total	Associates	JV	Total
Opening balance	**8,395**	**64,193**	**72,588**	**8,703**	**72,143**	**80,846**
Distribution of dividends	(186)	-	(186)	(192)	-	(192)
Share of net income / (loss)	716	981	1,697	228	(5,857)	(5,629)
Share of other components recognised in Equity	-	6,694	6,694	-	(2,093)	(2,093)
Other	93	-	93	(344)	-	(344)
Closing balance	**9,018**	**71,868**	**80,886**	**8,395**	**64,193**	**72,588**

11.1. INVESTMENTS IN ASSOCIATES

The details were as follows:

(in thousands of euro)

	12/31/2020	Distribution of dividends	Share of net income / (loss)	Other	12/31/2021
Eurostazioni S.p.A.	**6,395**	-	180	-	**6,575**
Joint Stock Company Kirov Tyre Plant	**1,121**	-	127	91	**1,339**
Investments in other associates	**879**	(186)	409	2	**1,104**
Total	**8,395**	**(186)**	**716**	**93**	**9,018**

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

11.2. INVESTMENTS IN JOINT VENTURES

The details were as follows:

(in thousands of euro)

	12/31/2020	Share of net income / (loss)	Share of other components recognised in Equity	12/31/2021
PT Evoluzione Tyres	**12,103**	1,049	1,040	**14,192**
Xushen Tyre (Shanghai) Co., Ltd	**52,090**	(68)	5,654	**57,676**
Total	**64,193**	**981**	**6,694**	**71,868**

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, given the evolution of the Chinese market, the expected developments in the electric car segment and the increasing share of homologations obtained for the Original Equipment channel in China, Japan and Korea. The investment is evaluated using the equity method. As announced on August 1, 2018, the joint venture agreement relative to Xushen Tyre (Shanghai) Co., Ltd. provides for a for a call option in favour of Pirelli Tyre S.p.A., exercisable as of January 1, 2021 until March 31, 2026, which - if exercised - would allow Pirelli Tyre S.p.A. to increase its interest in the company to up to 70%. During the course of 2020, Pirelli Tyre S.p.A. notified the shareholders of Xushen Tyre (Shanghai) Co., Ltd. of its intention to not exercise the option until December 31, 2022.

The **share of net income/(loss)**, positive to the amount of euro 981 thousand, refers to the euro -68 thousand pro-rata share of the loss attributable to the joint venture Xushen Tyre (Shanghai) Co., Ltd. and to the euro 1,049 thousand pro-rata share of net income attributable to the joint venture PT Evoluzione Tyres.

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

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

The movements in other financial assets at fair value through other Comprehensive Income amounted to euro 56,907 thousand at December 31, 2021 (euro 42,720 thousand at December 31, 2020), and were as follows:

(in thousands of euro)

Opening balance at 01/01/2021	**42,720**
Translation differences	12
Increases	450
Decreases	(39)
Fair Value adjustment through Other Comprehensive income	13,764
Closing balance 12/31/2021	**56,907**

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

(in thousands of euro)

	12/31/2021	12/31/2020
Listed securities		
RCS MediaGroup S.p.A.	21,855	14,076
Total	**21,855**	**14,076**
Unlisted securities		
Fin. Priv. S.r.l.	21,171	15,902
Fondo Anastasia	2,825	2,786
Istituto Europeo di Oncologia S.r.l.	8,006	7,962
Euroqube	-	10
Tlcom I LP	193	185
Telco S.r.l.	450	-
Other companies	2,407	1,799
Total	**35,052**	**28,644**
Total other financial assets at Fair Value through Other Comprehensive Income	**56,907**	**42,720**

The **fair value adjustments through other Comprehensive Income** equalled a positive net value of euro 13,764 thousand, and mainly refers to the fair value adjustment of the investment in the RCS MediaGroup S.p.A. (positive to the amount of euro 7,779 thousand), and in Fin. Priv S.r.l (positive to the amount of euro 5,269 thousand). For listed securities, the fair value corresponds to the stock market price at December 31, 2021. For unlisted securities, the fair value was determined by using estimates based on the best available information.

13. DEFERRED TAX ASSETS AND LIABILITIES

Their composition is as follows:

(in thousands of euro)

	12/31/2021	12/31/2020
Deferred tax assets	137,643	109,378
Deferred tax liabilities	(1,033,892)	(1,006,799)
Total	**(896,249)**	**(897,421)**

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

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

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

(in thousands of euro)

	12/31/2021	12/31/2020
Deferred tax assets	**330,936**	**348,534**
- of which within 12 months	210,568	171,435
- of which beyond 12 months	120,368	177,099
Deferred tax liabilities	**(1,227,185)**	**(1,245,955)**
- of which within 12 months	(111,378)	(114,624)
- of which beyond 12 months	(1,115,807)	(1,131,331)
Total	**(896,249)**	**(897,421)**

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

(in thousands of euro)

	12/31/2021	12/31/2020
Deferred tax assets		
Provisions for liabilities and charges	54,262	50,369
Property, plant and equipment	9,825	5,189
Leases	2,129	-
Provisions for employee benefit obligations	43,869	55,672
Inventories	37,902	48,670
Tax losses carried forward	53,647	50,094
Trade receivables and other receivables	38,866	30,894
Trade payables and other payables	5,071	5,047
Other	85,365	102,599
Total	**330,936**	**348,534**
Deferred tax liabilities		
Intangible assets	(975,326)	(1,006,521)
Property, plant and equipment	(157,851)	(155,339)
Leases	-	(720)
Provisions for employee benefit obligations	(37,605)	(22,439)
Other	(56,403)	(60,936)
Total	**(1,227,185)**	**(1,245,955)**

The item "**Other**" relative to **deferred tax assets**, mainly includes deferred tax assets recognised on surplus non-deducted interest expense (euro 10,879 thousand), and on the ACE benefit (Allowance for Corporate Equity) (euro 71,669 thousand).

The item "**Other**", relative to **deferred tax liabilities**, mainly includes deferred tax liabilities recognised on the undistributed gains of subsidiaries for which distribution in future financial years is probable (euro 54,748 thousand).

At December 31, 2021 the value of deferred tax assets not recognised on tax losses amounted to euro 76,913 thousand, while those related to temporary differences amounted to euro 33,224 thousand. This latter item mainly includes deferred tax assets not recognised on interest payables. Deferred tax assets were not recognised, in that no taxable income is expected to justify their recovery.

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

(in thousands of euro)

Year of maturity	12/31/2021	12/31/2020
2020	-	2,663
2021	2,775	2,771
2022	2,295	2,291
2023	5,121	5,121
2024	1,280	1,280
2025	2,563	2,557
2026	5,073	5,073
2027	3,731	3,696
2028	779	770
2029	26	25
2030	5	4
No expiry date date	277,452	291,885
Total	**301,100**	**318,136**

Of the total tax losses without an expiry date, euro 270,512 thousand refer to losses attributable to subsidiaries in the UK, Spain and Brazil.

The tax effect of gains and losses recognised directly in equity was negative to the amount of euro 33,933 thousand (negative to the amount of euro 5,672 thousand for 2020), and is reported in the Statement of Comprehensive Income. These changes were mainly due to tax effects connected to actuarial gains/losses on employee benefits, and to the fair value adjustment of cash flow hedge derivatives.

14. TRADE RECEIVABLES

Trade receivables were analysed as follows:

(in thousands of euro)

	12/31/2021			12/31/2020		
	Total	Non-current	Current	Total	Non-current	Current
Trade receivables	732,188	-	732,188	664,014	-	664,014
Provision for bad debts	(72,979)	-	(72,979)	(66,345)	-	(66,345)
Total	**659,209**	**-**	**659,209**	**597,669**	**-**	**597,669**

The gross value of trade receivables amounted to euro 732,188 thousand (euro 664,014 thousand at December 31, 2020). At the reporting date, receivables which were past due by more than 30 days gross of credit notes to be issued, and net of credit enhancement instruments, amounted to 22% of the total exposure (23% at December 31, 2020).

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

The item impaired receivables includes both significant individual positions subject to individual impairment, and positions with similar credit risk characteristics which were grouped together and impaired on a collective basis. The calculation of the impairment is based on (i) a matrix which includes the credit ratings of customers provided by independent market assessors, and on (ii) the value of receivables, which takes the collateral and related insurance coverage into account. This calculation also includes an updated assessment of expected losses due to exogenous events, such as COVID-19 and climate change, in the specific markets in which the counterparties operate, impacting their probability of default and the ceiling levels granted by the insurance company.

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

(in thousands of euro)

	12/31/2021	12/31/2020
Opening balance	**66,345**	**65,967**
Translation differences	917	(9,636)
Accruals	14,089	22,358
Decreases	(1,212)	(6,788)
Releases	(7,160)	(5,515)
Other	-	(41)
Closing balance	**72,979**	**66,345**

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

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

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

15. OTHER RECEIVABLES

Other receivables were analysed as follows:

(in thousands of euro)

	12/31/2021			12/31/2020		
	Total	Non-current	Current	Total	Non-current	Current
Financial receivables	352,658	269,658	83,000	377,024	273,198	103,826
Trade accruals and deferrals	39,633	6,709	32,924	36,485	11,174	25,311
Receivables from employees	3,977	708	3,269	5,038	1,094	3,944
Receivables from social security and welfare institutions	781	-	781	1,402	-	1,402
Receivables from tax authorities not related to income taxes	356,936	64,851	292,085	328,654	93,917	234,737
Other receivables	89,366	29,152	60,214	131,986	30,018	101,968
	843,351	**371,078**	**472,273**	**880,589**	**409,401**	**471,188**
Bad debt provision for other receivables and financial receivables	(9,830)	(8,134)	(1,696)	(9,247)	(7,253)	(1,994)
Total	**833,521**	**362,944**	**470,577**	**871,342**	**402,148**	**469,194**

Financial receivables - non-current (euro 269,658 thousand) refer mainly to, euro 54,353 thousand, the sum deposited as guarantees for tax and legal disputes in relation to the subsidiary Pirelli Pneus Ltda (Brazil) and remunerated at market rates, to the sum of euro 179,277 thousand 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 6,664 thousand in loans disbursed in favour of the Indonesian joint venture PT Evoluzione Tyres.

Financial receivables - current (euro 83,000 thousand) refer mainly to euro 81,402 thousand for the short-term portion of loans granted to the joint venture Jining Shenzhou Tyre Co., Ltd. for which there was no significant credit risk increase compared to the date of disbursement. These loans will be extended, at maturity, for a further 12 months.

The item **bad debt provision for other receivables and financial receivables** (euro 9,830 thousand) mainly includes euro 9,315 thousand relative to the impairment of financial receivables.

The item **receivables from tax authorities not related to income taxes** (euro 356.936 thousand compared to euro 328,654 thousand for 2020) is mainly comprised of receivables for VAT (Value Added Tax) and other indirect taxes whose recovery is expected in future financial years.

Other receivables - **non-current** (euro 29,152 thousand) refer mainly to amounts deposited as guarantees for legal and tax disputes for the Brazilian companies (euro 26,726 thousand).

Other receivables - current (euro 60.214 thousand) include:

→ advances to suppliers amounting to euro 19,813 thousand mainly for logistics costs;
→ receivables from associates and joint ventures to the amount of euro 11,026 thousand, mainly for royalties, and the sale of materials and moulds;
→ receivables from the Prometeon Group to the amount of euro 11,513 thousand mainly in relation to royalties;
→ receivables to the amount of euro 4,895 thousand in yet to be collected government grants.

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

16. TAX RECEIVABLES

Tax receivables refers to income taxes which amounted to euro 45.337 thousand (of which euro 27.564 thousand was non-current) compared to euro 33.914 thousand at December 31, 2020 (of which euro 4,761 thousand was non-current). In more detail, it mainly refers to receivables for advances paid on taxes for the financial year, and to income tax receivables from previous financial years recorded by the Brazilian companies.

The change in **non-current tax receivables** compared to the previous financial year was mainly due to the recognition, by Pirelli Pneus Ltda of tax credits amounting to euro 23,223 thousand for income taxes unduly sustained in previous financial years by the Brazilian subsidiary and recorded following the 2021 decision of the Federal Supreme Court (*"STF"*). Specifically, this decision established the unconstitutionality of including the monetary adjustments - calculated on the basis of the SELIC system (Special System for Settlement and Custody)– applied to tax credits for taxes paid but not owed, when calculating income tax (*"IRPJ"*) and social security contributions, on net income (*"CSSL"*).

17. INVENTORIES

The following is an inventories analysis:

(in thousands of euro)

	12/31/2021	12/31/2020
Raw and auxiliary materials and consumables	176,795	108,306
Sundry materials	6,354	6,638
Unfinished and semi-finished products	69,413	51,534
Finished products	838,186	669,433
Advances to suppliers	1,414	526
Total	**1,092,162**	**836,437**

The restatement of the value of inventories, which was recognised net of impairments, amounted to euro 1,549 thousand (an impairment of euro 14,044 thousand for 2020).

The increase in the value of inventories compared to December 31, 2020 was attributable to an increase in raw materials, offset by stable levels in terms of their share of sales.

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 Income Statement - current amounted to euro 113,901 thousand at December 31, 2021 compared to euro 58,944 thousand at December 31, 2020. For unlisted securities, the fair value was determined by using estimates based on the best available information. This increase compared to December 31, 2020 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 fair value for the period were recognised in the Income Statement as *"Financial Income"* (Note 36).

19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents went from euro 2,275,476 thousand at December 31, 2020 to euro 1,884,649 thousand at December 31, 2021.

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

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

For the Statement of Cash Flow, the balance of cash and cash equivalents was recorded net of bank overdrafts, to the amount of euro 1,105 thousand at December 31, 2021 (euro 5,793 thousand at December 31, 2020).

20. EQUITY

20.1. ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY

Equity attributable to the Owners of the Parent Company went from euro 4,447,418 thousand at December 31, 2020 to euro 4,908,112 thousand at December 31, 2021.

The subscribed and paid up **share capital** at December 31, 2021 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**, which is generated by the conversion into euro of the Financial Statements of subsidiaries that have a functional currency other than the euro, amounted to a loss of euro 565,143 thousand at December 31, 2021. Movements during the financial year included a positive change of euro 114,594 thousand related mainly to the subsidiaries in China and Mexico, which was partially offset by a negative change in Turkey and Argentina.

Changes in other reserves through other Comprehensive Income went from a negative value of euro 89,893 thousand at December 31, 2020 to a negative value euro 1,408 thousand at December 31, 2021, due to the positive effect of actuarial gains on pension funds (euro 91,168 thousand), financial assets at fair value through other Comprehensive Income (euro 13,764 thousand) and the cash flow hedge reserve (euro 23,143 thousand), which was partially offset by the tax effect (negative to the amount of euro 33,933 thousand).

Other **reserves/retained earnings** went from euro 3,312,673 thousand at December 31, 2020, to euro 3,570,288 thousand at December 31, 2021, essentially due to the net income/(loss) for the financial year (positive to the amount of euro 302,796 thousand), due to hyperinflation in Argentina (positive to the amount of euro 33,647 thousand, which was partially offset by a negative translation reserve of euro 8,631 thousand) and due to approved dividends to the amount of euro 80,000 thousand).

20.2. ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Equity attributable to Non-Controlling Interests went from euro 104,432 thousand at December 31, 2020 to euro 134,527 thousand at December 31, 2021. This positive change was mainly due to the results for the financial year which amounted to euro 18,797 thousand, and exchange rate gains to the amount of euro 11,301 thousand.

21. PROVISIONS FOR LIABILITIES AND CHARGES

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

PROVISION FOR LIABILITIES AND CHARGES - NON-CURRENT PORTION

(in thousands of euro)

	12/31/2020	Currency translation differences	Increases	Uses	Releases	Reclass.	12/31/2021
Provision for labour disputes	14,697	6	3,510	(5,356)	(299)	300	12,858
Provision for tax risks not related to income taxes	4,987	(32)	118	(936)	-	-	4,137
Provision for environmental risks	3,641	13	7,145	(1,127)	-	-	9,672
Provision for restructuring and reorganisation	8,385	-	400	(5,265)	-	(2,161)	1,359
Provision for other risks	41,547	195	17,056	(2,031)	(45)	(3,578)	53,144
Total	**73,257**	**182**	**28,229**	**(14,715)**	**(344)**	**(5,439)**	**81,170**

Increases mainly refer to accruals to the provisions for labour disputes mainly for the Brazilian subsidiaries to the amount of euro 3,467 thousand, and to accruals to the provisions for environmental risks. With regard to other risks, the increase for the financial year mainly refers to the STI (Short Term Incentive) and LTI (2020-2022 and 2021-2023 Long Term Incentive) for Directors, reflects the improved performances on the underlying parameters of the plans.

Uses were mainly attributable to rationalisation measures in Italy to the amount of euro 5,265 thousand, and to litigation regarding occupational diseases.

Reclassifications refer mainly to the reclassification of from non-current provisions to payables to social security institutions relative to accruals to the provisions for rationalisation measures in Italy. Under other risks, mainly of note was the reclassification of a provision for the commercial risks of the subsidiary Pirelli Tyre S.p.A. from non-current to current.

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

PROVISION FOR LIABILITIES AND CHARGES - CURRENT PORTION

(in thousands of euro)

	12/31/2020	Currency translation differences	Increases	Uses	Releases	Reclass.	12/31/2021
Provision for labour disputes	78	(55)	274	(13)	(61)	-	223
Provision for tax risks not related to income taxes	7,303	207	619	(3,500)	(1,139)	-	3,490
Provision for environmental risks	3,165	-	101	(156)	-	-	3,110
Provision for restructuring and reorganisation	15,918	32	2,865	(14,907)	(377)	-	3,531
Provision for claims and warranties	7,827	559	3,936	(499)	(229)	-	11,594
Provision for other risks	13,792	394	10,728	(4,114)	(2,433)	3,279	21,646
Total	**48,083**	**1,137**	**18,523**	**(23,189)**	**(4,239)**	**3,279**	**43,594**

Increases were mainly attributable to the purchase of greenhouse gas emission allowances in compliance with the requirements of the European Emission Trading Schemes, to the amount of euro 6,076 thousand, to accruals to the provisions for insurance risks, work accidents and to accruals to the provision for commercial risks that emerged following the reorganisation of the UK manufacturing plant.

Uses refer to rationalisation measures in Brazil and the United Kingdom, and to the insurance and commercial risks of the subsidiary Pirelli Tyre S.p.A.

Releases relative to other risks mainly refer to adjustments for insurance risks.

22. PROVISIONS FOR EMPLOYEE BENEFIT OBLIGATIONS AND OTHER ASSETS

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

The item is composed as follows

(in thousands of euro)

	12/31/2021	12/31/2020
Pension funds in surplus	153,205	80,422
Total other assets	**153,205**	**80,422**
Pension funds in deficit	85,493	148,658
Employee leaving indemnities (TFR - Italian companies)	26,123	31,486
Healthcare plans	15,597	16,026
Other benefits	93,385	47,761
Total provisions for employee benefit obligations	**220,598**	**243,931**

PENSION FUNDS

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

(in thousands of euro)

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

The 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 surplus	UK deficit	Switzerland	Total funded pension funds	Total
Present value of liabilities	80,454	3,176	**83,630**	107,059	749,527	465,946	34,384	**1,356,916**	**1,440,546**
Fair value of plan assets				(92,526)	(829,949)	(421,933)	(27,902)	**(1,372,310)**	**(1,372,310)**
Total Assets in surplus					**(80,422)**			**(80,422)**	**(80,422)**
Total Liabilities in deficit	**80,454**	**3,176**	**83,630**	**14,533**		**44,013**	**6,482**	**65,028**	**148,658**
Total pension funds									**68,236**

The characteristics of the main pension funds in place at December 31, 2021 were as follows:

- **Germany:** this is an unfunded defined benefits plan based on final salary. This fund guaranteed a pension in addition to the state pension. The plan was closed in October 1982. Consequently the participants to this plan are employees whose employment had begun prior to that date;
- **USA**: this is a funded defined benefits plan based on final salary, and is administered through a Trust. This fund guaranteed a pension in addition to the state pension. The plan was closed in 2001 and frozen in 2003 for employees who then transferred to a defined contribution scheme. All participants to this plan have since retired;
- **UK**: these are funded defined benefits plans based on salary trends. It guarantees a pension in addition to the state pension and is administered through a Trust. These plans, managed by the subsidiary Pirelli Tyres Ltd. were closed in 2001 to new participants and frozen during the course of 2010 for employees hired prior to 2001, who were then offered a transfer to a defined contribution plan. The plan was operated by the subsidiary Pirelli UK Ltd., and included the employees in the Cables and Systems sector which was sold in 2005, and was already frozen in 2005 at the date of the disposal. 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 buy-in contracts which consist of the purchase of bulk annuity insurance policies. For the first two aforementioned funds, the buy-out (insurance out-sourcing) process was subsequently finalised in January 2021, followed by the wind-up (closure) of the funds in June the same year. This wind-up led to a reduction in the liabilities and in the plan assets of pension funds to the amount of euro 86,048 thousand. The surplus recognised at December 31, 2021 in respect of provisions still outstanding is equal to the recoverable amount, assuming the gradual extinguishment of the plan liabilities over time;
- **Sweden**: this a defined benefits plan (ITP2), which is closed to new participants. The only participants are retired employees and the recipients of deferred pensions. It is based on percentages applied to different wage and salary ranges;
- **Switzerland**: these are funded defined benefit plans that guarantee a pension in addition to the state pension and are open to new employees. They are based on final salary reduced by a fixed amount.

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

(in thousands of euro)

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

Movements for 2020 in defined benefits pension funds (refers to funded and unfunded pension funds) were as follows:

(in thousands of euro)

	Present value of gross liabilities	Fair value of plan assets	Total
Opening balance at January 1, 2020	1,429,002	(1,313,077)	115,925
Currency translation differences	(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	534	(534)	-
Benefits paid	(74,118)	68,496	(5,622)
Other	(1,055)	2,536	1,481
Closing balance at December 31, 2020	**1,440,546**	**(1,372,310)**	**68,236**

Current service costs for services rendered by employees and for services rendered in previous years, are included under *"Personnel Expenses"* (Note 31), and interest payables are included under *"Financial Expenses"* (Note 37).

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

(in thousands of euro)

	12/31/2021				12/31/2020			
	listed	unlisted	total	%	listed	unlisted	total	%
Shares	50,045	320,610	370,655	24.9%	57,638	315,104	372,742	27.1%
Bonds	66,546	101,428	167,974	11.3%	40,240	94,284	134,524	9.8%
Insurance policies	3,101	4,914	8,015	0.5%	2,835	91,330	94,165	6.9%
Deposits	30,257	34,433	64,690	4.3%	94,300	8,950	103,250	7.5%
Balanced funds	489	192,147	192,636	12.9%	(349)	233,147	232,798	17.0%
Real Estate	-	53,199	53,199	3.6%	5,112	47,843	52,955	3.9%
Derivatives	594,839	32,246	627,085	42.2%	385,012	(16,490)	368,522	26.8%
Other	4,388	-	4,388	0.3%	13,354	-	13,354	1.0%
Total	**749,665**	**738,977**	**1,488,642**	**100.0%**	**598,142**	**774,168**	**1,372,310**	**100.0%**

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

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

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

The key parameters of this mandate were as follows:

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

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

The contributions which are expected to be paid into unfunded pension funds during the 2022 financial year amount to euro 5,228 thousand, while for funded pension funds the amount expected is euro 19,860 thousand.

EMPLOYEES' LEAVING INDEMNITIES (TFR)

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

(in thousands of euro)

	12/31/2021	12/31/2020
Opening balance	**31,486**	**32,680**
Movements through Income Statement:		
- current service cost	52	41
- interest expense	204	240
Remeasurements recognised in equity:		
- actuarial (gains) / losses arising from changes in financial assumptions	336	292
- effect of experience adjustments	(1,365)	-
Liquidation/advances	(4,248)	(1,273)
Other	(342)	(494)
Closing balance	**26,123**	**31,486**

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

HEALTHCARE PLANS

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

(in thousands of euro)

	USA
Liabilities recognised in the Financial Statements at 12/31/2021	15,597
Liabilities recognised in the Financial Statements at 12/31/2020	16,026

Movements for the period were as follows:

(in thousands of euro)

	12/31/2021	12/31/2020
Opening balance	**16,026**	**17,825**
Translation differences	1,262	(1,485)
Movements through Income Statement:		
- current service cost	1	2
- interest expense	340	505
Remeasurements recognised in equity:		
- actuarial / (gains) losses arising from changes in financial assumptions	(415)	1,061
- actuarial / (gains) losses arising from changes in demographic assumptions	57	(467)
- effect of experience adjustments	(735)	(307)
Benefits paid	(939)	(1,108)
Closing balance	**15,597**	**16,026**

The cost for services rendered by employees is included under *"Personnel Expenses"* (Note 31), while interest payables are included under *"Financial Expenses"* (Note 37).

The contributions which are expected to be paid into the healthcare plan during the 2022 financial year amount to euro 1,381 thousand.

ADDITIONAL INFORMATION REGARDING POST-EMPLOYMENT BENEFITS

Net actuarial gains accrued during 2021 and recorded directly in equity amounted to euro 91,168 thousand, (net actuarial gains at December 31, 2020 had amounted to euro 18,946 thousand).

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

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

The main actuarial assumptions used at **December 31, 2020** were the following:

	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 following table provides an analysis of payment schedules for subsequent post-employment benefits:

(in thousands of euro)

	within 1 year	1 to 2 years	3 to 5 years	over 5 years	Total
Pension funds	67,243	67,673	204,753	351,646	691,315
Employees' leaving indemnities (TFR)	2,218	2,067	5,892	8,815	18,992
Healthcare plans	1,381	1,348	3,810	5,278	11,817
Total	**70,842**	**71,088**	**214,455**	**365,739**	**722,124**

The weighted average duration of post-employment benefit obligations equalled 15.23 years (14.97 years at December 31, 2020), 8.44 years for employees' leaving indemnities (8.65 years at December 31, 2020) and 8.22 years for medical assistance plans (8.65 years at December 31, 2020).

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

(in %)

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

At the end of 2020 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	3.59%	increase of	3.80%
Inflation rate (only UK plans)	0.25%	increase of	2.43%	decrease of	2.29%

The sole purpose of the above analysis is to estimate the change in liability, with changes in the discount rates and the UK inflation rates with reference to the central rate assumption, rather than to an alternative set of assumptions.

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

OTHER LONG TERM BENEFITS

The composition of other benefits was as follows:

(in thousands of euro)

	12/31/2021	12/31/2020
Long Term Incentive plans	52,571	11,238
Jubilee awards	18,650	19,210
Leaving indemnities	9,513	10,366
Other long-term benefits	12,651	6,947
Total	**93,385**	**47,761**

The item **Long Term Incentive plans** refers to the amount earmarked for the three-year monetary 2020-2022 and the 2021–2023 Long Term Incentive plans aimed at the management sector of the Group, and correlates with the Guidance for 2020 and with the objectives contained in the 2021 – 2022|2025 Industrial Plan. The increase compared to the previous financial year reflects the improved performances on the underlying parameters of the plans.

PROVISIONS FOR EMPLOYEE BENEFIT OBLIGATIONS - CURRENT PORTION

This decrease compared to December 31, 2020 of euro 5,013 thousand is due to the payment of the fourth and final instalment of the retention plan approved, by the Board of Directors on February 26, 2018, which is aimed at Key Managers and a selected number of Senior Managers and Executives.

23. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Borrowings from banks and other financial institutions were as follows:

(in thousands of euro)

	12/31/2021			12/31/2020		
	Total	Non-current	Current	Total	Non-current	Current
Bonds	1,453,762	1,453,762	-	1,524,559	1,442,650	81,909
Borrowings from banks	3,269,732	1,922,771	1,346,961	3,793,780	3,137,857	655,923
Borrowings from other financial institutions	34,390	-	34,390	43,930	-	43,930
Lease liabilities	504,407	412,796	91,611	465,853	390,449	75,404
Accrued financial expenses and deferred financial income	13,787	-	13,787	13,512	-	13,512
Other financial payables	2,540	40	2,500	12,919	30	12,889
Total	**5,278,618**	**3,789,369**	**1,489,249**	**5,854,553**	**4,970,986**	**883,567**

The item **bonds** refers to:

- the senior unsecured guaranteed equity-linked non-interest-bearing bond with a nominal value of euro 500 million maturing on December 22, 2025. This bond loan, reserved for institutional investors, was issued by Pirelli & C. S.p.A. on December 22, 2020, guaranteed by Pirelli Tyre S.p.A., and admitted for trading on the Vienna MTF, a multilateral trading facility operated by the Vienna Stock Exchange. The bond loan is convertible, at the discretion of the bondholders, into new ordinary shares of the Company at a price of euro 6.235 per share, subject to the adjustments provided for by the loan regulations. At December 31, 2021, the component recorded under financial payables amounted to euro 461 million. The difference in the nominal value refers to the fair value of the call option sold to the subscribers of the loan, which is represented by the optional right to convert the bond loan into new ordinary shares of the Company at a pre-determined price, and is accounted for under equity reserves to the amount of euro 41.2 million;

- 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 period of 5 years. This bond 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) programme 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 total nominal value of euro 443 million placed on July 26, 2018. This bond loan, guaranteed by Pirelli Tyre S.p.A., and signed by leading market operators, consists of one tranche for the amount of euro 423 million with a 5 year maturity, and another for euro 20 million with a 7 year maturity. The loan, placed on July 26, 2018, also includes a tranche of euro 82 million with an original maturity date of July 31, 2021, that was repaid in advance in January 2021.

The **carrying amount for bond loans** was determined to be as follows:

(in thousands of euro)

	12/31/2021	12/31/2020
Nominal value	1,496,000	1,578,000
Equity component of the convertible bond loan	(41,791)	(41,791)
Transaction costs	(14,957)	(15,133)
Bond loan discount	(2,988)	(2,988)
Amortisation of the effective interest rate	9,282	6,275
Non-monetary interest on convertible bond loan	8,216	196
Total	**1,453,762**	**1,524,559**

The item **borrowings from banks**, which amounted to euro 3,269,732 thousand, mainly refers to:

- the use of unsecured (*"Facilities"*) loan granted to Pirelli & C. S.p.A. for the amount of euro 949,182 thousand, classified under current payables. The nominal amount of the refinancing operation, signed on June 27, 2017 (with a closing date of June 29, 2017), equalled euro 1.65 billion (net amount of repayments made since the date of signing - the original amount of euro 4.2 billion granted for the credit facility). This loan is guaranteed by Pirelli Tyre S.p.A., Pirelli Deutschland GmbH, Pirelli Tyres Romania S.r.l., Pirelli Pneus Ltda, Pirelli International Treasury S.p.A. and Pirelli Neumaticos S.A. de C.V. 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 credit facilities are denominated in euros and US dollars and carry a floating interest rate of EURIBOR + spread and LIBOR + spread, respectively. In February 2021, a portion of the loan was repaid to the amount of euro 756 million. It should also be noted that all credit facilities with an original maturity period of 3 years were fully repaid. The value of the outstanding loan at December 31, 2021 therefore refers only to the credit facilities with an original maturity period of 5 years;
- the *"Sustainable Credit Facility"* for euro 795,993 thousand relative to the euro 800 million credit facility with a floating interest rate (EURIBOR + spread) guaranteed by Pirelli Tyre S.p.A. and signed on March 31, 2020 with a pool of leading Italian and international banks, with a 5 year maturity. This bank credit facility consists of a sustainable tranche of euro 600 million, which is geared towards the Group's financial and environmental sustainability objectives (sustainable KPIs), as well as a circular economy tranche, which is indexed to the Group's circular economy objectives. It should be noted that following the first reporting of the sustainable KPIs, and having achieved the objectives for the year, the Group is benefiting from the relative incentives to reduce the cost of the sustainable tranche of the credit facility. Reporting for the circular economy tranche is expected to occur only in 2023;
- euro 722,622 thousand relative to two bilateral loans granted to Pirelli & C. S.p.A. by leading banks, of which a nominal euro 600 million (the *"Bilateral 600"*) with a floating rate (EURIBOR + spread), guaranteed by Pirelli Tyre S.p.A., matures in February 2024, and euro 125 million (the *"Bilateral 125"*) with a floating rate (EURIBOR + spread), matures in August 2023;
- euro 498,728 thousand relative to two new bilateral loans granted in December 2021 to Pirelli & C. S.p.A. by leading banks, of which, a nominal euro 400 million (the *"Bilateral 400"*), guaranteed by Pirelli Tyre S.p.A.

is geared towards some of the sustainability targets of the Group, with a floating rate (EURIBOR + spread), matures in December 2024, and euro 100 million at a fixed rate matures in December 2022;

- euro 180,362 thousand mainly relative to floating rate loans disbursed in Brazil by local and international banking institutions of which euro 1,002 thousand has been classified under non-current borrowings from banks;
- borrowings from banks and the use of credit facilities in local currency by subsidiaries in Russia, (equivalent to euro 65,591 thousand of which euro 3,127 thousand is classified non-current borrowings from banks) and in China (equivalent to euro 51,655 thousand), classified entirely as current borrowings from banks.

At December 31, 2021 the Group had a liquidity margin equal to euro 2,698,550 thousand, composed of euro 700,000 thousand in the form of non-utilised committed credit facilities and of euro 1,884,649 thousand in cash and cash equivalents, in addition to financial assets at fair value through the Income Statement to the amount of euro 113.901 thousand.

The item **lease liabilities** represents the financial liabilities relative to leasing contracts. The change compared to the previous financial year refers to increases in the right of use during the financial year, deriving from the signing of new contracts and the remeasurement of existing contracts, partially offset by lease instalments.

Non-discounted future payments for lease contracts for which the exercise of extension options is not considered to be reasonably certain, amounted to euro 115,473 thousand at December 31, 2021 and were not included in the item *"Borrowing from banks and other financial institutions"* (euro 90,373 thousand at December 31, 2020).

Accrued financial expenses and deferred financial income, to the amount of euro 13,787 thousand mainly refers to the accrual of interest matured on bond loans to the amount of euro 8,510 thousand (euro 8,990 thousand at December 31, 2020), and to the accrued interest matured on borrowings from banks to the amount of euro 3,618 thousand (euro 2,062 thousand at December 31, 2020).

The **change in total borrowings from banks and other financial institutions for 2021** is composed as follows:

(in thousands of euro)

Borrowings from banks and other financial institutions at December 31, 2020	**5,854,553**
Bond repayment (EMTN program)	(82,000)
Drawdowns of unsecured financing (Facilities)	368,549
Repayments of unsecured financing (Facilities)	(1,337,656)
New bilateral borrowings	500,000
Financial inflows for the local credit facilties of Group companies	30,501
Financial outflows for the local credit facilties of Group companies	(229,790)
Repayment of lease liabilities	(105,355)
Cash changes	**(855,751)**
Amortised cost for the period	26,289
Translation differences and other changes for the period	112,727
Increases in lease liabilities	108,702
Remeasurement and early termination	32,098
Non-cash changes	**279,816**
Borrowings from banks and other financial institutions at December 31, 2021	**5,278,618**

The **change in total borrowings from banks and other financial institutions for 2020** is shown below:

(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**

At December 31, 2021 there were no financial payables secured by collateral guarantees (pledges and mortgages).

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

(in thousands of euro)

	12/31/2021		12/31/2020	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Bonds	1,453,762	1,469,529	1,442,650	1,465,120
Borrowings from banks	1,922,771	1,926,002	3,137,857	3,164,333
Other financial payables	412,836	412,836	390,479	390,479
Total non-current financial payables	**3,789,369**	**3,808,367**	**4,970,986**	**5,019,932**

The public bond loan issued by Pirelli & C. S.p.A. under the EMTN programme is listed and its relative fair value was measured with reference to year-end prices. It has therefore been classified in level 1 of the hierarchy provided for by IFRS 13 – Fair Value Measurement. The fair value of the debt component of the convertible bond of the "*Schuldschein*" loan and of current borrowings from banks, was calculated by discounting each expected debt cash flow at the market swap-rate for the currency and the maturity date, increased by the Group's credit rating for other debt instruments similar by nature and technical characteristics, which therefore placed it at level 2 of the hierarchy as provided for by IFRS 13 - Fair Value Measurement.

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

(in thousands of euro)

	12/31/2021	12/31/2020
EUR	3,884,307	3,857,077
USD (US Dollar)	1,159,808	1,770,024
CNY (Chinese Renmimbi)	75,408	62,784
RUR (Russian Rouble)	68,354	66,798
RON (Romanian Leu)	929	196
BRL (Brasilian Real)	31,690	35,992
SEK (Swedish Krona)	23,823	29,841
GBP (British Pound Sterling)	25,091	16,024
TRY (Turkish Lira)	950	8,708
JPY (Japanese Yen)	1,168	1,449
MXN (Mexican Peso)	465	581
Other Currencies	6,625	5,079
Total	**5,278,618**	**5,854,553**

At December 31, 2021 there were hedging derivatives in place for interest rates and exchange rates on 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 date of the renegotiation of the same (resetting) was subdivided as follows:

- floating rate payables to the amount of euro 2,143,307 thousand, whose interest rate is subject to renegotiation during the course of 2022;
- fixed rate payables to the amount of euro 3,082,028 thousand, whose interest rate is not subject to renegotiation until the natural maturity of the debt to which it refers (euro 1,142,216 thousand with maturity in the next twelve months, and euro 1,939,812 thousand euro with maturity beyond twelve months).

The cost of debt year-on-year stood at 2.38% compared to 1.94% at December 31, 2020.

The change mainly reflects the slight increase in financial expenses related to financial debt (euro +4.3 million) combined with the significant reduction in gross debt realised during the year thanks to the generation of cash and financial debt repayments made in the first months of 2021 for euro 838 million.

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 Ltd. (formerly 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 (the *"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 (the *"Bilateral 125"*), (v) the *"Sustainable Credit Facility"* signed on March 31, 2020, and (vi) the euro 400 million *"ESG linked"* bilateral credit facility granted to Pirelli & C. S.p.A. in December 2021 (*the "Bilateral 400"),* require the observance of a 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 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 the *"Bilateral 600"*, the *"Bilateral 125" and the "Bilateral 400"*, if requested by the sole bank which 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.

In relation to the above, it should be noted that, at December 31, 2021, no default or non-fulfilment event had occurred.

Other financial payables outstanding at December 31, 2021 were not subject to financial covenants.

The *""Facilities", "Schuldschein", "Bilateral 600" and "Bilateral 125"* loans, the *"Sustainable Credit Facility"*, the *"Bilateral 400"* loan, as well as the euro 100 million bilateral credit facility granted to Pirelli & C. S.p.A. in December 2021, also include *Negative Pledge* clauses and other customary provisions whose terms and conditions are consistent with market standards, for each of the aforementioned types of credit facility.

24. TRADE PAYABLES

Trade payables were composed as follows:

(in thousands of euro)

	12/31/2021			12/31/2020		
	Total	Non-current	Current	Total	Non-current	Current
Trade payables	1,516,488	-	1,516,488	1,273,863	-	1,273,863
Bill and notes payable	109,879	-	109,879	43,108	-	43,108
Total	**1,626,367**	**-**	**1,626,367**	**1,316,971**	**-**	**1,316,971**

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

The increase in trade payables, compared to the previous financial year, was mainly due to the recovery of business and the low level of investments made in the last quarter of 2020

Trade payables for 2021 included, the portion relative to payables for the purchase of intangible assets and property, plant and equipment, which amounted to euro 109,060 thousand. For comparative purposes, the 2020 balances were adjusted by including the portion of payables for the purchase of intangible assets and property, plant and equipment that had been reported under *"Other payables"* to the amount of euro 49,000 thousand. Refer to Note 25 for further details.

25. OTHER PAYABLES

Other payables were as follows:

(in thousands of euro)

	12/31/2021			12/31/2020		
	Total	Non-current	Current	Total	Non-current	Current
Accrued expenses and deferred income	75,142	45,877	29,265	82,119	52,292	29,827
Tax payables not related to income taxes	82,449	5,410	77,039	120,470	5,178	115,292
Payables to employees	128,810	3,927	124,883	83,074	2,038	81,036
Payables to social security and welfare intitutions	61,345	20,368	40,977	55,010	17,008	38,002
Dividends payable	152	-	152	254	-	254
Contract liabilities	4,434	12	4,422	4,198	-	4,198
Other payables	38,356	891	37,465	57,421	764	56,657
Total Other payables	**390,688**	**76,485**	**314,203**	**402,546**	**77,280**	**325,266**

Accrued expenses and deferred income - **non-current** refers to euro 44,724 thousand in capital contributions received for investments made mainly in Romania, whose benefits are recognised in the Income Statement in proportion to the costs for which the contribution was disbursed.

Accrued expenses and deferred income - **current** includes euro 8,264 thousand for various trade initiatives realised in Germany and Brazil, euro 9,387 thousand in government grants and tax incentives received mainly in Italy and Romania, and euro 1,059 thousand for insurance costs coverage in some European countries.

The item **tax payables not related to income taxes** is mainly comprised of VAT payables (Value Added Tax), other indirect taxes, withholding tax for employees, and other taxes not related to income taxes. This change compared to the previous financial year, refers mainly to the postponement of the settlement of indirect tax payables for 2020 by some Group companies, due to the possibility granted by various countries to postpone the payment of settlements as a measure to contain the financial impact of the pandemic.

The item **payables to employees** mainly includes amounts accrued during the period but not yet paid. The increase compared to the previous financial year mainly refers to the STI (Short Term Incentive) plan that was cancelled in 2020 following the COVID-19 pandemic.

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

The item **other payables** (euro 38,356 thousand) mainly includes:

- → euro 11,044 thousand in payables to representatives, agents, professionals and consultants;
- → euro 4,348 thousand in advance payments from customers on tyre sales;
- → euro 915 thousand in payables to Directors, Auditors and supervisory bodies.

The item other payables for 2020 included the portion related to payables for the purchase of intangible assets and property, plant and equipment amounting to euro 49,000 thousand, reclassified among trade payables as shown in Note 24 - *"Trade Payables".*

26. TAX PAYABLES

Tax payables were for the most part for national and regional income taxes in different countries, and amounted to euro 145,900 thousand (of which euro 11,512 thousand was for non-current payables), compared to euro 110,300 thousand at December 31, 2020 (of which euro 10,795 thousand was for non-current payables), which is substantially consistent with the current taxes recorded for the financial year. Income tax payables include the assessments made by Management with respect to the possible effects of uncertainty regarding the treatment of income taxes.

27. DERIVATIVE FINANCIAL INSTRUMENTS

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

(in thousands of euro)

	12/31/2021				12/31/2020		
	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Current assets	Non-current liabilities	Current liabilities
Without adoption of hedge accounting							
Foreign exchange derivatives - commercial positions	-	7,713	-	(5,856)	4,561	-	(4,815)
Foreign exchange derivatives - included in net financial position	-	9,633	-	(9,353)	12,995	-	(32,499)
Interest rate derivatives - included in net financial position	-	-	-	-	344	-	-
Hedge accounting adopted							
- cash flow hedge:							
Interest rate derivatives - included in net financial position	4,612	-	(3,519)	(979)	-	(10,623)	-
Other derivatives - included in net financial position	-	29,216	-	-	-	(76,978)	-
Other derivatives - commercial positions	-	-	-	-	-	-	(372)
	4,612	**46,562**	**(3,519)**	**(16,188)**	**17,900**	**(87,601)**	**(37,686)**
Total derivatives included in net financial position	4,612	38,849	(3,519)	(10,332)	13,339	(87,601)	(32,499)

At 31 December 2021, the derivatives of Brazil were presented by netting the assets and liabilities on the same instrument. To ensure comparability with the previous year, derivative financial instruments present in current assets, amounting to euro 21,427 thousand, were reclassified to derivative financial instruments in current liabilities.

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

(in thousands of euro)

	12/31/2021	12/31/2020
Current assets		
Forward foreign exchange contracts - fair value recognised in the Income Statement	17,346	17,556
Interest rate swaps - fair value recognised in the Income Statement	-	344
Cross currency interest rate swaps - cash flow hedge	29,216	-
Total current assets	**46,562**	**17,900**
Non-current assets		
Interest rate swaps - cash flow hedge	4,612	-
Total non-current assets	**4,612**	**-**
Current liabilities		
Forward foreign exchange contracts - fair value recognised in the Income Statement	(15,209)	(37,314)
Interest rate swaps - cash flow hedge	(979)	-
Commodity Futures in natural rubber - cash flow hedge	-	(372)
Total current liabilities	**(16,188)**	**(37,686)**
Non-current liabilities		
Interest rate swaps - cash flow hedge	(3,519)	(10,623)
Cross currency interest rate swaps - cash flow hedge	-	(76,978)
Total non-current liabilities	**(3,519)**	**(87,601)**

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

DERIVATIVE FINANCIAL INSTRUMENTS IN HEDGE ACCOUNTING The value of **interest rate derivatives** recognised under non-current assets to the amount of euro 4,612 thousand, under non-current liabilities to the amount of euro 3,519 thousand, and under current liabilities to the amount of euro 979 thousand, refers to the fair value measurement of 14 interest rate swaps.

(milioni di euro)

Derivative	Hedged element	Notional amount	Start date	Maturity	
IRS	Term loan in EUR	250.0	June 2019	June 2022	receive floating / pay fixed
IRS	Term loan in EUR	62.5	August 2019	August 2023	receive floating / pay fixed
IRS	Schuldschein	180.0	July 2020	July 2023	receive floating / pay fixed
IRS	Schuldschein	20.0	July 2020	July 2025	receive floating / pay fixed
IRS forward start	Pre-hedge	500.0	March 2022	March 2026	receive floating / pay fixed
Totale		**1,012.5**			

During the first half-year of 2021, an IRS receive floating EURIBOR / pay fixed EURIBOR was closed early following the partial repayment of the unsecured (*"Facilities")* loan to the amount of euro 756 million amount (refer to Note 23).

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

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

The change in the fair value for the period which was positive to the amount of euro 4,964 thousand, was entirely suspended in equity, while euro 4,624 thousand in net interest payables was reversed to the Income Statement under the item *"Financial Expenses"* (Note 37), correcting the financial expenses recognised on the hedged liability, and euro 1,089 thousand for the ineffectiveness related to the early liquidation of the IRS.

A change of +0.5% in the EURIBOR curve, all other conditions being equal, would result in a positive change of euro 11,973 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 12,274 thousand in the equity of the Group.

The value of **other derivatives**, recognised under current assets to the amount of euro 29,216 thousand, refers to the fair value measurement of 4 cross currency interest rate swaps with the following characteristics:

Derivative	"Notional amount (USD million)"	"Notional amount (USD million)"	Start date	Maturity	
CCIRS	1,079	920	July 2019	June 2022	pay fix EUR / receive floating LIBOR USD
Total	**1,079**	**920**			

During the first half-year of 2021, two CCIRS pay floating EURIBOR/receive floating LIBOR contracts were closed early following the partial repayment of the unsecured loan (*"Facilities"*) to the amount of euro 756 million, (refer to Note 23). The exchange of notional amounts generated exchange rate losses of euro 15,598 thousand.

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

The positive change in fair value for the period was suspended in equity to the amount of euro 91,570 thousand, (the cash flow hedge reserve was positive to the amount of euro 90,395 thousand, and the cost of hedging reserve was positive to the amount of euro 1,175 thousand), while to the Income Statement were reversed:

- income of euro 83,860 thousand to offset unrealised net exchange rate losses recorded on the hedged liability;
- net interest payables of euro 52 thousand to correct the financial expenses recognised on the hedged liability;
- effectiveness which amounted to euro 1,363 thousand following the early liquidation of two CCIRS in February 2021.

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 1,853 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 1,867 thousand in the equity of the Group.

A +10% change in the USD/EUR exchange rate, all other conditions being equal, would result in a negative change of euro 205 thousand in the Group's equity, while a negative change of -10%, would instead result in a positive change of euro 427 thousand in the Group's equity.

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

- there exists a financial relationship between the hedging instrument and the hedged item, in that the characteristics of the hedging instrument (the nominal interest rate, the reset of the interest rate and

the frequency of interest liquidation), are substantially aligned with those of the hedged item. As a consequence, any changes in the fair value of the hedging instrument regularly offsets that of the hedged item;
- the effect of credit risk is not predominant within the hedging relationship. Based on the Group's operating policy, derivatives are traded only with financial counterparties with an elevated credit standing, 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 purposes and is equal to 100% (1:1).

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

The possible causes of ineffectiveness are as follows:

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

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

28. COMMITMENTS AND RISKS

COMMITMENTS FOR THE PURCHASE OF TANGIBLE AND INTANGIBLE ASSETS

The commitments to purchase property, plant and equipment and intangible assets amounted respectively to euro 104,143 thousand and euro 3,489 thousand, and refer mainly to subsidiary companies in Italy, Romania, Germany, Brazil, China, Russia and Mexico.

LEASING CONTRACT COMMITMENTS

At December 31, 2021, 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 2,171 thousand and mainly referred mainly referred to a rental contract for a test track for summer tyres in Sweden.

COMMITMENTS FOR THE PURCHASE OF EQUITY INVESTMENTS/ FUND SHARES

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

OTHER RISKS

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

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

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

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

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

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

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

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

In April 2021, the two judgments were joined.

Based on careful analyses supported by authoritative external legal opinions, the assessment of the risk related to the disputes described above is such as to not require the allocation of any specific provision in the Consolidated Financial Statements at December 31, 2021.

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

In April 2019, before the Court of Milan, Terna S.p.A. - Rete Elettrica Nazionale ("Terna") jointly and severally sued Pirelli, three Prysmian Group companies and another company of the aforementioned European Commission decision, in order to obtain compensation for the damage allegedly suffered as a consequence of the anti-competitive conduct, currently quantified by the plaintiff as euro 199.9 million. Pirelli appeared in court contesting Terna's claims, and like the other defendants and against them filed a counterclaim for damages in the unlikely event that it is held jointly and severally liable for the anti-competitive cartel. In October 2021, the Judge excised from the proceedings the portion of the dispute consisting of the "overlapping" indemnity claims brought by Pirelli, on the one hand and Prysmian CS and Prysmian S.p.A. on the other, ordering their joinder with the proceedings pending between them before the Court of Milan (see above).

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

Based on careful analyses supported by authoritative external legal opinions, the assessment of the risk related to the disputes described above is such as to not require the allocation of any specific provision in the Consolidated Financial Statements at December 31, 2021

TAX DISPUTES

BRAZIL

The subsidiary Pirelli Pneus Ltda is involved in tax litigations and proceedings. The most significant are described below:

LITIGATION CONCERNING THE ICMS TAX CREDITS ASSIGNED BY THE STATE OF SANTA CATARINA With reference to the dispute concerning the ICMS tax credits (Imposto Sobre Operações Relativas à Circulação or state value added tax on transactions related to the movement of goods and the rendering of interstate, intermunicipal and communication transport services) assigned by the State of Santa Catarina, Pirelli Pneus Ltda, had received tax assessments which disavowed the ICMS tax credits. The claim was made by the State of São Paulo, according to which Pirelli Pneus Ltda had benefited from ICMS tax credits allocated by the State of Santa Catarina and which were deemed illegitimate by the former because they were allocated by the latter in violation of the Brazilian Constitution, in the absence of a previous agreement between the various States. This dispute was brought before the competent administrative-tax commissions and though the initial decisions were not favourable to Pirelli Pneus Ltda, on August 8, 2017 a legislative provision (Complementary Law No. 160) came into force, aimed at ending this dispute between the various states in Brazil. This regulation validates the incentives, which had previously been considered illegitimate, and therefore also extinguished the relative sanctions imposed by the Brazilian tax authorities.

The implementative aspects of this new provision have been defined by the Brazilian States, and therefore even Pirelli Pneus Ltda has also filed a petition for amnesty regarding the dispute in question. Specifically, between May and June 2021, the claims of the tax authorities were withdrawn in three different cases and, therefore, the risk previously estimated at euro 122 million has now been reduced to approximately euro 5.7 million, including taxes, interest and sanctions.

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

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

The risk is estimated at approximately euro 32 million, inclusive of tax, interests and penalties.

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

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

In light of the above, the risk is estimated at approximately euro 13 million inclusive of taxes, sanctions and interest.

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

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

The risk is estimated at approximately euro 17 million, inclusive of tax, interests and penalties.

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

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

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

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

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

Proceedings are underway before the competent jurisdictions with the risk estimated as being up to a maximum euro 15 million, inclusive of taxes, interest and sanctions.

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

ITALY

In June 2021, the Regional Directorate of Lombardy served the Company a notice of assessment for the 2015 tax period contesting the amount of tax credit for taxes paid abroad.

The Company initiated a dispute with the Agenzia delle Entrate (Italian Tax Office), which recognised the technical merits of the Company's position and reduced its claim to a non-material amount, which was settled in 2021.

29. REVENUES FROM SALES AND SERVICES

Revenues from sales and services were as follows:

(in thousands of euro)

	2021	2020
Revenues from sales of goods	5,192,948	4,191,752
Revenues from services	138,502	110,379
Total	**5,331,450**	**4,302,131**

These revenues refer to contracts with customers.

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

30. OTHER INCOME

The item is composed as follows:

(in thousands of euro)

	2021	2020
Other income from the Prometeon Group	40,836	38,897
Sales of Industrial products	145,247	136,305
Gains on disposal of property, plant and equipment	1,794	6,187
Rent income	3,307	2,907
Income from sublease of rights of use assets	867	922
Recoveries and reimbursements	21,557	31,598
Government grants	13,578	13,613
Other income	76,682	75,884
Total	**303,868**	**306,313**

The item **other revenues from the Prometeon Group** includes royalties recorded in respect of the trademark licence agreement in the amount of euro 16,436 thousand, in respect of the know-how agreement to the amount of euro 10,000 thousand, for the rendering of services to the amount euro 11,020 thousand, and for the sales of raw materials, semi-finished and finished products to the amount of euro 3,382 thousand.

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

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

- refunds for taxes and customs duties totalling euro 3,271 thousand, received mainly from the Brazilian subsidiary;
- tax refunds totalling euro 3,769 thousand deriving from tax incentives obtained mainly in Germany for excise duties on electricity and gas;
- income from the sale of tyres and scrap materials carried out in the United Kingdom for a total of euro 1,160 thousand;
- income from the sale of tyres for testing and the recovery of transport expenses in Germany to the amount of euro 1,039 thousand;

The item **other** includes income related to the sale of goods and services for sporting activities linked to sponsorship contracts to the amount of euro 34,916 thousand, and royalties from the Aeolus Tyre Co., Ltd. in the amount of euro 7,000 thousand.

31. PERSONNEL EXPENSES

The item is composed as follows:

(in thousands of euro)

	2021	2020
Wages and salaries	861,638	721,058
Social security and welfare contributions	165,302	140,469
Costs for employee leaving indemnities and similar	8,627	11,474
Costs for defined contribution pension funds	23,461	23,143
Costs for defined benefit pension funds	2,299	13,210
Costs for jubilee awards	10,495	6,630
Costs for defined contribution healthcare plans	2,847	3,180
Other costs	27,244	30,514
Total	**1,101,913**	**949,678**

The item **other costs** includes the portion of the retention plan (equal to euro 4,662 thousand for 2021 and euro 8,423 thousand for 2020) which was approved by the by the Pirelli Board of Directors on February 26, 2018, and intended for Key Managers, as well as a selected number of senior Managers and Executives whose contribution to the implementation of the Strategic Plan is considered particularly significant.

Personnel expenses for 2021 included **non-recurring events** for a total of euro 2,537 thousand (euro 11,205 thousand for 2020), and refers to the buy-out of the UK pension funds.

32. DEPRECIATION, AMORTISATION AND IMPAIRMENTS

The item is composed as follows:

(in thousands of euro)

	2021	2020
Amortisation	129,393	128,049
Depreciation (excl. right of use)	290,877	289,379
Depreciation of right of use	88,408	88,626
Impairment of property, plant and equipment and intang.assets (excl. right of use)	5,711	9,138
Impairment of right of use	2,803	1,960
Total	**517,192**	**517,152**

For the composition of the depreciation of the right of use, refer to Note 9.2 - *"Right of Use"*.

33. OTHER COSTS

The item is subdivided as follows:

(in thousands of euro)

	2021	2020
Selling costs	323,545	255,395
Purchases of goods for resale	395,301	326,737
Advertising	207,794	193,039
Fluids and energy	180,815	142,214
Warehouse operating costs	69,281	67,045
IT expenses	55,752	38,376
Consultants	49,076	48,038
Maintenance	57,278	41,436
Insurance	32,471	30,401
Leases and rentals	31,073	24,281
Outsourcing	41,495	24,561
Duty stamps, duties and local taxes	28,944	24,190
Other provisions	40,675	32,673
Travel expenses	20,721	16,676
Remuneration for Key Managers	28,194	7,469
Cleaning expenses	16,174	13,092
Canteen	18,228	12,811
Security expenses	10,950	10,214
Waste disposal	9,887	8,010
Telephone expenses	5,232	5,427
Other	147,632	144,209
Total	**1,770,518**	**1,466,294**

The total increase for this item is mainly attributable to the resumption of production activity following the temporary lockdown of manufacturing plants during the course of the previous financial year, and is mainly reflected in the items “Selling costs”, “Purchases of goods for resale” and “Fluids and energy”.

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

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

- euro 13,935 thousand for lease contracts with a duration of less than twelve months (euro 12,358 thousand for 2020);
- euro 6,727 thousand for lease contracts for low unit value assets (euro 6,820 thousand at December 31, 2020);
- euro 10,411 thousand for lease contracts with variable payments (euro 5,103 thousand at December 31, 2020);

The item **other** includes, amongst others, labour provided by third parties to the amount of euro 25,648 thousand, (euro 27,230 thousand for 2020), and expenses for technological testing to the amount of euro 17,780 thousand (euro 11,974 thousand for 2020);

34. NET IMPAIRMENT OF FINANCIAL ASSETS

This item which amounted to a loss of euro 7,950 thousand, compared to a loss of euro 17,385 thousand for 2020, mainly includes the net impairment of trade receivables to the amount of euro 7,906 thousand (euro 16,843 thousand for 2020).

35. NET INCOME/(LOSS) FROM EQUITY INVESTMENTS

35.1. SHARE OF NET INCOME/(LOSS) OF ASSOCIATES AND JOINT VENTURES

The share of the net income/(loss) from equity investments in associates and joint ventures is evaluated using the equity method, and amounted to an income of euro 1,697 thousand, and refers mainly to investments in the joint venture Xushen Tyre (Shanghai) Co., Ltd. which recorded a loss of euro 68 thousand (a loss of euro 4,558 thousand for 2020), and in the joint venture PT Evoluzione Tyres in Indonesia which amounted to an income of euro 1,049 thousand (a loss euro 1,299 thousand for 2020).

35.2. DIVIDENDS

For 2021, this item amounted to euro 2,274 thousand, and mainly included dividends received from the RCS MediaGroup S.p.A. (euro 741 thousand), from Fin.Priv. S.r.l. (euro 1,292 thousand), and from Genextra S.p.A. (euro 154 thousand). For 2020, the item had amounted to euro 65 thousand.

36. FINANCIAL INCOME

The item is composed as follows:

(in thousands of euro)

	2021	2020
Interest	21,453	21,000
Other financial income	1,767	86
Fair value measurement of other financial assets	11,499	2,750
Fair value measurement of foreign exchange derivatives	-	124,631
Fair value measurement of other derivatives	281	667
Total	**35,000**	**149,134**

The item **interest** includes euro 3,886 thousand for interest on fixed income securities, and euro 9,426 thousand for interest receivables due from financial institutions and from associates and joint ventures. The item also includes euro 3,039 thousand in interest matured on tax credits and on security deposits provided by the Brazilian subsidiaries as a guarantee for legal and tax disputes.

The **fair value measurement of other financial assets** was positive to the amount of 11,499 thousand euro and refers to the fair value measurement of dollar-linked bonds in which the Argentinian subsidiary has invested in order to mitigate the effects of depreciation of the local currency. The exchange rate component of the fair value measurement of dollar-linked bonds equalled euro 8,769 thousand, and partially offset the effect of hyperinflation on the Argentinian subsidiary Pirelli Neumaticos SAIC. Reference should be made to Note 37 - *"Financial Expenses"* for further details.

The **fair value measurement of other derivative instruments** mainly includes;

- the effectiveness of cross currency interest rate swaps to the amount of euro 1,363 thousand, following the early liquidation of two CCIRS in February 2021;
- the ineffectiveness of the IRS in the amount of euro 1,089 thousand following early liquidation in February 2021.

Refer to Note 27 - *"Derivative Financial Instruments"*.

37. FINANCIAL EXPENSES

The item is composed as follows:

(in thousands of euro)

	2021	2020
Interest	102,764	101,602
Commissions	12,601	11,712
Hyperinflation effect	15,024	10,054
Other financial expenses	6,297	11,108
Interest expense on lease liabilities	19,529	21,334
Net losses on exchange rates	2,339	147,683
Net interest expense on provisions for employee benefit obligations	1,241	2,142
Fair value measurement of foreign exchange derivatives	19,486	-
Total	**179,281**	**305,636**

Interest which totalled euro 102,764 thousand included:

- euro 48,147 thousand for bank credit facilities held by Pirelli & C. S.p.A
- euro 22,522 thousand in financial expenses relative to bond loans, of which euro 9,104 thousand refers to unrated bonds, euro 4,112 thousand to the *"Schuldschein"* loan, and euro 9,305 thousand to the senior unsecured guaranteed equity-linked bond loan, all of which were issued by Pirelli & C. S.p.A.;
- euro 4,676 thousand in net interest payables for interest on Cross Currency Interest Rate Swaps and Interest Rate Swaps, for which hedge accounting has been adopted, to rectify the flow of financial expenses for the bank credit facilities and bond loans mentioned above. For further details reference should be made to Note 27 - *"Derivative Financial Instruments";*
- euro 15,647 thousand in financial expenses related to bank loans held by foreign subsidiaries.

The item **commissions** includes, in particular, euro 2,146 thousand in costs for the assignment of receivables with non-recourse clauses mainly in South America, Italy and Germany and euro 10,455 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, on the part of the subsidiary company Pirelli Neumaticos SAIC. Reference should be made to Note 41 - *"Hyperinflation"* or more details.

The item **net losses on exchange rates** which amounted to euro 2,339 thousand (a net income of euro 559,472 thousand and a loss of euro 561,811 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 income to the amount of euro 83,860 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 both realised and unrealised exchange rate losses recorded on the hedged liability.

The item **fair value measurement of exchange rate derivatives** refers to forward foreign exchange buy/sell transactions to hedge commercial and financial transactions, in accordance with the Group's exchange rate risk management policy. For transactions still open at period-end, the fair value is determined by applying the forward exchange rate at the reporting date of the Consolidated Financial Statements. The fair value measurement is composed of two elements: the interest component related to the interest rate differential between the hedged currencies, equal to a net cost of euro 18,379 thousand and the exchange rate component equal to a net cost of euro 1,107 thousand. In comparing the net losses on exchange rates, which equalled euro 2,339 thousand, recognised on receivables and payables in currencies other than the functional currency of the various subsidiaries, with the fair value measurement of the exchange rate component of the exchange rate derivatives used for hedging, which amounted to a net cost of euro 1,107 thousand, the result is a negative difference of euro 3,446 thousand.

38. TAXES

Taxes were composed as follows:

(in thousands of euro)

	2021	2020
Current taxes	143,910	106,938
Deferred taxes	(28,752)	(92,245)
Total	**115,158**	**14,693**

Taxes for 2021 amounted to euro 115,158 thousand against a net income before tax of euro 436,751 thousand, compared to the amount of euro 14,693 thousand for 2020 against a net income before tax of euro 57,366 thousand. The tax rate for 2021 stood at 26.4% compared to 25.6% for 2020.

The reconciliation between theoretical and effective taxes is as follows:

(in thousands of euro)

	2021	2020
A) Net income/(loss) before taxes	**436,751**	**57,366**
B) Theoretical taxes	**112,279**	**5,924**
Main causes for changes between estimated and effective taxes:		
Taxes incentives	(18,008)	(9,710)
Non-deductible costs	15,913	12,965
Non-recoverable withholding taxes	2,282	2,175
Other	2,692	3,339
C) Effective taxes	**115,158**	**14,693**
Theoretical tax rate (B/A)	25.7%	10.3%
Effective tax rate (C/A)	26.4%	25.6%

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

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

	2021	2020
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	25.00%	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	35.00%	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 125,633 thousand, (90,692 thousand euros for 2020), was as follows:

- 30% APAC (36% in 2020);
- 29% Europe and Turkey (13% in 2020);
- 22% South America (38% in 2020);
- 12% North America (8% in 2020);
- 7% Russia, Nordics and MEAI (5% in 2020).

Taxes paid means the total amount of income taxes effectively paid during the tax period by the Group companies to their respective jurisdictions of tax residence, to income tax advances paid in 2021, to income taxes paid during the course of 2021 but relative to previous financial years (e.g. income tax balances relative to 2020), or payments relative to tax assessments for previous financial years. Taxes paid also include withholding taxes incurred on cross-border payments such as dividends, interest and royalties which have been reported in the jurisdiction of the recipient's tax residence. Taxes paid in the South American region included the withholding taxes paid by the Brazilian subsidiary Pirelli Pneus Ltda on cash flows collected when closing out derivative contracts entered into, to hedge exchange rate risks.

Taxes include **non-recurring events** of euro 23,223 thousand related to tax credits recorded by the Brazilian subsidiary. For further information, please refer to the note "Tax receivables" (Note 16).

39. EARNINGS/(LOSSES) PER SHARE

Basic earnings/(losses) per share are calculated by dividing the earnings/(losses) attributable to the Parent Company by the weighted average number of ordinary shares outstanding for the period, excluding of treasury shares.

(in thousands of euro)

	2021	2020
Net income/(loss) attributable to the Parent Company	302,796	29,781
Weighted average number of ordinary shares outstanding (in thousands)	1,000,000	1,000,000
Earnings /(losses) per ordinary share (in euro per share)	**0.303**	**0.030**

It should be noted that the basic and diluted earnings/(losses) per share are the same. It should also be noted that the option to convert the shares relating to the bond loan has no dilutive effect, as the average market price of the shares was lower than the exercise price of the option itself during 2021.

40. DIVIDENDS PER SHARE

During 2021, Pirelli & C. S.p.A. distributed to its shareholders, also by way of withdrawing part of the earnings accrued during previous financial years, euro 0.08 per share equal to a total dividend payout of euro 80 million before withholding taxes.

41. HYPERINFLATION

Based on the provisions of the Group's accounting standards, regarding the entry/exit criteria for inflation accounting, the Argentinian subsidiary Pirelli Neumaticos SAIC has adopted inflation accounting since July 1, 2018 and is the only Group company operating under hyperinflation. 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, 2021 the official inflation index of 50.9% was used.

Losses on the net monetary position were recognised in the Income Statement as *"Financial Expenses"* (Note 37), to the amount of euro 15,024 thousand.

42. NON-RECURRING EVENTS

Pursuant to CONSOB Communication No. DEM/6064293 of July 28, 2006, information on the impact of non-recurring events and transactions on the Group's Income Statement, Statement of Financial Position and Financial Statement for the 2021 financial year is shown below:

(in millions of euro)

	Equity	Net income/(loss)	Cash flow
Financial statement (a)	**5,042.6**	**321.6**	**(422.0)**
Operating costs	(2.5)	(2.5)	(3.0)
Taxes	23.2	23.2	-
Total impact non-recurring items (b)	**20.7**	**20.7**	**(3.0)**
Total adjusted (a-b)	**5,021.9**	**300.9**	**(419.0)**

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

(in millions of euro)

	2021	2020
Personnel expenses:		
- UK pension fund buy-out	*(2.5)*	*(11.2)*
Impact on operating income	**(2.5)**	**(11.2)**
Impact on net income/(loss) before taxes	**(2.5)**	**(11.2)**
Taxes:		
- Brazilian tax receivables	*23.2*	-
Impact on net income/(loss)	**20.7**	**(11.2)**

43. RELATED-PARTY TRANSACTIONS

Related party transactions, including intra-group transactions, do not qualify as either atypical or unusual, but are part of the ordinary course of business for companies of the Group. Such transactions, when not carried out under standard conditions or indicated by specific regulatory conditions, are in any case regulated by conditions consistent with those of the market and carried out in compliance with the provisions 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 Cash Flow Statement that include related party transactions and their relative impact.

STATEMENT OF FINANCIAL POSITION

(in millions of euro)

	12/31/2021	of which related parties	% incidence	12/31/2020	of which related parties	% incidence
Non current assets						
Other receivables	**362.9**	6.7	1.8%	**402.1**	5.8	1.4%
Current assets						
Trade receivables	**659.2**	19.5	3.0%	**597.7**	12.8	2.1%
Other receivables	**470.6**	105.9	22.5%	**469.2**	111.3	23.7%
Non-current liabilities						
Borrowings from banks and other financial institutions	**3,789.4**	13.2	0.3%	**4,971.0**	14.7	0.3%
Other payables	**76.5**	0.2	0.3%	**77.3**	0.2	0.3%
Provisions for liabilities and charges	**81.2**	22.0	27.1%	**73.3**	5.9	8.1%
Provisions for employee benefit obligations	**220.6**	7.2	3.2%	**243.9**	2.4	1.0%
Current liabilities						
Borrowings from banks and other financial institutions	**1,489.2**	2.8	0.2%	**883.6**	2.2	0.2%
Trade payables	**1,626.4**	144.1	8.9%	**1,317.0**	134.6	10.2%
Other payables	**314.2**	13.4	4.3%	**325.3**	6.7	2.1%
Provisions for employee benefit obligations	**-**	-		**5.0**	3.0	60.2%

INCOME STATEMENT

(in millions of euro)

	2021	of which related parties	% incidence	2020	of which related parties	% incidence
Revenue from sales and services	**5,331.5**	23.7	0.4%	**4,302.1**	15.1	0.4%
Other income	**303.9**	56.3	18.5%	**306.3**	49.4	16.1%
Raw materials and comsumables used (net of changes in inventories)	**(1,820.6)**	(3.6)	0.2%	**(1,280.4)**	(4.9)	0.4%
Personnel expenses	**(1,101.9)**	(23.1)	2.1%	**(949.7)**	(15.0)	1.6%
Other costs	**(1,770.5)**	(312.5)	17.6%	**(1,466.3)**	(241.8)	16.5%
Financial income	**35.0**	3.7	10.4%	**149.1**	2.3	1.6%
Financial expenses	**(179.3)**	(1.5)	0.8%	**(305.6)**	(0.9)	0.3%
Net income / (loss) from equity investments	**4.0**	1.7	n.a.	**(5.3)**	(5.6)	n.a.

CASH FLOW

(in millions of euro)

	2021	of which related parties	% incidence	2020	of which related parties	% incidence
Net cash flow operating activities:						
Change in Trade receivables	**(51.4)**	(6.4)	n.a.	**(35.3)**	(4.0)	n.a.
Change in Trade payables	**214.5**	19.5	n.a.	**(184.6)**	0.4	n.a.
Change in Other receivables	**23.7**	(1.2)	n.a.	**21.9**	(6.9)	n.a.
Change in Other payables	**(59.1)**	(5.2)	n.a.	**60.6**	2.5	n.a.
Uses of Provisions for employee benefit obligations	**(48.8)**	(3.0)	n.a.	**(37.2)**	(2.3)	n.a.
Net cash flow investing activities:						
Change in Financial receivables from associates and J.V.	**15.3**	15.3	n.a.	**(64.1)**	(64.1)	n.a.
Net cash flow financing activities:						
Repayment of principal and payment of interest for lease obligations	**(105.4)**	(3.8)	n.a.	**(99.9)**	(2.9)	n.a.

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

STATEMENT OF FINANCIAL POSITION

(in millions of euro)

	12/31/2021			12/31/2020		
	Associates and joint ventures	Other related parties	Remuneration for Directors and Key Managers	Associates and joint ventures	Other related parties	Remuneration for Directors and Key Managers
Other non-current receivables	6.7	-	-	5.8	-	-
of which financial	*6.7*	-	-	*5.8*	-	-
Trade receivables	14.7	4.8	-	6.9	5.9	-
Other current receivables	92.4	13.5	-	102.3	9.0	-
of which financial	*81.4*	-	-	*88.8*	-	-
Borrowings from banks and other financial institutions non-current	13.0	0.2	-	13.7	1.0	-
Other non-current payables	-	-	0.2	-	-	0.2
Provisions for liabilities and charges non-current	-	-	22.0	-	-	5.9
Provisions for employee benefit obligations non-current	-	-	7.2	-	-	2.4
Borrowings from banks and other financial institutions current	2.3	0.5	-	1.7	0.5	-
Trade payables	26.9	117.2	-	30.6	104.0	-
Other current payables	-	1.5	11.9	-	6.2	0.5
Provisions for employee benefit obligations current	-	-	-	-	-	3.0

INCOME STATEMENT

(in millions of euro)

	12/31/2021			12/31/2020		
	Associates and joint ventures	Other related parties	Remuneration for Directors and Key Managers	Associates and joint ventures	Other related parties	Remuneration for Directors and Key Managers
Revenues from sales and services	20.9	2.8	-	12.8	2.3	-
Other income	8.4	47.9	-	3.4	46.0	-
"Raw materials and consumables used (net of change in inventories)"	(1.1)	(2.5)	-	(2.6)	(2.3)	-
Personnel expenses	-	-	(23.1)	-	-	(15.0)
Other costs	(137.5)	(146.8)	(28.2)	(98.2)	(136.1)	(7.5)
Financial income	3.7	-	-	2.3	0.1	-
Financial expenses	(0.4)	(1.1)	-	(0.5)	(0.4)	-
Net income/ (loss) from equity investments	1.7	-	-	(5.6)	-	-

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

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

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

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

- receivables for the royalties of Pirelli Tyre S.p.A. from PT Evoluzione Tyres and Jining Shenzhou Tyre Co., Ltd. to the amount of euro 1.2 million and euro 0.8 million each respectively;
- receivables for the sale of materials and moulds to the Joint Stock Company the *"Kirov Tyre Plant"* to the amount of euro 3.1 million;
- service fee receivables of the Pirelli Tyre Co., Ltd. from the Jining Shenzhou Tyre Co., Ltd. to the amount of euro 3.6 million;

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

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

The item **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 to the Jining Shenzhou Tyre Co., Ltd.

TRANSACTIONS - INCOME STATEMENT The item **revenues from sales and services** mainly refers to the sales of materials and semi-finished products to the Jining Shenzhou Tyre Co., Ltd. to the amount of euro 20.5 million.

The item **other financial income** refers mainly to the recharging of labour costs to the amount of euro 4.3 million, and to royalties in the amount of euro 3.9 million.

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

- the purchase of tyres from Jining Shenzhou Tyre Co., Ltd. to the amount of euro 63.3 million;
- the purchase of Motorcycle products from PT Evoluzione Tyres to the amount of euro 41.4 million;
- the purchase of energy and machine hire from Industriekraftwerk Breuberg GmbH to the amount of euro 15,8 million.

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

OTHER RELATED-PARTY TRANSACTIONS

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

TRANSACTIONS - STATEMENT OF FINANCIAL POSITION The item **trade receivables** refers to receivables from companies of the Prometeon Group.

The item **other current receivables** refers to receivables from companies of the Prometeon Group to the amount of euro 11.7 million mainly for royalties, and from the Aeolus Tyre Co., Ltd. to the amount of euro 1.8 million.

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

The item **current borrowings from banks and other financial institutions** refers to euro 0.2 million for the short-term portion of the aforementioned debt, and to euro 0.3 million for the debt of Pirelli Pneus Ltda payable to Prometeon Tyre Group Industrial Brasil Ltda.

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

TRANSACTIONS - INCOME STATEMENT The item **other income** includes royalties recognised from the Aeolus Tyre Co., Ltd. to the amount of euro 7 million, in respect of the license agreement entered into in 2016, some of whose terms and conditions were renegotiated in February 2019. The item also includes income from Prometeon Group companies mainly relative to:

- royalties recorded in respect of the license agreement for the use of the Pirelli trademark to the amount of euro 16.4 million;
- the sale of raw materials, finished and semi-finished products for the total amount of euro 3.3 million of which euro 2.1 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 10 million.
- the Long-Term Service Agreement to the amount of euro 4.8 million of which euro 3.3 million was earned by Pirelli Sistemi Informativi S.r.l., and euro 0.8 million by Pirelli Pneus Ltda;
- logistics services for a total amount of euro 1.3 million of which euro 0.8 million was carried out by the Spanish company Pirelli Neumaticos S.A. - Sociedad Unipersonal.

The item **raw and consumable materials used** refers to costs payable to companies of the Prometeon Group for the purchase of direct materials/consumables/compounds, of which euro 1.7 million were costs of by the Brazilian company Pirelli Pneus Ltda.

The item **other costs** includes contributions to the HangarBicocca Foundation and the Pirelli Foundation to the amount of euro 0.9 million, and costs payable to companies of the Prometeon Group mainly for:

- the purchase of truck products for a total amount of euro 90.7 million of which euro 76.8 million was carried out by the Brazilian company Comercial e Importadora de Pneus Ltda. and subsequently resold to retail customers, euro 8.9 million by the Russian Limited Liability company Pirelli Tyre Russia, and euro 3.7 million by the German company Driver Reifen und KFZ-Technik GmbH.
- the purchase of Car/Motorcycle and semi-finished products for a total amount of euro 37.8 million of which euro 37 million was carried out by the Turkish company Pirelli Otomobil Latikleri A.S. in respect of the Off-Take contract, and euro 0.8 million on the part of Pirelli Pneus Ltda for the purchase of inner tubes for tyres;
- costs to the amount of euro 5.7 million incurred by Pirelli Pneus Ltda for services for the transformation of raw materials as a result of activities pertinent to the Toll manufacturing contract.

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

RELATIONS WITH DIRECTORS AND KEY MANAGERS

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 relative to the monetary three-year 2020-2022 and 2021-2023 Long Term Incentive Plans for euro 18.9 million, short-term benefit related to Short Term Incentive plan for euro 3.1 million, as well as employee leaving indemnities for euro 7.2 million;
- the Statement of Financial Position items **other current payables** include the short-term portion related to the Short Term Incentive plan;
- the item **personnel expenses and other costs** includes euro 5.9 million relative to employees' leaving indemnity (TFR) and retirement benefits (euro 1.2 million for 2020), as well as short term benefits to the amount of euro 14.6 million (euro 6.1 million for 2020) and long-term benefits to the amount of euro 14.7 million (euro 4.4 million for 2020).

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

On **February 1, 2022** Pirelli was awarded Gold Class recognition in the 2022 Sustainability Yearbook published by S&P Global, which examined the sustainability profile of more than 7,500 companies. Pirelli obtained the S&P Global Gold Class recognition in the ranking that is carried out annually on the basis of the results of the Corporate Sustainability Assessment for the Dow Jones Sustainability Indexes of S&P Global. In 2021 Pirelli confirmed its position among the excellent performers of the Automobiles & Parts sector, within the Dow Jones Sustainability World and Europe indexes, with a score of 77 points against a sector average of 31.

On **February 21, 2022**, Pirelli, in keeping with that which had been announced to the market on November 11, 2021, finalised the signing of a euro 1.6 billion five-year multi-currency bank credit facility with a pool of leading Italian and international banks.

The new credit facility, which is geared towards the Group's ESG objectives, will mainly enable the Group to:

- repay debt maturing in June 2022 (approximately euro 950 million at December 31, 2021) by using euro 600 million from the new credit facility and the remainder from the Company's liquidity;
- replace euro 700 million from an available and unused credit facility maturing in June 2022 with euro 1.0 billion from the new credit facility, thereby increasing financial flexibility by euro 300 million.

This operation, which was finalised with improved terms and conditions than for the credit facilities that will be replaced, was consistent with the Company's plans, and allows for the optimisation of the debt profile by extending maturity dates.

On **February 23, 2022** Pirelli announced that it had been assigned an investment grade rating by S&P Global Ratings and Fitch Ratings. This follows the Company's request for a public rating, in keeping with the Group's objectives of optimising conditions of access to the credit market. Specifically, Fitch Ratings assigned Pirelli an Investment Grade rating of BBB- with a stable outlook, emphasising, amongst other things, the solidity of the Company's operating margins and its ability to generate cash flow, which make it possible to forecast a significant reduction in debt over the next two to three years. The agency highlighted Pirelli's leadership position in the Premium segment, its consolidated know-how for high-performance products, its exposure to aftermarket activities that are less volatile than that of the Standard segment and the reputation of its Brand. S&P Global Ratings assigned an Investment Grade rating of BBB- with a stable outlook, highlighting, amongst other things, the solid position Pirelli holds in the Premium and Prestige markets, its ability to efficiently utilise its manufacturing plants, which is reflected in an EBITDA margin that exceeds the sector average and the agency's expectation of continuous debt reduction, through the careful management of a solid free cash flow.

On **February 24, 2022** tensions between Russia and Ukraine became more severe. At the date of this document, the outcomes and implications of the Russia-Ukraine crisis remain uncertain. The tightening of international sanctions is also having repercussions on the economy of the Russian Federation in terms of growth expectations, the currency market and the sustainability of the domestic economic and financial system in the medium-term. These factors are compounded by the additional complications arising from the restrictive countermeasures that the Russian government is preparing - and in some cases has already implemented - in response to the pressure of international sanctions.

The current situation is also bringing about rising prices for energy, metal and agricultural commodities, with repercussions on consumer price pressure and growth prospects for the Eurozone. These elements of uncertainty could lead to an alteration of normal market dynamics and, more generally, of business operating conditions.

Pirelli has an industrial presence in Russia with two manufacturing plants, located in Kirov and Voronezh, dedicated to the production of tyres of which 85% are Standard and 15% are High Value, and a production capacity of 8.2 million units at December 31, 2021. Approximately 50% of this capacity is intended for export, mainly Standard products. The tyres sold in Russia are almost entirely produced inside the country, and only a small quantity is obtained through imports from other Group manufacturing plants.

Pirelli has constituted a "Crisis Committee" to constantly monitor the development of the Russia-Ukraine crisis for which mitigation actions and a contingency plan have already been activated, including the progressive production reallocations of export flows to other Group plants. When the company presented its preliminary 2021 results it announced an initial analysis of the impact on 2022 guidance. That analysis assumed the persistence of February level energy and oil prices until the end of the year, as well as the potential impact on local operations linked to imports and exports to and from Russia of raw materials and finished goods.

In the analysis of this scenario, which does not take into account the idea of a total interruption of the import and export flows from Russia and a recessionary scenario in Europe because of an escalation of geopolitical tensions, the guidance for profitability and cash generation would be positioned in the lower part of the range (EBIT Adjusted around euro 890 million and cash generation before dividends around euro 450 million).

Pirelli is against this war and is supporting the Ukrainian population with a donation of 500,000 euro and facilitating the collection of funds among employees. The investments in the local market, excluding those linked to security, have been halted. The activities of the factories in Russia will be progressively limited to those needed to guarantee the financing of salaries and social services for employees.

Pirelli continues to monitor the evolution of the situation and will inform the market if the forecasts shift significantly from the assumptions of the initial analysis.

The current event qualifies as a non-adjusting event according to IAS 10 "*Events after the reporting period*" and therefore has no impacts on consolidated financial statements as at December 31, 2021.

At December 31, 2021 financial position sub-consolidated figures related to subsidiaries based in Russia include:

- Non-current assets amounting to euro 178.0 million, of which euro 169.3 million refer to intangible assets and property, plant and equipment mainly in Kirov and Voronezh production sites;
- Inventories for euro 42.2 million;
- Trade and other receivables for euro 89.4 million, of which euro 18.7 million are intercompany towards other Group subsidiaries;
- Cash and cash equivalents for euro 6.7 million;
- Borrowings from banks and other financial institutions for euro 83.6 million of which euro 15.2 million are intercompany towards other Group subsidiaries;
- Trade and other payables for euro 102.4 million, of which euro 15.9 million are intercompany towards other Group subsidiaries.

At the date of this document, Pirelli Tyre S.p.A. has released/is in process of releasing guarantees on borrowings from banks and trade payables of Russian subsidiaries towards third parties and other Group entities.

Total equity amounts to euro 112.8 million, of which euro 73.3 million attributable to the owners of the Parent Company and euro 39.5 million attributable to non-controlling interests.

2021 revenues from sales made in the Russian market amount to euro 162.1 million with an EBIT Adjusted of euro 29.4 million.

OTHER INFORMATION

CLIMATE CHANGE INFORMATION

In March 2021, Pirelli published its 2021-2022 Sustainability Plan with a view to 2025 and 2030, which is fully integrated into the Company's Industrial Plan, in which targets were set, consistent with the materiality of the socio-environmental impacts of the Company, and in support of the United Nations' Sustainable Development Goals for 2030.

The Sustainability Plan addresses the risks relative to climate change, by forecasting targets and performances for:

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

The achievement of these objectives foresees specific measures that include:

- the purchase of certificates of origin for electricity, that is, documents that certify the renewable origin of the energy sources used, which are recorded under Other costs;
- investment projects for new products and energy efficiency, which had already begun in 2021, and which

therefore have been included as increases to property, plant and equipment. It should be noted that these investments do not impact the measurement of the useful lives of the fixed assets currently in use and the recoverability of their carrying amount at December 31, 2021;

→ research and development costs for the development of new products and operating costs for improving the efficiency of energy use. For 2021 the percentage growth for the new IP Code tyres, which were put on the market with parameters consistent with the highest ratings (A or B) in European labelling for rolling resistance, (an environmental aspect with an indirect impact on vehicle CO_2 emissions), equalled 49% of the total.

With regard to the impact on the financial structure, it should be noted that at December 31, 2021 Pirelli had two credit facilities in place for a total amount of euro 1.2 billion (of which euro 800 million had been signed in 2020 with a maturity of five years and euro 400 million in 2021 with a maturity of three years), geared towards environmental sustainability targets (CO_2 emissions and the sustainable management of natural resources). For further information, reference should be made to Note 23 - *"Borrowings from Banks and Other Financial Institutions".*

With regard to climate change risks, Pirelli monitors these elements of uncertainty through sensitivity analyses and risk assessments, to assess and quantify the financial impacts (risks and opportunities) relative to climate change, in relation to IPCC (Intergovernmental Panel on Climate Change) climate scenarios, to IEA (International Energy Agency) energy transitions and to put in place appropriate prevention and mitigation measures to protect its business. In accordance with the findings of the most recent Climate Change Risk Assessment of the Group, in the short to medium-term there are no significant risks relative to production processes or to the markets in which Pirelli operates.

With regard to the medium-long term scenario, however, the tyre sector could be subject to a number of risks both of a physical nature (extreme weather events with potential impacts on the continuity of production at the manufacturing plants), as well as of a regulatory nature (possible effects on operating costs).

At December 31, 2021, there were no risks for probable losses that would require specific provisions to be accrued in the Financial Statements.

With regard to the declarations of a non-financial nature and in particular to risks related to climate change as well as to sustainable development goals and the main international commitments for sustainability, reference should be made to the relevant sections of the *Directors' Report on Operations* and the *Report on Responsible Value Chain Management*, in particular to section "*Joining the Task Force on Climate-Related Financial Disclosures (TCFD)*" section within this Annual Report and Pirelli's public responses to the CDP Climate Change 2021 questionnaire.

RESEARCH AND DEVELOPMENT EXPENSES

Research & Development expenses for 2021 amounted to euro 240.4 million and represented 4.5% of sales, and refer to expenses for product and process innovation, as well as for the development of new materials. The share allocated to research and development for High Value activities amounted to euro 225.1 million and equalled 6.0% of High Value revenues. For further details, reference should be made to the section *"Research and Development Activities"* in the *Directors' Report on Operations,* which is an integral part of this document.

REMUNERATION FOR DIRECTORS AND STATUTORY AUDITORS

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

(in thousands of euro)

	2021	2020
Directors	28,194	7,469
Statutory Auditors	377	315
Total	**28,571**	**7,784**

EMPLOYEES- AVERAGE HEADCOUNTS

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

	2021	2020
Executives and white collar staff	5,934	6,082
Blue collar staff	23,221	23,708
Temporary workers	1,488	898
Total	**30,643**	**30,688**

REMUNERATION FOR INDEPENDENT AUDITORS

Pursuant to the applicable laws, the total remuneration paid for the 2021 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.	75		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	1,135		
	Network PricewaterhouseCoopers	Subsidiaries	1,252	**2,462**	*83%*
Independent certification services (1)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	243		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	81		
	Network PricewaterhouseCoopers	Subsidiaries	34	**358**	*12%*
Services other than auditing	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	150		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	-		
	Network PricewaterhouseCoopers	Subsidiaries	-	**150**	*5%*
				2,969	*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 ARTICLE 1 PARAGRAPHS 125-129

Pirelli Tyre S.p.A. received incentives from the Region of Lombardy in the form of a non-repayable grant, in the amount of euro 1,695 thousand and euro 2,462 thousand, for the implementation of two R&D projects on Safety and Smart Manufacturing. The first project was completed, whilst the second received euro 558 thousand during the financial year for the remaining balance. With reference to the agreement signed with the MiSE (Ministry of Economic Development) during the 2019 financial year for the subsidisation of three Research and Development projects, for up to a maximum of euro 6.3 million in total for the current year, the Company obtained the three respective decrees granting the subsidies from the MiSE.

For the purposes of providing complete information, it should be noted that during the financial year, Pirelli Tyre S.p.A. received from M.I.U.R. - Ministero dell'Istruzione, dell'Università e della Ricerca (Ministry of Education, Universities 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.

ATYPICAL AND/OR UNUSUAL OPERATIONS

Pursuant to CONSOB Notice No. 6064293 of July 28, 2006, it should be noted that during the course of the 2021 financial year, that no atypical and/or unusual transactions as defined in the aforesaid Notice, were carried out by the Company.

EXCHANGE RATES

The main exchange rates used for consolidation were as follows:

(local currency vs euro)

	Period-end exchanges rates		Change in %	Average exchange rates		Change in %
	12/31/2021	12/31/2020		2021	2020	
Swedish Krona	**10.2269**	10.0375	1.89%	**10.1449**	10.4862	(3.26%)
Australian Dollar	**1.5615**	1.5896	(1.77%)	**1.5749**	1.6549	(4.83%)
Canadian Dollar	**1.4393**	1.5633	(7.93%)	**1.4826**	1.5300	(3.10%)
Singaporean Dollar	**1.5279**	1.6218	(5.79%)	**1.5891**	1.5742	0.95%
U.S. Dollar	**1.1326**	1.2271	(7.70%)	**1.1827**	1.1422	3.55%
Taiwan Dollar	**31.3436**	34.4742	(9.08%)	**33.0389**	33.6519	(1.82%)
Swiss Franc	**1.0331**	1.0802	(4.36%)	**1.0812**	1.0705	0.99%
Egyptian Pound	**17.8708**	19.3879	(7.82%)	**18.6428**	18.1303	2.83%
Turkish Lira	**14.6823**	9.0079	62.99%	**10.4698**	8.0186	30.57%
Romanian Leu	**4.9481**	4.8694	1.62%	**4.9208**	4.8376	1.72%
Argentinian Peso	**116.3407**	103.2605	12.67%	**116.3407**	103.2605	12.67%
Mexican Peso	**23.3129**	24.4791	(4.76%)	**23.9812**	24.5637	(2.37%)
South African Rand	**18.0625**	18.0219	0.23%	**17.4766**	18.7655	(6.87%)
Brazilian Real	**6.3210**	6.3779	(0.89%)	**6.3782**	5.8989	8.13%
Chinese Yuan	**7.2211**	8.0067	(9.81%)	**7.6305**	7.8802	(3.17%)
Russian Rouble	**84.0695**	90.6824	(7.29%)	**87.0941**	82.4781	5.60%
British Pound Sterling	**0.8403**	0.8990	(6.53%)	**0.8596**	0.8897	(3.38%)
Japanese Yen	**130.3800**	126.4900	3.08%	**129.8767**	121.8458	6.59%

NET FINANCIAL POSITION

(the Alternative Performance Indicators not provided for by the accounting standards)

(in thousands of euro)

	Note	12/31/2021		12/31/2020	
			of which related parties (note 43)		of which related parties (note 43)
Current borrowings from banks and other financial institutions	**23**	1,489,249	*2,751*	883,567	*2,192*
Current derivative financial instruments (liabilities)	**27**	10,331		32,499	
Non-current borrowings from banks and other financial institutions	**23**	3,789,369	*13,210*	4,970,986	*14,693*
Non-current derivative financial instruments (liabilities)	**27**	3,519		87,601	
Total gross debt		**5,292,468**		**5,974,653**	
Cash and cash equivalents	**19**	(1,884,649)		(2,275,476)	
Other financial assets at fair value through Income Statement	**18**	(113,901)		(58,944)	
Current financial receivables**	**15**	(81,819)	*(81,402)*	(102,574)	*(88,769)*
Current derivative financial instruments (assets)	**27**	(38,849)		(13,339)	
Net financial debt *		**3,173,250**		**3,524,320**	
Non-current derivative financial instruments (assets)	**27**	(4,612)		-	
Non-current financial receivables**	**15**	(261,522)	*(6,664)*	(265,945)	*(5,826)*
Total net financial (liquidity) / debt position		**2,907,116**		**3,258,375**	

* Pursuant to CONSOB Notice of July 28, 2006 and in compliance with the ESMA guidelines regarding disclosure requirements pursuant to the Prospectus Regulation applicable from May 05, 2021.
** The item "financial receivables and other assets" is reported net of the relative provisions for impairment which amounted to euro 9,315 thousand at December 31, 2021 (euro 8,505 thousand at December 31, 2020).

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	99.996%	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,

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 Digital Solutions S.r.l.	Services	Milan	Euro	500,000	100.00%	Pirelli Tyre 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.	Financial	Milan	Euro	125,000,000	70.00%	Pirelli Tyre S.p.A.
					30.00%	Pirelli & C. S.p.A.
Pirelli Servizi Amministrazione e Tesoreria S.p.A.	Services	Milan	Euro	2,047,000	100.00%	Pirelli & C. S.p.A.
Pirelli Sistemi Informativi S.r.l.	Services	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	66.00%	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.

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
United Kingdom						
CTC 2008 Ltd	Tyre	Burton-on-Trent	British Pound Sterling	100,000	100.00%	Pirelli UK Tyres Ltd
Pirelli Cif Trustees Ltd	Financial	Burton-on-Trent	British Pound Sterling	4	25.00%	Pirelli General Executive Pension Trustees LTD
					25.00%	Pirelli General & Overseas Pension Trustees LTD
					25.00%	Pirelli Tyres Executive Pension Trustees LTD
					25.00%	Pirelli Tyres Pension Trustees LTD
Pirelli International Limited (ex Pirelli International plc)	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 Sterling	1	100.00%	Pirelli UK Ltd
Pirelli General Executive Pension Trustees Ltd	Financial	Burton-on-Trent	British Pound Sterling	1	100.00%	Pirelli UK Ltd
Pirelli General & Overseas Pension Trustees Ltd	Financial	Burton-on-Trent	British Pound Sterling	1	100.00%	Pirelli UK Ltd
Pirelli Tyres Executive Pension Trustees Ltd	Financial	Burton-on-Trent	British Pound Sterling	1	100.00%	Pirelli Tyres Ltd
Pirelli Tyres Ltd	Tyre	Burton-on-Trent	British Pound Sterling	16,000,000	100.00%	Pirelli UK Tyres Ltd
Pirelli Tyres Pension Trustees Ltd	Financial	Burton-on-Trent	British Pound Sterling	1	100.00%	Pirelli Tyres Ltd
Pirelli UK Ltd	Financial	Burton-on-Trent	British Pound Sterling	163,991,278	100.00%	Pirelli & C. S.p.A.
Pirelli UK Tyres Ltd	Tyre	Burton-on-Trent	British Pound Sterling	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 (in liquidation)	Tyre	Moscow	Russian Rouble	54,685,259	95.00%	Pirelli Tyre (Suisse) SA
					5.00%	Pirelli Tyre S.p.A.
Limited Liability Company "Industrial Complex "Kirov Tyre"	Tyre	Kirov	Russian Rouble	348,423,221	100.00%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company Pirelli Tyre Russia	Tyre	Moscow	Russian Rouble	6,153,846	65.00%	E-VOLUTION Tyre B.V.

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Spain						
Euro Driver Car S.L.	Tyre	Valencia	Euro	960,000	58.44%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Neumaticos Arco Iris, S.A.	Tyre	Valencia	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	Services	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	Turkish Lira	50,000	100.00%	Pirelli Otomobil Lastikleri A.S.
Pirelli Otomobil Lastikleri A.S.	Tyre	Istanbul	Turkish Lira	190,000,000	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

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 S.A. de C.V.	Tyre	Silao	Mex. Peso	11,595,773,848	99.83%	Pirelli Tyre S.p.A.
					0.17%	Pirelli Latam Participaçoes Ltda

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 (NSW)	Aus. $	150,000	100.00%	Pirelli Tyre (Suisse) SA
Asia						
China						
Pirelli Logistics (Yanzhou) Co., Ltd	Tyre	Jining	"Chinese Renmimbi"	5,000,000	100.00%	Pirelli Tyre Co., Ltd
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	"Chinese Renmimbi"	4,200,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyre (Jiaozuo) Co., Ltd.	Tyre	Jiaozuo	"Chinese Renmimbi"	350,000,000	80.00%	Pirelli Tyre S.p.A.
Pirelli Tyre Co., Ltd	Tyre	Yanzhou	"Chinese Renmimbi"	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	Electricity generation	Hoechst / Odenwald	Euro	1,533,876	26.00%	Pirelli Deutschland GmbH
Greece						
Eco Elastika S.A.	Tyre	Athens	Euro	60,000	20.00%	Elastika Pirelli C.S.A.
Italy						
Consorzio per la Ricerca di Materiali Avanzati (CORIMAV)	Financial	Milan	Euro	103,500	100.00%	Pirelli & C. S.p.A.
Eurostazioni S.p.A.	Financial	Rome	Euro	160,000,000	32.71%	Pirelli & C. S.p.A.
Focus Investments S.p.A.	Financial	Milan	Euro	183,333	8.33%	Pirelli & C. S.p.A. (25% of the voting share capital)
Poland						
Centrum Utylizacji Opon Organizacja Odzysku S.A.	Tyre	Warsaw	Pln	1,008,000	20.00%	Pirelli Polska Sp. z o.o.
Slovakia						
ELT Management Company Slovakia S.R.O.	Tyre	Bratislava	Euro	132,000	20.00%	Pirelli Slovakia S.R.O.
Romania						
S.C. Eco Anvelope S.A.	Tyre	Bucarest	Rom. Leu	160,000	20.00%	S.C. Pirelli Tyres Romania S.r.l.
Russia						
Joint Stock Company "Kirov Tyre Plant"	Tyre	Kirov	Russian Rouble	5,665,418	20.00%	Limited Liability Company Pirelli Tyre Russia
Spain						
Signus Ecovalor S.L.	Tyre	Madrid	Euro	200,000	20.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Asia						
China						
Xushen Tyre (Shanghai) Co, Ltd	Tyre	Shanghai	"Chinese Renmimbi"	1,050,000,000	49.00%	Pirelli Tyre S.p.A.
Jining Shenzhou Tyre Co, Ltd	Tyre	Jining City	"Chinese Renmimbi"	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.