



HALF-YEAR FINANCIAL REPORT
AT JUNE 30, 2020

PIRELLI & C. Società per Azioni (Joint Stock Company)

Milan Office

Viale Piero e Alberto Pirelli n. 25

Share Capital Euro 1,904,374,935.66

Milan Company Register No. 00860340157

REA (Economic Administrative Index) No. 1055

PIRELLI & C. S.p.A. - MILAN

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Board of Directors¹

Chairman	Ning Gaoning
Executive Vice Chairman and Chief Executive Officer	Marco Tronchetti Provera
Director	Yang Xingqiang
Director	Bai Xinping
Independent Director	Paola Boromei
Independent Director	Domenico De Sole
Independent Director	Roberto Diacetti
Independent Director	Fan Xiaohua
Independent Director	Giovanni Lo Storto
Director	Angelos Papadimitriou
Independent Director	Marisa Pappalardo
Independent Director	Tao Haisu
Director	Giovanni Tronchetti Provera
Independent Director	Wei Yintao
Director	Zhang Haitao

Secretary of the Board

Alberto Bastanzio

Board of Statutory Auditors²

Chairman	Francesco Fallacara
Statutory Auditors	Fabio Artoni
	Antonella Carù
	Luca Nicodemi
	Alberto Villani

¹ Appointment: June 18, 2020 Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2022. On August 5, 2020 Angelos Papadimitriou (who holds the office of General Manager Co-CEO) has been coopted as substitute of Carlo Secchi, who resigned with effect from the same date. Pursuant to the law, the coopted director's office will expire with the next shareholders' meeting.

² Appointment: May 15, 2018 Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2020.

Alternate Auditors

Elenio Bidoggia

Franca Brusco

Giovanna Oddo

Audit, Risk, Sustainability and Corporate Governance Committee

Chairman – Independent Director

Fan Xiaohua

Independent Director

Roberto Diacetti

Independent Director

Giovanni Lo Storto

Independent Director

Marisa Pappalardo

Director

Zhang Haitao

Committee for Related Party Transactions

Chairman – Independent Director

Marisa Pappalardo

Independent Director

Domenico De Sole

Independent Director

Giovanni Lo Storto

Nominations and Successions Committee

Chairman

Marco Tronchetti Provera

Ning Gaoning

Bai Xinping

Giovanni Tronchetti Provera

Remuneration Committee

Chairman – Independent Director

Tao Haisu

Bai Xinping

Independent Director

Paola Boromei

Independent Director

Fan Xiaohua

Independent Director

Marisa Pappalardo

Strategies Committee

Chairman

Marco Tronchetti Provera

Ning Gaoning

Angelos Papadimitriou

Yang Xingqiang

Bai Xinping

Independent Director

Domenico De Sole

Independent Director

Giovanni Lo Storto

Independent Director

Wei Yintao

Independent Auditing Firm³

PricewaterhouseCoopers S.p.A.

Corporate Financial Reporting Manager⁴

Francesco Tanzi

The Supervisory Board (as provided for by Organisational Model 231 adopted by the Company) is chaired by Prof. Carlo Secchi.

³ Appointment: August 1, 2017, effective as of the date of the commencement of trading of Pirelli shares on the Mercato Telematico Azionario (screen-based stock exchange) which is organised and managed by Borsa Italiana S.p.A. (October 4, 2017). Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2025.

⁴ Appointment: Board of Directors Meeting held on June 22, 2020. Expiry: jointly with the current Board of Directors.

MACROECONOMIC AND MARKET SCENARIO

Economic overview

Economic performance during the first half-year was affected by the impact of the COVID-19 emergency, with a decline in global GDP, which was more marked during the second quarter due to the spread of the pandemic and the adoption of lock-down measures.

China, the first country to be hit by the health emergency, was also among the first to restart their economic activity, recorded GDP growth for the second quarter (+3.2% year-on-year).

In Europe, the decline in GDP for the second quarter was -14.4% year-on-year, and was most pronounced in France, Italy and Spain. The available indicators showed the beginning of a partial recovery for economic activity: for example retail sales recorded a +16% increase month-on-month for May, with industrial production trending at +11%. The June PMI (Purchasing Managers' Index) signalled a strong recovery in manufacturing activity.

US GDP also fell (-9.5% year-on-year for the second quarter), due to virus containment measures and their effects on employment levels (the unemployment rate at its highest since the Great Depression), and on consumption within the country.

The contraction of the economies in Brazil and Russia were also quite pronounced, in that, as exporters of raw materials and oil, they suffered from the collapse in commodities prices and the reduction in foreign demand, in addition to the spread of the pandemic and its impact on internal demand.

Economic growth, percentage change in GDP

	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020
EU	1.7	1.5	1.6	1.2	-2.5	-14.4
USA	2.3	2.0	2.1	2.3	0.3	-9.5
China	6.5	6.2	5.9	5.9	-6.7	3.2
Brazil	0.6	1.1	1.2	1.6	-0.2	-15.0
Russia	0.6	1.0	1.5	2.1	1.7	-12.5
World	2.8	2.6	2.5	2.3	-2.3	-9.0

Note: Change in percentages compared to the corresponding period of the previous year.

Data are current up until Q1, up until Q2 for the EU, the USA and China.

Sources: National statistics offices and IHS Markit.

Exchange rates

The US dollar rose against the euro and against major emerging market currencies during the first half-year of 2020 compared to the previous year, benefiting from its safe haven status for investors at a time of high financial market volatility. The average for the euro/US dollar was stable during the second quarter at 1.10 if compared to the first quarter, but down (-2.5%) compared to the first half-year of 2019 (-2.1% year-on-year for the second quarter).

Key exchange rates	1Q		2Q		1H	
	2020	2019	2020	2019	2020	2019
US\$ per euro	1.10	1.14	1.10	1.12	1.10	1.13
Chinese yuan per US\$	6.98	6.75	7.08	6.82	7.03	6.78
Brazilian real per US\$	4.47	3.77	5.39	3.92	4.92	3.85
Russian rouble per US\$	66.39	65.89	72.41	64.53	69.35	65.18

Average exchange rates for the period. Source: National central banks.

During the first months of the pandemic, emerging markets experienced one of the strongest capital outflows ever recorded, which only partially returned during the second quarter, thanks to the introduction of liquidity by the major central banks. The impact on the Brazilian real was high, depreciating by -21.8% for the first six months of 2020, compared to the same period of 2019, -27.3% for the second quarter.

Depreciation was more contained for the Chinese yuan (-3.6% for the first half-year, -3.8% for the second quarter), and for the Russian rouble (-6.0% for the first half-year, -10.9% for the second quarter when the price of oil fell by over 50% year-on-year), thanks to the exchange rate stability policy adopted by their respective central banks.

Raw materials prices

The impact of the pandemic on the demand for raw materials was particularly pronounced, and prices were certainly affected. For the first half-year of 2020, the average price of Brent stood at US\$ 42.1 per barrel, down by -36.4% compared to the same period of 2019. The decline was more severe for the second quarter (-51.3% compared to the second quarter of 2019), with the average price of Brent at US\$ 33.3 per barrel, due to both the collapse in global demand and the price war between Saudi Arabia and Russia.

The trend for butadiene followed that of oil, with an average price of euro 559 per tonne, down by -36.6% compared to the first half-year of 2019. The drop during the second quarter was more pronounced (-56.5% compared to the same period of 2019), with an average price of euro 392 per tonne.

The average price of natural rubber for the first half-year of 2020 was US\$ 1,222 per tonne, down by -16.1% compared to the same period of 2019. For the second quarter, prices dropped by -26.9% (an average price of US\$ 1,107 per tonne), mostly impacted by the restrictive measures which limited automobile production in the main producing countries.

Raw materials prices	1Q			2Q			1H		
	2020	2019	% change	2020	2019	% change	2020	2019	% change
Brent (\$ / barrel)	50.9	63.9	-20.4%	33.3	68.3	-51.3%	42.1	66.1	-36.4%
Butadiene (€ / tonne)	727	865	-16.0%	392	900	-56.5%	559	883	-36.6%
Natural rubber TSR20 (\$ / tonne)	1,337	1,397	-4.3%	1,107	1,514	-26.9%	1,222	1,455	-16.1%

Note: Data are averages for the period. Source: IHS Markit, Reuters

Trends in Car Tyre Markets

The COVID-19 emergency and the containment measures adopted by the various countries impacted global demand for car tyres during the first half-year of 2020, with a decline in market volumes of -28% (-36% for the second quarter as the pandemic spread).

The decline for the Original Equipment channel was more pronounced than for the Replacement channel:

- -34% for Original Equipment for the first half-year (-47% for the second quarter), as a result of the production freeze by the main car makers (global automobile production was down by -33% for the first half-year, by -45% for the second quarter);
- -26% for the Replacement channel for the first half-year (-32% for the second quarter), due to the mobility limitations adopted by the main countries.

The New Premium market (tyres with a rim diameter ≥ 18 inches) proved to be more resilient than the Standard market (tyres with a rim diameter ≤ 17 inches), thanks to the evolution of the car parc: the New Premium segment declined by -24% for the first half-year (-35% for the second quarter) compared to -29% for the Standard segment (-36% for the second quarter).

There were differing performances amongst the geographical regions during the course of the first half-year:

- APAC, which was heavily punished during the first quarter (market at -38%), managed to limit its losses for the second quarter (-18%), thanks to the recovery in China (+2% for the second quarter), where economic activity had gradually returned to normal;
- Europe and North America which were subsequently affected by the pandemic, recorded market declines of -14% and -10% respectively for the first quarter, with further declines for the second quarter (-42% for Europe and -41% for North America) following the stoppage in economic activities in April and May;
- in South America and Russia/Nordics/MEAI, the last geographical regions to be affected by the COVID-19 emergency, the Car market declined by -62% and -54% respectively for the second quarter, -10% and -16% for the first quarter.

Trends in Car Tyre Markets

% year-on-year	1Q 2019	2Q 2019	3Q 2019	4Q 2019	2019	1Q 2020	2Q 2020	1H 2020
Total Car Tyre Market								
Total	-1.3	-2.0	-0.3	-1.7	-1.3	-20.7	-36.1	-28.4
<i>Original equipment</i>	-6.1	-8.5	-4.2	-4.7	-5.9	-22.3	-46.8	-34.4
<i>Replacement</i>	0.7	0.7	1.1	-0.5	0.5	-20.1	-31.9	-26.1
New Premium Market ≥ 18"								
Total	6.7	6.3	10.4	7.8	7.8	-12.0	-34.8	-23.5
<i>Original equipment</i>	-0.0	-0.1	5.7	3.4	2.2	-15.8	-46.5	-31.1
<i>Replacement</i>	12.5	11.4	13.8	11.2	12.2	-9.2	-26.2	-17.8
Standard Market ≤ 17"								
Total	-2.8	-3.5	-2.1	-3.5	-3.0	-22.4	-36.3	-29.4
<i>Original equipment</i>	-7.9	-11.0	-7.2	-7.2	-8.4	-24.5	-46.9	-35.4
<i>Replacement</i>	-0.8	-0.8	-0.6	-2.2	-1.1	-21.7	-32.8	-27.4

Source: Pirelli estimates

SIGNIFICANT EVENTS FOR THE FIRST HALF-YEAR

In **January 2020**, Pirelli was recognised as a global leader in the fight against climate change, earning itself a place on the Climate A-List drawn up by the CDP (the former Carbon Disclosure Project). In other ESG sector news, Pirelli was awarded one of the highest acknowledgements in the SAM Sustainability Yearbook 2020 published by S&P Global, achieving recognition as an ESG sector Leader in the FTSE4Good Index Series, by being ranked at the top of the Tyre and Consumer Goods sector.

On **February 19, 2020** Pirelli presented the 2020-2022 Industrial Plan with Vision 2025 to the financial community. On the same date the Board of Directors approved the adoption of a new monetary incentive scheme (LTI) aimed at all areas of the Group's Management, correlated to the objectives of the plan, and resolved to close early and without any disbursements, - effective December 31, 2019 - the previous plan adopted in 2018 which correlated to the objectives of the 2018-2020 period. The Board of Directors' Meeting of **April 3, 2020** reformulated the 2020 targets as part of the COVID-19 containment measures, and revised the 2020 remuneration policy taking into account, in particular, the cancellation of the short-term incentive scheme for 2020.

Following the COVID-19 emergency, for the **first three months of 2020** Pirelli activated a series of measures to protect the health of employees and the community, both at Headquarters and in the manufacturing plants, where production, firstly in China and then in the rest of the world, had gradually slowed down, and subsequently stopped. During the course of the **second quarter**, following the restart of economic activities which had already taken place in China, the other manufacturing plants of the Group also gradually restarted production, initially at a reduced pace in view of the decline in demand.

In **March** Pirelli, thanks also to the support of some of its partners, including Camfin and the Silvio Tronchetti Provera Foundation, promoted a series of charitable initiatives, in Italy and around the world, to support the fight and research against the Coronavirus.

On **March 2, 2020** Pirelli's Board of Directors approved the 2019 Financial Statements, which closed with a total net income of euro 457.7 million, and resolved to propose to the Shareholders' Meeting, the distribution of a dividend of 0.183 euro per share, totalling euro 183 million. On **April 3, 2020** the Board of Directors, cancelled the distribution of dividends for the 2019 financial year, as part of the COVID-19 containment measures, thereby amending the previous resolution. The Company reserved the possibility of distributing reserves to Shareholders during the second half-year of 2020, should cash generation prove to be higher than the new 2020 target and/or the economic scenario should allow better visibility on the overall impacts of the COVID-19 emergency.

On **March 31, 2020** Pirelli announced that it had signed a new fully sustainable euro 800 million credit facility, with a 5-year maturity, to be mainly used to repay existing debt. The Company also extended the maturity date of an existing credit facility of euro 200 million, by more than one year (to September 2021, from June 2020). These transactions were part of the ongoing measures aimed at optimising and strengthening Pirelli's debt structure. Thanks to these operations, Pirelli further increased its coverage of financial debt maturities for approximately the next three years at least, and under slightly better financial conditions than those detailed in the Industrial Plan.

On **April 3, 2020** Pirelli's Board of Directors - faced with a deteriorated scenario - initiated, in addition to that mentioned above, a series of measures aimed at protecting profitability and cash generation. In particular, it temporarily reduced/halted production, initiated further cost containment measures, revised the investment plan so that it was consistent with the new market outlook, activated measures for the optimised management of working capital and reduced Top Management remuneration.

On **April 29, 2020**, following the convening of the Pirelli Shareholders' Meeting which had been held on **April 28, 2020**, Pirelli announced the entry into force of the agreements signed on August 1, 2019 – which had already disclosed to the market - between ChemChina, CNRC, Silk Road Fund, Camfin and Marco Tronchetti Provera & C. S.p.A., concerning the long-term partnership with Pirelli. In addition, on this occasion, the "*Revised Acting-in-Concert Agreement*" was signed by the Silk Road Fund Co., Ltd. and the China National Tire & Rubber Co., Ltd., which supersedes and replaces the previous "*Acting-in-Concert Agreement*" signed between the parties on July 28, 2017, as well as the "*Amendment*" to the supplemental Agreement to the contract to invest in Pirelli, signed between the parties on July 28, 2017.

On **April 30, 2020** Pirelli announced that activities would restart as of May 4, with a plan, in collaboration with the University of Milan - L. Sacco Department of Biomedical and Clinical Sciences - directed by Professor Massimo Galli, aimed at ensuring the maximum protection of employee health and safety in the workplace. During **May and June**, following the reopening of factories in China in March, all the Group's manufacturing plants were gradually restarted at a reduced pace, taking the trends in demand into account. In particular, at the Bollate site - a factory whose focus will be the Velo business - Pirelli announced that the production of masks exclusively for employees and their families would also be implemented, thus eliminating the potential risks of any discontinuity in supply by third parties.

On **June 18, 2020** the Pirelli Shareholders' Meeting - convened in both ordinary and extraordinary sessions - approved the 2019 Financial Statements and the allocation of the results. They also appointed the Board of Directors for the years 2020-2021-2022 (until the approval of the Financial Statements at December 31, 2022), determined the number of members at 15, of which 9 are independent, and also confirmed Ning Gaoning as Chairman. On the basis of the two lists presented, the following were appointed as Pirelli Directors: *Ning Gaoning, Marco Tronchetti Provera, Yang Xingqiang, Bai Xinping, Wei Yintao, Domenico De Sole, Giovanni Tronchetti Provera, Zhang Haitao, Fan Xiaohu, Marisa Pappalardo, Tao Haisu, Carlo Secchi, Giovanni Lo Storto, Paola Boromei* and *Roberto Diacetti*. The Shareholders' Meeting also approved the remuneration policy for 2020, and expressed its favourable opinion on the Financial Report on the remunerations paid during the 2019 financial year. The Shareholders' Meeting also approved the

adoption of the 2020-2022 three-year monetary Long Term Incentive Plan (the LTI Plan) for the Management sector of the Pirelli Group, as well as the Directors and Officers Liability Insurance policy. In the extraordinary session, the Shareholders' Meeting also approved - with 98.7% of the share capital present - certain statutory changes mainly concerning new legislation on gender quotas.

On **June 22, 2020**, the new Board of Directors of Pirelli & C. S.p.A. appointed Marco Tronchetti Provera as Executive Vice Chairman and Chief Executive Officer (CEO), granting him powers for the operational management of Pirelli. The Board also proceeded to appoint the members of the Board Committees, confirming all the previous Committees with their respective instructive, consultative and propositional tasks. The Board of Directors also confirmed Francesco Tanzi, as Chief Financial Officer of the Group and Corporate Financial Reporting Manager, and also appointed the Supervisory Board, which had previously expired together with the Board of Directors that had appointed it.

On **June 22, 2020**, Pirelli announced that the Science Based Targets Initiative (SBTi) - an organisation that aims to guide companies in defining their ambitious targets for controlling planet temperatures – has validated the Company's targets on reducing CO₂ emissions, judging them to be consistent with the actions needed to maintain climate warming well below 2°C. The recognition gained by Pirelli is testament to the worthiness of the road being taken towards the Group achieving carbon neutrality by 2030, underpinned by its goal of using 100% renewable electric energy by 2025 and announced in the Industrial and Sustainability Plan presented in February.

GROUP PERFORMANCE AND RESULTS

In this document, in addition to the financial figures as provided for by the International Financial Reporting Standards (IFRS), alternative performance indicators derived from the IFRS were used in order to allow for a better assessment of the of the Group's operating and financial performance.

Reference should be made to the paragraph “*Alternative Performance Indicators*” for a more analytical description of these indicators.

* * *

During the first half-year of 2020, the tyre sector was heavily impacted by the COVID-19 emergency and by the deterioration of the economic outlook, along with the general decline in consumption and production.

Demand for car tyres, as already shown, recorded a -28.4% decline in sales volumes for the first half-year, which was more accentuated for the second quarter (-36.1%).

The experience gained in China, where production and commercial activities have returned to normal during the course of recent months, has allowed Pirelli to respond promptly to the profound change in the scenario at global level, by defining an action plan which was communicated to the market this past April 3rd, with further details issued with the presentation of the first quarter results.

This plan, whose initial benefits were already visible during the first half-year, provides for a series of actions aimed at:

- ensuring the health and safety of its employees by adopting all necessary preventive measures, including the suspension of production during the months of March and April;
- protecting profitability and cash generation through cost containment and the renegotiation of investment programs;
- strengthening the capital structure. For this purpose there was the signing of a new sustainable bank credit facility for euro 800 million (5-year maturity), and more generally, the optimisation of the financial structure through the extension of debt maturities;
- initiating recovery through the gradual reopening of manufacturing plants, collaborating with the sales network (for example in the adoption of health standards and in the digitalisation of services), and simplifying the product range with greater focus on *Specialties* and tyres with a rim diameter ≥ 19 inches.

Pirelli's results for the first half-year of 2020 were characterised by:

- **revenues** of euro 1,816.4 million (-31.6% compared to the same period of 2019, an organic change of -28.5%) which reflected the previously mentioned fall in demand which was particularly accentuated during the second quarter. **High Value revenues** accounted for +70.8% of total revenues (up by +3.5 percentage points compared to 67.3% for the first half-year of 2019);
- **EBIT adjusted** which was positive at euro 66.7 million, was impacted by the negative results of the second quarter of 2020 (euro -74.4 million) resulting from the sharp fall in demand and the strong impact of the slowdown. During the first half-year, the contribution of efficiencies and cost containment measures (a total amount of euro 126 million, 7% of revenues), limited the impact of the external scenario (weakness in market demand, pressure on prices, exchange rate volatility, slowdown and increased cost of production factors);
- **net loss** which amounted to euro 101.7 million, which was impacted by second quarter results which were negative to the amount of euro 140.2 million. **Net loss adjusted** (excluding non-recurring, restructuring and other expenses, COVID-19 direct costs and the amortisation of intangible assets recognised during the PPA), was negative at euro 13.4 million;
- **net cash flow** which equalled euro -757.5 million (euro -817.4 million for the first half-year of 2019, euro -640.5 million net of dividends distributed in 2019), where lower investments (CapEx and financial equity investments), and improved working capital management mitigated the impact of lower operating performance. Cash absorption for the second quarter of the year was substantially zero (euro -4 million), mainly due to the sharp reduction in inventories;
- **Net Financial Position** which at June 30, 2020 was negative to the amount of euro 4,264.7 million (euro 3,507.2 million at December 31, 2019), but substantially unchanged compared to euro 4,260.7 million at March 31, 2020;
- a **liquidity margin** of euro 2,174.1 million, with debt maturities guaranteed for the next three years, thanks also to the Company's right to extend bank debt maturing in 2021 (to the amount of euro 253 million), and in 2022 (to the amount of euro 1,747 million) respectively until 2022 and 2024.

Cost Competitiveness Plan and COVID-19 Measures

The Cost Competitiveness Plan and the measures to combat the COVID-19 scenario were consistent with the forecasts announced this past May 13. The expected gross benefits for the year equal approximately euro 280 million (approximately 6% of the 2019 cost base), euro 140 million net of inflation and the slowdown (approximately 3% of the 2019 cost base). In particular:

- the Cost Competitiveness Plan, which is divided into 4 areas (product cost, manufacturing, organisation, and SG&A), contributed approximately euro 160 million, euro 110 million in benefits net of inflation (the impact of which was confirmed as equal to euro -50 million);
- the COVID-19 Measures cost containment plan, includes short-term measures for SG&A, marketing and communication, manufacturing and R&D, and contributed approximately euro 120 million, euro 30 million net of the slowdown (the impact of which was confirmed at euro -90 million).

During the first half-year of 2020, consistent with forecasts, the gross benefits of the two plans was equal to 45% of the expected efficiencies for the year, a total of euro 126 million (approximately euro 32 million in net benefits) of which:

- approximately euro 64 million was derived from the Cost Competitiveness Plan, (approximately euro 41 million in benefits net of inflation, the latter amounted to euro -23 million);
- approximately euro 62 million was derived from COVID-19 Measures (approximately euro -9 million net of the impact of the slowdown, which at the end of June amounted to euro -71 million).

The **Group's consolidated Financial Statements** can be summarised as follows:

<i>(in millions of euro)</i>	1H 2020	1H 2019
Net sales	1,816.4	2,654.8
EBITDA adjusted (°)	267.9	636.1
% of net sales	14.7%	24.0%
EBITDA (°°)	201.7	677.9
% of net sales	11.1%	25.5%
EBIT adjusted	66.7	440.5
% of net sales	3.7%	16.6%
Adjustments: - amortisation of intangible assets included in PPA	(57.3)	(57.3)
- non-recurring, restructuring expenses and other	(39.8)	(30.0)
- income from Brazilian tax credits	-	71.8
- COVID-19 direct costs	(26.4)	-
EBIT	(56.8)	425.0
% of net sales	(3.1%)	16.0%
Net income/(loss) from equity investments	(4.6)	2.1
Financial income/(expenses) (°°)	(73.1)	(10.0)
- of which financial income from Brazilian tax credits	-	99.8
Net income/(loss) before tax	(134.5)	417.1
Tax income/(expenses)	32.8	(110.1)
Tax rate %	24.4%	26.4%
Net income/(loss)	(101.7)	307.0
Earnings/(loss) per share (in euro per share)	(0.10)	0.30
Net income/(loss) adjusted	(13.4)	255.9
Net income/(loss) attributable to owners of the Parent Company	(103.3)	297.9

(°) Adjustments refers to one-off and restructuring expenses to the amount of euro 35.7 million (euro 26.8 million for 1H 2019), expenses relative to the retention plan approved by the Board of Directors on February 26, 2018 to the amount of euro 4.1 million (euro 3.2 million for 1H 2019), and COVID-19 direct costs to the amount of euro 26.4 million. For 1H 2019 it had also included income from Brazilian tax credits to the amount of euro 71.8 million.

(°°) The item includes the impacts deriving from the application of the accounting standard IFRS 16 - Leases to the amount of euro 52.8 million on EBITDA (euro 51.7 million in H1 2019) and euro - 11.1 million on financial expenses (euro - 12.0 million in H1 2019).

<i>(in millions of euro)</i>	06/30/2020	12/31/2019	06/30/2019
Fixed assets related to continuing operations	9,067.7	9,469.8	9,475.2
Inventories	961.5	1,093.8	1,165.1
Trade receivables	627.9	649.4	862.1
Trade payables	(858.4)	(1,611.5)	(1,200.3)
Operating working capital related to continuing operations	731.0	131.7	826.9
% of net sales (*)	16.3%	2.5%	15.8%
Other receivables/other payables	145.0	81.0	243.7
Net working capital related to continuing operations	876.0	212.7	1,070.6
% of net sales (*)	19.5%	4.0%	20.5%
Net invested capital held for sale	-	-	0.8
Net invested capital	9,943.7	9,682.5	10,546.6
Equity	4,404.1	4,826.6	4,663.7
Provisions	1,274.9	1,348.7	1,391.1
Net financial (liquidity)/debt position	4,264.7	3,507.2	4,491.8
Equity attributable to owners of the Parent Company	4,305.5	4,724.4	4,577.5
Investments in tangible and intangible assets (CapEx)	81.4	390.5	167.7
Increases in rights of use	47.0	51.2	17.2
Research and development expenses	95.0	232.5	124.1
% of net sales	5.2%	4.4%	4.7%
Research and development expenses - High Value	89.6	215.7	114.6
% of sales High Value	7.0%	6.1%	6.4%
Employees (headcount at end of period)	30,521	31,575	31,599
Industrial sites (number)	19	19	19

(*) during interim periods net sales refer to the last twelve months

For a better understanding of the Group's performance, the following **quarterly performance figures** are provided below:

<i>(in millions of euro)</i>	1 Q		2 Q		TOTAL 1 H	
	2020	2019	2020	2019	2020	2019
Net sales	1,051.6	1,313.8	764.8	1,341.0	1,816.4	2,654.8
yoy	-20.0%		-43.0%		-31.6%	
organic yoy *	-18.5%		-38.3%		-28.5%	
EBITDA adjusted	244.2	315.6	23.7	320.5	267.9	636.1
% of net sales	23.2%	24.0%	3.1%	23.9%	14.7%	24.0%
EBITDA	220.2	308.2	(18.5)	369.7	201.7	677.9
% of net sales	20.9%	23.5%	-2.4%	27.6%	11.1%	25.5%
EBIT adjusted	141.1	219.2	(74.4)	221.3	66.7	440.5
% of net sales	13.4%	16.7%	-9.7%	16.5%	3.7%	16.6%
Adjustments: - amortisation of intangible assets included in PPA	(28.7)	(28.7)	(28.6)	(28.6)	(57.3)	(57.3)
- non-recurring, restructuring expenses and other	(18.6)	(7.4)	(21.2)	(22.6)	(39.8)	(30.0)
- income from Brazilian tax credits	-	-	-	71.8	-	71.8
- COVID-19 direct costs	(5.4)	-	(21.0)	-	(26.4)	-
EBIT	88.4	183.1	(145.2)	241.9	(56.8)	425.0
% of net sales	8.4%	13.9%	-19.0%	18.0%	-3.1%	16.0%

* before exchange rate effect and high inflation accounting in Argentina

Net sales amounted to euro 1,816.4 million, and recorded a decline of -31.6%, -28.5% excluding the combined impact of the exchange rate effect plus the adoption of hyperinflation accounting in Argentina (totalling -3.1%).

High Value net sales which amounted to euro 1,285.7 million, represented approximately 70.8% of total revenues (67.3% for the first half-year of 2019). This performance compared, to the first half-year of 2019 (-28.1%) reflected the general drop in demand for high-end range products, which were impacted by the implementation of lock-down measures in the main High Value markets.

<i>(in millions of euro)</i>	1H 2020	% of total	1H 2019	% of total	Change YoY	Organic change YoY
High Value	1,285.7	70.8%	1,787.6	67.3%	-28.1%	-27.8%
Standard	530.7	29.2%	867.2	32.7%	-38.8%	-29.9%
Total net sales	1,816.4	100.0%	2,654.8	100.0%	-31.6%	-28.5%

The following table shows the **market drivers for net sales performance**:

	2020		
	1Q	2Q	1H
Volume	-17.2%	-41.6%	-29.5%
<i>of which:</i>			
- High Value	-14.2%	-35.2%	-24.7%
- Standard	-20.2%	-50.4%	-35.4%
Price/mix	-1.3%	3.3%	1.0%
Change on a like-for-like basis	-18.5%	-38.3%	-28.5%
Translation effect/High inflation Argentina	-1.5%	-4.7%	-3.1%
Total change	-20.0%	-43.0%	-31.6%

The trend in sales **volumes** for the first half-year of 2020 (-29.5%) reflected the previously mentioned fall in demand (-28.4% for the Car market, -19% for the Motorcycle market) which impacted the Standard segment in particular (Pirelli volumes at -35.4%), and to a lesser extent the High Value segment (Pirelli volumes at -24.7%).

Within the Car sector, **New Premium (≥18")** volumes recorded a fall of -24% for the first half-year which was substantially consistent with the performance of the market (-23.5%).

The performances of each channel for Car ≥18" tyres were quite different:

- for the Original Equipment for the first half-year of 2020, Pirelli recorded a fall in volumes of -26%, which was more contained than that of the market at -31.1%, thanks to the diversification of the customer portfolio in North America and APAC, which had already been underway during the second half-year of 2019;
- for the Replacement channel, for the first half-year, Pirelli recorded a decrease in volumes of -24% (-18% for the market), impacted by the reduction of partner inventory levels in Europe and North America, which was already under way during the first quarter. For the second quarter, the decline in volumes (-29%) was more consistent with that of the market

(-26%), thanks to the performance in Europe - where de-stocking measures ended in April - and in APAC where Pirelli had increased its market share in China. De-stocking measures continued in North America, where sales were also affected by lock-down measures, which mostly affected the US states with a high presence of Premium and Prestige cars (e.g. California, Florida, and the Upper East Coast).

For the Standard Car, the decline was more pronounced (-35% for the first half-year, -50% for the second quarter) compared to the market (-29% for the first half-year, -36% for the second quarter), due to the high exposure to South America, with the reduction of sales there of the less profitable lower rim diameter products, and the gradual exit from the less profitable mass market segments.

Improvement in the price/mix for the first half-year of 2020 equalled +1.0% and reflected the differing trends between the two quarters:

- a negative first quarter (-1.3%), with a channel mix that felt the more pronounced decline of the Replacement channel, and a temporary drop in the Region mix due to lower sales in China;
- a positive second quarter (+3.3%), thanks to the improvement of the channel mix, of the Region mix (with the recovery in sales in China), and of the product mix.

The competitive pressure on prices remained substantially unchanged for the half-year, and was consistent with previous quarters.

There was a negative exchange rates effect of -3.1% for the first half-year, -4.7% for the second quarter, due to the strong volatility of emerging market currencies, mainly Latin America and Russia.

The performance for **sales according to geographical area** was as follows, and reflected the new Pirelli organisational structure introduced as of 2020.

	<i>euro/mIn</i>	1H 2020		<i>Organic Yoy*</i>	1H 2019**
		%	<i>yoy</i>		%
Europe and Turkey	773.1	42.6%	-28.1%	-27.7%	40.5%
North America	359.9	19.8%	-33.8%	-35.4%	20.5%
APAC	347.5	19.1%	-23.6%	-22.8%	17.1%
South America	169.0	9.3%	-51.0%	-28.4%	13.0%
Russia, Nordics and MEAI	166.9	9.2%	-29.0%	-26.9%	8.9%
Total	1,816.4	100.0%	-31.6%	-28.5%	100.0%

* before exchange rate effect and high inflation accounting in Argentina

** the comparative data for 2019 have been restated in accordance with the new repartitions by geographic regions

EBITDA adjusted at June 30, 2020 equalled euro 267.9 million (-57.9% compared to euro 636.1 million for the corresponding period of 2019). The EBITDA adjusted included net indirect industrial costs relative to the COVID-19 emergency totalling euro 83.6 million, of which euro 70.6 million were costs relative to the slowdown due to the temporary closure of some manufacturing plants.

These indirect costs included the benefits of the welfare safety nets, and the benefits deriving from the COVID-19 cost-cutting measures implemented on the Group's industrial costs.

EBITDA which equalled euro 201.7 million (euro 677.9 million for the first half-year of 2019), also included direct operating costs linked to the COVID-19 emergency to the amount of euro 26.4 million, mainly relative to costs incurred for the purchase of personnel protection materials, as well as costs relative to semi-finished products which cannot be utilised due to the sudden closure, in that they are not suitable for production.

EBIT adjusted which equalled euro 66.7 million (euro 440.5 million for the first half-year of 2019) was impacted by the negative results of the second quarter (euro -74.4 million) resulting from the sharp fall in demand and the strong impact of the slowdown. During the first half-year, efficiencies measures and the program for the reduction of costs linked to the COVID-19 emergency contributed in containing the impacts of the difficult external scenario (strong weakness in market demand, pressure on prices, slowdown, volatility of exchange rates, and inflation of the cost of production factors).

In more detail:

- the Cost Competitiveness Plan generated structural efficiencies of euro 63.8 million (3.5% of revenues) which offset inflation (euro -22.8 million), the impact of the exchange rate effect (euro -16.5 million), the increase in the cost of raw materials (euro -14.8 million), where the latter was impacted by depreciation of the main currencies of countries where the Group's production is located (e.g. South America, Romania, and Russia). These efficiencies concerned the cost of the product (optimisation of specifications, and rationalisation of components), organisation (re-engineering of processes), and SG&A costs (strict control of overheads);
- the cost reduction plan linked to the COVID-19 emergency, equal to euro 61.7 million for the first half-year, almost completely offset the impact of the slowdown (euro -70.6 million), which by the end of June had expressed approximately 80% of its expected annual impact. Measures were carried out with regard to discretionary costs (SG&A), a review of marketing and communication activities, the renegotiation of contracts with suppliers, the prioritisation of R&D investments, and further production efficiencies;
- the price/mix impact was positive to the amount of euro 7 million (euro 21.9 million for the second quarter);
- finally, the impact of volumes (euro -332.2 million), of amortisation and depreciation (euro -13.8 million) and of other expenses (euro -35.6 million) were all negative, the latter relative to the transformation process (digitisation, R&D and Cyber), the increase in provisions for receivables and inventories, and other costs of a non-monetary nature relative to the significant reduction in inventories of finished products during the second quarter.

<i>(in millions of euro)</i>	1 Q	2 Q	1 H
2019 EBIT Adjusted	219.2	221.3	440.5
- Internal levers:			
Volumes	(95.0)	(237.2)	(332.2)
Price/mix	(14.9)	21.9	7.0
Amortisation, depreciation and other expenses	3.8	(53.2)	(49.4)
Slowdown	(16.4)	(54.2)	(70.6)
COVID-19 cost cutting	32.9	28.8	61.7
Efficiencies	31.2	32.6	63.8
- External levers:			
Cost of production factors (commodities)	(3.3)	(11.5)	(14.8)
Cost of production factors (labour/energy/others)	(15.2)	(7.6)	(22.8)
Difference from foreign currency translation	(1.2)	(15.3)	(16.5)
Total change	(78.1)	(295.7)	(373.8)
2020 EBIT adjusted	141.1	(74.4)	66.7

EBIT, which amounted to a negative amount of euro 56.8 million (compared to a positive euro 425.0 million for the first half-year of 2019), included:

- the amortisation of intangible assets identified during the PPA to the amount of euro 57.3 million (consistent with the first half-year of 2019);
- one-off and restructuring expenses to the amount of euro 35.7 million (euro 26.8 million for the first half-year of 2019) mainly relative to structural rationalisation measures;
- expenses relative to the retention plan approved by the Board of Directors on February 26, 2018 to the amount of euro 4.1 million (euro 3.2 million for the first half-year of 2019);
- COVID-19 direct costs to the amount of euro 26.4 million mainly relative to costs incurred for the purchase of personnel protection materials, as well as costs relative to semi-finished products which cannot be utilised due to the sudden closure, in that they are not suitable for production.

Income/(loss) from equity investments was negative to the amount of euro 4.6 million, compared to the positive amount of euro 2.1 million for the first half-year of 2019. The result for the first half-year of 2020 mainly included the pro-rata share of the loss attributable to the Chinese joint venture Xushen Tire (Shanghai) Co., Ltd (euro -3.6 million).

Net financial expenses amounted to euro 73.1 million compared to euro 10.0 million for the same period of 2019. It should be noted that financial expenses at June 30, 2019 had been positively impacted by a non-recurring effect linked to tax credits in Brazil (PIS/COFINS). Net of these effects, financial expenses for the first half-year of 2019 amounted to euro 109.8 million. Therefore, in comparing financial expenses at June 30, 2020 with those of the same period of 2019, with the aforementioned adjustment, there emerges a saving of euro 36.7 million, which is explained by the

reduction in the cost of the Group's debt, by the reduction of debt in countries with higher interest rates accompanied by a general decrease in rates, by the lesser impact derived from the application of hyperinflation accounting in Argentina, and by lower hedging costs for the Group's trade receivables and payables.

The cost of debt year-on-year (calculated as the average for the last twelve months) stood at 2.22%, compared to 2.83% at December 31, 2019.

This reduction mainly reflected:

- a lower incidence of debt denominated in high yield currencies mainly in Brazil and Mexico;
- the favourable comparison with the first half-year of 2019 which included the wash-down of fees which had not yet been amortised, following the early repayment of borrowings from banks;
- the reduction in the interest margin, which occurred during the second half-year of 2019 for the main bank credit facility, following an improvement in the Group's financial leverage to which these margins are indexed;
- a general reduction in interest rates.

Tax income was recorded for the first half-year of 2020 which amounted to euro 32.8 million against net loss before tax of euro 134.5 million, with a tax rate of 24.4% which was consistent with the expected tax rate for the 2020 financial year. The first half-year of 2019 instead reported **tax expenses** amounting to euro 110.1 million against net income before tax of euro 417.1 million (a tax rate of 26.4%).

Net income/(loss) was negative to the amount of euro 101.7 million, compared to the positive result of euro 307.0 million for the corresponding period of 2019.

Net income/(loss) adjusted amounted to euro -13.4 million, compared with the positive amount of euro 255.9 million for the corresponding period of 2019.

The following table shows the calculations for the net income/(loss) adjusted:

<i>(in millions of euro)</i>	1H	
	2020	2019
Net income/(loss)	(101.7)	307.0
Amortisation of intangible assets included in PPA	57.3	57.3
Non-recurring, restructuring expenses and other	35.7	26.8
Income from Brazilian tax credits	-	(71.8)
COVID-19 direct costs	26.4	-
Retention plan	4.1	3.2
Financial income from Brazilian tax credits	-	(99.80)
Tax	(35.2)	33.2
Net income/(loss) adjusted	(13.4)	255.9

Net income/(loss) attributable to the owners of the Parent Company was negative to the amount of euro 103.3 million, compared to the positive result of euro 297.9 million for the first half-year of 2019.

Equity went from euro 4,826.6 million at December 31, 2019, to euro 4,404.1 million at June 30, 2020.

Equity attributable to the Parent Company at June 30, 2020 equalled euro 4,305.4 million, compared to euro 4,724.4 million at December 31, 2019.

This change is shown in the table below:

<i>(in millions of euro)</i>	Group	Non-controlling interests	Total
Equity at 12/31/2019	4,724.4	102.2	4,826.6
Translation differences	(313.7)	(5.1)	(318.8)
Net income/(loss)	(103.3)	1.6	(101.7)
High inflation accounting Argentina	10.3	-	10.3
Other	(12.3)	-	(12.3)
Total changes	(419.0)	(3.5)	(422.5)
Equity at 06/30/2020	4,305.4	98.7	4,404.1

The impact from translation differences was mainly due to the depreciation of the Brazilian and Mexican currencies for the half-year.

The **net financial position** was negative to the amount of euro 4,264.7 million, compared to euro 3,507.2 million at December 31, 2019. It was composed as follows:

(in millions of euro)	06/30/2020	12/31/2019
Current borrowings from banks and other financial institutions	1,182.3	1,419.4
- of which lease obligations	82.8	77.8
Current derivative financial instruments	25.7	31.7
Non-current borrowings from banks and other financial institutions	4,940.6	3,949.8
- of which lease obligations	399.6	405.3
Non-current derivative financial instruments	11.1	10.3
Total gross debt	6,159.7	5,411.2
Cash and cash equivalents	(1,455.2)	(1,609.8)
Other financial assets at fair value through Income Statement	(18.9)	(38.1)
Current financial receivables and other assets**	(44.8)	(35.5)
Current derivative financial instruments	(47.0)	(32.1)
Net financial debt *	4,593.8	3,695.7
Non-current derivative financial instruments	(57.1)	(52.5)
Non-current financial receivables and other assets**	(272.0)	(136.0)
Total net financial (liquidity) / debt position	4,264.7	3,507.2

* Pursuant to Consob Notice of July 28, 2006 and in compliance with ESMA/2013/319 Recommendations.

** The item "financial receivables and other assets" is reported net of the relative provision for impairment which amounted to euro 6.4 million at June 30, 2020 and euro 8.7 million at December 31, 2019.

The **structure of gross debt** which amounted to euro 6,159.7 million, was as follows:

(in millions of euro)	06/30/2020	Maturity date					
		within 1 year	between 1 and 2	between 2 and 3	between 3 and 4	between 4 and 5	more than 5 years
Use of unsecured financing ("Facilities")	2,000.0	252.9	1,747.1	-	-	-	-
Bond EURIBOR +0,70% - 2018/2020	200.0	200.0	-	-	-	-	-
Bond 1,375% - 2018/2023	548.5	-	-	548.5	-	-	-
Schuldschein	522.9	-	81.7	-	421.3	-	19.9
Bilateral long term borrowings	721.9	-	-	-	721.9	-	-
ISP short term borrowing	200.0	-	200.0	-	-	-	-
Other loans	1,484.0	672.4	2.2	13.3	1.2	794.9	-
Lease obligations IFRS 16	482.4	82.8	66.9	57.6	47.2	41.5	186.4
Total gross debt	6,159.7	1,208.1	2,097.9	619.4	1,191.6	836.4	206.3
		19.6%	34.1%	10.1%	19.3%	13.6%	3.3%

At June 30, 2020 the Group had a liquidity margin equal to euro 2,174.1 million, composed of euro 700 million in the form of non-utilised committed credit facilities, and of euro 1,455.2 million in cash and cash equivalents, in addition to financial assets at fair value through the Income Statement to the amount of euro 18.9 million. The liquidity margin of euro 2.174.1 million, guarantees coverage for maturities for current borrowings from banks and other financial institutions for the next three years, thanks also to the Company's right to extend bank debt maturing in 2021 to the amount of euro 253 million, and in 2022 to the amount of euro 1,747 million respectively until 2022 and 2024.

Net cash flow, in terms of change in the net financial position, was negative to the amount of euro 757.5 million (euro -817.4 million for the first half-year of 2019, euro -640.5 million net of dividends paid by the Parent company), where lower investments (CapEx and financial equity investments), and improved net working capital management mitigated the impact of lower operating performance. Cash absorption for the second quarter of the year was substantially zero (euro -4 million), mainly due to the sharp reduction of inventories.

<i>(in millions of euro)</i>	1Q		2Q		1 H	
	2020	2019	2020	2019	2020	2019
EBIT adjusted	141.1	219.2	(74.4)	221.3	66.7	440.5
Amortisation and depreciation (excluding PPA amortisation)	103.1	96.5	98.1	99.1	201.2	195.6
Investments in tangible and intangible assets (CapEx)	(56.6)	(78.0)	(24.8)	(89.7)	(81.4)	(167.7)
Increases in rights of use	(22.9)	(3.2)	(24.1)	(14.0)	(47.0)	(17.2)
Change in working capital / other	(861.2)	(836.0)	131.9	10.1	(729.3)	(825.9)
Operating net cash flow	(696.5)	(601.5)	106.7	226.8	(589.8)	(374.7)
Financial income / (expenses)	(32.5)	(48.1)	(40.6)	38.1	(73.1)	(10.0)
Reversal of financial income from tax credits in Brazil	-	-	-	(99.8)	-	(99.8)
Taxes paid	(31.4)	(30.1)	(22.4)	(45.9)	(53.8)	(76.0)
Cash Out for non-recurring, restructuring expenses and other	(20.7)	(16.0)	(28.2)	(17.9)	(48.9)	(33.9)
Other dividends paid	-	-	-	(8.9)	-	(8.9)
Differences from foreign currency translation / other	27.6	-	(19.5)	(19.8)	8.1	(19.8)
Net cash flow before dividends, extraordinary transactions/investments	(753.5)	(695.7)	(4.0)	72.6	(757.5)	(623.1)
(Acquisition) / Disposals of investments	-	(17.2)	-	(0.2)	-	(17.4)
Net cash flow before dividends paid by the Parent Company	(753.5)	(712.9)	(4.0)	72.4	(757.5)	(640.5)
Dividends paid by the Parent Company	-	-	-	-	-	(176.9)
Net cash flow	(753.5)	(712.9)	(4.0)	(104.5)	(757.5)	(817.4)

More specifically, **operating net cash flow** for the first half-year of 2020 was negative to the amount of euro 589.8 million (euro -374.7 million for the first half-year of 2019) and reflected:

- investments in tangible and intangible assets (CapEx) to the amount of euro 81.4 million (euro 167.7 million for the first half-year of 2019), primarily aimed at High Value activities, and at the constant improvement of the mix and quality in all factories;
- increases in the rights of use to the amount of euro 47.0 million relative to new lease contracts signed during the first half-year of 2020;
- the change in working capital resulted in a cash absorption of euro -729.3 million, which was significantly lower than the figure for the first half-year of 2019 (euro -825.9 million) also due to the measures implemented during the second quarter for the reduction of stocks to the value of euro 175 million, in order to balance inventory levels of raw materials and finished products to the new market scenario. This drop was mainly linked to the significant reduction in inventories of finished Car products (by over 2 million pieces, -15% compared to March 31), which partly anticipated the reduction expected for the third quarter. Added to this decrease was the reduction in inventories of finished Motorcycle products (approximately 200 thousand pieces, -7% compared to March).

At June 30, 2020 inventories accounted for a total of 21.4% of revenues (data for the last twelve months), down by approximately one percentage point compared to 22.3% at June 30, 2019 and 22.5% at March 31, 2020.

Net cash flow for the second quarter of 2020, was substantially zero (euro -4 million) thanks to the positive contribution of working capital (euro +131.9 million) which offset investments, financial and tax expenses and restructuring costs.

OUTLOOK FOR 2020

<i>(in billions of euro)</i>	april 2020	FY 2020
Revenues	~4.3-4.4	~4.15-4.25
Volumes	~-18%-20%	~-18%-20%
<i>Volumes High Value</i>	~-14%	~-14%
<i>Volumes Standard</i>	~-26%	~-26%
Price/Mix	~+2%	~+2%
Exchange rates	-2%	-4%
Ebit marginadjusted	~14%-15%	~12%-13%
CapEx	~0.13	~0.13
Cash flow net of dividends	~0.23-0.26	~0.19-0.22
Net financial position	~3.3 (no dividendi)	~3.3 (no dividendi)

In a context characterized by growing exchange rate and raw material volatility, Pirelli has updated the targets that communicated on April 3, confirming the main operational drivers:

- volumes in decline by 18%-20%, with High Value volumes at around -14% (Car ≥18" -13% in line with the market) and Standard volumes at around -26%;
- price/mix at around +2%;
- net efficiencies plan at euro 110 million;
- the "Covid Actions" cost containment plan at euro 120 million, euro 30 million net of slowdown.

The expectations for 2020 are:

- **Revenues** between around euro 4.15 and 4.25 billion (previous indication around euro 4.3 and 4.4 billion), as a result of exchange rate impacts, now estimated at about -4% (previous indication -2%);
- **Adjusted Ebit Margin** at between around 12% and around 13% (previous indication around 14% and around 15%). The difference compared with the prior estimates is due to:
 - the increase in the cost of raw materials including the impact of exchange rates (impact on Ebit euro -10 million including the depreciation of the main currencies of the countries where the Group produces; previous indication euro +15 million);
 - the greater impact of exchange rates (from around -2% to around -4% on revenues);
 - the increase of other costs (from euro -50 million to euro -70 million) mainly for non-monetary items (provisions for credits and inventories booked in the second quarter and other costs linked to the reduction of inventories of finished products beginning from the second quarter).
- **Investments** confirmed at around euro 130 million mainly for plant management and mix and quality improvements;

- **Net Financial Position** confirmed at around euro -3.3 billion with net cash generation at around euro 190-220 million (previous indication around euro 230 -260 million) assuming dividends are not distributed.

* * *

Update of 2020-2022 Industrial Plan targets

In order to have greater visibility on the macroeconomic scenario in light of the Covid-19 emergency, Pirelli will update the targets of the 2020-2022 industrial plan in the first quarter of 2021, and not in the fourth quarter of 2020 as previously announced. The date for the targets' presentation will be communicated by the end of the year together with the calendar of company events.

Long Term Incentive plan 2020-2022

Taking the radical changes in the macroeconomic scenario into account, the Board of Directors has mandated the Remuneration Committee to prepare a review proposal for the Long Term Incentive 2020-2022 ("LTI") plan, for the part regarding 'Net Cash Flow', aligning the relative target to the new guidance today communicated to the market and the targets of the Industrial Plan for the years 2021 and 2022, which will be announced by the first quarter of 2021. The review will enable the maintaining of the full alignment between the interests of shareholders and management in an LTI plan which sees the confirmation of the targets of relative *Total Shareholders Return* (compared with *tier one peers*) and Pirelli's positioning in selected sustainability indicators at the global level.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE HALF-YEAR

On **July 23, 2020**, consistent with that which had already been announced to the market on July 15, 2020, the Pirelli Board of Directors constituted, at the proposal of the Executive Vice Chairman and CEO Marco Tronchetti Provera, the Office of General Manager and co-CEO which directly reports to him, and entrusted it to Angelos Papadimitriou, effective August 1, 2020. In order to maximise operational effectiveness, the General Manager and co-CEO has been assigned the executive levers and the general coordination of the support functions necessary for the implementation of the integrated business model, and for the achievement of business objectives.

On **July 31, 2020**, Carlo Secchi, due to supervening new personal commitments, announced his resignation from the Pirelli & C. S.p.A. Board of Directors effective as of the same date of the approval of the Half-Year Financial Report at June 30, 2020. Professor Carlo Secchi will continue to hold the position of Chairman of the Company's Supervisory Board. For the resolutions passed by the Board of Directors on August 5, 2020 following the resignation of Professor Secchi, reference should be made to the section "*Half-Year Report on Corporate Governance*".

ALTERNATIVE PERFORMANCE INDICATORS

This document, in addition to the financial measures provided for by the International Financial Reporting Standards (IFRS), also includes measures derived from the latter even though not provided for by the IFRS (Non-GAAP Measures). These measures are presented in order to allow for a better assessment of the results of the Group's operations and should not be considered as alternatives to those required by the IFRS.

In particular, the Non-GAAP Measures used were as follows:

- **EBITDA:** is equal to the EBIT but which excludes the depreciation and amortisation of property, plant and equipment and intangible assets. The EBITDA is used to measure the ability to generate earnings, excluding the impacts deriving from investments;
- **EBITDA adjusted:** is an alternative measure to the EBITDA which excludes non-recurring, restructuring and one-off expenses, COVID-19 direct costs and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBITDA margin:** this is calculated by dividing the EBITDA by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency, excluding the impacts deriving from investments;
- **EBITDA margin adjusted:** this is calculated by dividing the EBITDA adjusted by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency, excluding the impacts deriving from investments, operating costs attributable to non-recurring, restructuring and one-off expenses, COVID-19 direct costs and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBIT:** is an intermediate measure which is derived from the net income/(loss) but which excludes the net income/(loss) from discontinued operations, taxes, financial income, financial expenses and net income/(loss) from equity investments. The EBIT is used to measure the ability to generate earnings, including the impact arising from investment
- **EBIT adjusted:** is an alternative measure to the EBIT which excludes the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring, restructuring and one-off expenses, COVID-19 direct costs and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBIT margin:** this is calculated by dividing the EBIT by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency;
- **EBIT margin adjusted:** this is calculated by dividing the EBIT adjusted by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency excluding the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring, restructuring and one-off expenses, COVID-19 direct costs and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;

- **Net income/(loss) adjusted;** this is calculated by excluding the following items from the net income/(loss) related to continuing operations:
 - o the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring, restructuring and one-off expenses, COVID-19 direct costs and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
 - o non-recurring expenses/income recognised under financial income and expenses;
 - o non-recurring expenses/income recognised under taxes, as well as the tax impact relative to the adjustments referred to in the previous points.
- **Fixed assets related to continuing operations:** this measure is constituted of the sum of the Financial Statement items, "*Property, plant and equipment*", "*Intangible assets*", "*Investments in Associates and Joint Ventures*", "*Other financial assets at fair value through other Comprehensive Income*" and "*Other financial assets at fair value through the Income Statement*". Fixed assets related to continuing operations represents non-current assets included in the net invested capital;
- **Net operating working capital related to continuing operations:** this measure is constituted by the sum of the items, "*Inventories*", "*Trade receivables*" and "*Trade payables*";
- **Net working capital related to continuing operations:** this measure is constituted by the operating working capital, and other receivables and payables, and the derivative financial instruments not included in the net financial position. This measure represents short-term assets and liabilities included in the net invested capital, and is used to measure short-term financial stability;
- **Net invested capital assets held for sale:** this measure is constituted by the difference between "*Assets held for sale*" and "*Liabilities held for sale*";
- **Net invested capital:** this measure is constituted by the sum of (i) fixed assets (ii) net working capital related to continuing operations, and (iii) net invested capital assets held for sale. Net invested capital is used to represent the investment of financial resources;
- **Provisions:** this measure is constituted by the sum of "*Provisions for liabilities and charges (current and non-current)*", "*Employee benefit obligations (current and non-current)*" and "*Provisions for deferred taxes*". The item provisions represents the total amount of liabilities due to obligations of a probable but not certain nature;
- **Net financial debt:** this is calculated pursuant to the CONSOB Communication dated July 28, 2006, and in compliance with ESMA/2013/319 Recommendations. Net financial debt represents borrowings from banks and other financial institutions net of cash and cash equivalents, other financial assets at fair value through the Income Statement, current financial receivables (included in the Financial Statements under "*Other receivables*") and current derivative financial instruments included in the net financial position (included in the Financial Statements under current assets as "*Derivative financial instruments*");

- **Net financial position:** this measure represents the net financial debt less the “*Non-current financial receivables*” (included in the Financial Statements under “*Other receivables*”) and non-current derivative financial instruments included in the net financial position (included in the Financial Statements under non-current assets as “*Derivative financial instruments*”). Total net financial position is an alternative measure to net financial debt which includes non-current financial assets;
- **Operating net cash flow:** this is calculated as the change in the net financial position relative to operations management;
- **Net cash flows before dividends and extraordinary transactions/investments:** this is calculated by adding the change in the net financial position due to financial and tax management, to the operating net cash flow;
- **Net cash flows before dividends paid by the Parent company:** this is calculated by adding the change in the net financial position due to extraordinary transactions and the management of investments, to net cash flow before dividends and extraordinary transactions/investments;
- **Net cash flow:** this is calculated by adding the change in the net financial position due to the payment of dividends by the Parent company, to net cash flow before dividends paid by the Parent company;
- **Investments in tangible and intangible assets (CapEx):** this is calculated as the sum of investments (increases) in intangible assets, and investments (increases) in property, plant and equipment excluding any increases relative to the rights of use;
- **Increases in the rights of use:** this is calculated as the increases in the rights of use relative to lease contracts;
- **Impact of depreciation on investments:** this is calculated by dividing investments (increases) in property, plant and equipment) with the depreciation for the period. The ratio of investments to depreciation is used to measure the ability to maintain or restore amounts for tangible assets.

OTHER INFORMATION

ROLE OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for the strategic guidance and supervision of the overall business activities, with the power to address the administration in its entirety, with the competence for undertaking of the most important financial/strategic decisions, or decisions which have a structural impact on operations, or are functional decisions, as well as to exercise the control and direction of Pirelli.

The Chairman is also endowed with the legal representation of the Company including in the Company's legal proceedings, as well as all other powers attributed to the Chairman pursuant to the Articles of Association.

The Executive Vice Chairman and Chief Executive Officer are exclusively delegated powers for the ordinary management of the Company and the Group, as well as the power to make proposals regarding the Industrial Plan and Budgets to the Board of Directors, as well as any resolutions concerning any strategic industrial partnerships and joint ventures of which Pirelli is a part.

The Board has internally instituted the following Committees with advisory and propositional tasks:

- Audit, Risk, Sustainability and Corporate Governance Committee;
- Remuneration Committee;
- Committee for Related Party Transactions;
- Nominations and Successions Committee;
- Strategies Committee.

INFORMATION ON THE SHARE CAPITAL AND OWNERSHIP STRUCTURE

The subscribed and paid-up share capital at the date of approval of this Financial Report amounted to euro 1,904,374,935.66 and was represented by 1,000,000,000 registered ordinary shares without indication of their nominal value.

The shareholder Marco Polo International Italy S.r.l. - pursuant to Article 93 of Legislative Decree 58/1998 - controls the Company with a 46% share of the capital, but does not exercise management and coordination activities.

Updated extracts are available on the Company's website, of the existing agreements between some of the shareholders, including indirect shareholders, of the Company, which contain the provisions of the Shareholders' Agreements relative, amongst other things, to the governance of Pirelli.

For further details on the governance and ownership structure of the Company reference should be made to the Report on Corporate Governance and Ownership Structure contained in the 2019 Annual Report, as well as other additional information published in the Governance and Investor Relations section of the Company's website (www.pirelli.com).

WAIVER OF THE PUBLICATION OF INFORMATION DOCUMENTS

The Board of Directors, after taking into account the simplification of regulatory requirements introduced by CONSOB in the Issuer's Regulation No. 11971/99, resolved to exercise the option to derogate, pursuant to the provisions of Article 70, paragraph 8, and Article 71, paragraph 1-bis of the aforesaid Regulation, the obligations to publish the disclosure documents required at the time of significant mergers, de-mergers, capital increases by contributions in kind, acquisitions and disposals.

FOREIGN SUBSIDIARIES NOT BELONGING TO THE EUROPEAN UNION (EXTRA-EU COMPANIES)

Pirelli & C. S.p.A. directly or indirectly controls some companies based in countries which do not belong to the European Community ("*Extra-EU Companies*") which hold particular significance pursuant to Article 15 of CONSOB Regulation No. 20249 of December 28, 2017 concerning Market Regulations.

With reference to data at June 30, 2019, the Extra-EU Companies controlled, directly or indirectly, by Pirelli & C. S.p.A. which are of relevance pursuant to Article 15 of the Market Regulations are:

Limited Liability Company Pirelli Tyre Russia (Russia); Pirelli Pneus Ltda (Brazil); Pirelli Comercial de Pneus Brasil Ltda (Brazil); Comercial e Importadora de Pneus Ltda. (Brazil); Pirelli Tire LLC (USA); Pirelli Tyre Co., Ltd. (China); Pirelli Otomobil Lastikleri A.S. (Turkey); Pirelli Neumaticos S.A.I.C. (Argentina); Pirelli Neumaticos S.A. de C.V. (Mexico), and Pirelli Neumaticos de Mexico S.A. de C.V. (Mexico).

Also pursuant to the same aforesaid provisions, the Company has specific and appropriate "*Group Operating Regulations*" in place which ensures immediate, constant and full compliance with the provisions of the aforementioned CONSOB Regulation. In particular, the competent corporate departments ensure the timely and punctual identification and publication of the more significant Extra-EU Companies, pursuant to the provisions of the Market Regulations, and - with the necessary and timely cooperation of the companies concerned - ensure the collection of data and information and the assessment of the circumstances referred to in the aforementioned Article 15, ensuring the availability of the information and data provided by the subsidiaries in the event of a CONSOB request. The periodic flow information is also provided for to guarantee to the Board of Statutory Auditors that the Company is carrying out of the required and appropriate checks. Finally, the aforesaid Operating Regulations, consistent with regulatory provisions, govern the making of the financial statements available to the public, (that is the Statement of Financial Position and Income Statement) of the relevant non-EU companies which are subject to the preparation of the consolidated Financial Statements of Pirelli & C. S.p.A.

It should be noted that the Company is fully compliant with the provisions of Article 15 of the aforementioned CONSOB Regulation No. 20249 of December 28, 2017 and the subsistence of the conditions required by the same.

RELATED-PARTY TRANSACTIONS

The Company's Board of Directors again approved the procedure for Related Party Transactions ("*RPT Procedure*") as part of the new listing process initiated and completed during the 2017 financial year. Subsequently, following the renewal of the administrative body and the constitution of the Committee for Related Party Transactions ("*Committee RPT*"), the RPT Procedure was approved, without any modification following the unanimous favourable opinion expressed by the members of the Committee RPT, and also by the Board of Directors currently in office.

The RPT Procedure can be consulted, together with other corporate governance procedures, in the section of the website www.pirelli.com dedicated to Corporate Governance. For more details on the RPT Procedure, reference should be made to the section "*Directors' Interests and Related Party Transactions*" included in the Annual Report on the *Corporate Governance and Ownership Structure* contained in the Annual Report 2019 group of documents.

Pursuant to Article 5, paragraph 8 of CONSOB Regulation No. 17221 of March 12, 2010 on Related Party Transactions, and the subsequent CONSOB Resolution No. 17389 of June 23, 2010, it should be noted that during the first half-year of 2020, that no transaction of significant importance as defined by Article 3 paragraph 1, letter a) of the aforementioned Regulation was submitted to the Pirelli & C. S.p.A. Board of Directors for approval.

The information on Related Party Transactions as required, pursuant to CONSOB Communication No. DEM/6064293 of July 28, 2006 is presented in the Financial Statements, and in the Note entitled "*Related Party Transactions*" in the condensed Half-Year Financial Statements at June 30, 2020. Related Party Transactions are neither exceptional nor unusual, but are part of the ordinary course of business for the Group companies and are carried out in the interest of the individual companies. Such transactions, when not settled under standard conditions, or dictated by specific regulatory conditions, are in any case regulated by conditions consistent with those of the market. Furthermore, their execution is carried out in compliance with the RPT Procedure.

Furthermore, there were no Related Party Transactions - or amendments or developments to the transactions described in the preceding Financial Statements - that have had a significant impact on the financial position, or on the results of the Group, for the first-half of the 2020 financial year.

EXCEPTIONAL AND/OR UNUSUAL OPERATIONS

Pursuant to CONSOB Notice No. 6064293 of July 28, 2006, it is hereby specified that during the course of the first half-year of 2020, that no exceptional and/or unusual transactions, as defined in the aforesaid Notice, were carried out by the Company.

The Board of Directors

Milan, August 5, 2020

HALF YEAR REPORT ON CORPORATE GOVERNANCE

1. FOREWORD

Pirelli & C. S.p.A. ("**Pirelli**" or the "**Company**") has a traditional system of administration and control. Pirelli's Corporate Governance system is based on the following factors: (i) the central function played by the Board of Directors (numbering 15 Directors) that is responsible for the strategic guidance of the Company with a view to pursuit of sustainable success (i.e. the creation of long-term value to the benefit of shareholders, taking into account all relevant stakeholders) and supervising the Company's overall business activities; (ii) the central role of the Independent Directors; (iii) an effective internal control system; (iv) a pro-active risk management system; (v) a remuneration system, in general, and incentive system, in particular for managers aimed at pursuing the business strategy and, through the multi-year variable components, at the achievement of long-term interests (thereby encouraging the achievement of strategic objectives and the sustainable growth of the company, as well as bringing the interests of the management into line with those of the shareholders); (vi) a robust code of conduct for transactions with related parties. Pirelli is aware that an efficient corporate governance system, aligned with international best practices, is one of the essential elements in securing the sustainable success of the Company, as the primary objective of the Board of Directors.

As better specified below, Pirelli adheres to both the Corporate Governance Code of listed companies currently in force (the "**Corporate Governance Code**")⁵ and to the new Corporate Governance Code published in January 2020 (the "**New Corporate Governance Code**")⁶, which will come into force starting FY 2021, with information to be given in the Corporate Governance Reports to be published in 2022. In this regard, it is specified that although the system of rules of corporate governance adopted by Pirelli is already substantively in line with the principles of the New Corporate Governance Code, also taking into account the resolutions passed by the newly-appointed Board of Directors on 22 June 2020, when the New Corporate Governance Code comes into force, the Company will decide, if necessary, on how to intervene on its corporate practices, according to the guidelines that inspired its revision.

The Company's governance system is formalised in the Ethical Code, the Company Bylaws, the Shareholders' Meeting Regulation, the Regulations of the Board of Directors and Committees and in a series of principles and procedures - as better specified below - periodically updated according to national and international best practices.

In the interim financial report, the Company voluntarily highlights the updates and integrations made to its corporate governance system compared to the information contained in the annual financial report.

⁵ Approved in July 2018 by the Corporate Governance Committee established by the associations of businesses (ABI, ANIA, Assonime, Confindustria) and professional investors (Assogestioni), as well as by Borsa Italiana S.p.A. Adhesion took place first with the resolution passed by the Board of Directors during the Company's relisting process completed in October 2017 and, most recently, was confirmed on 22 June 2020, during the first board meeting held after the renewal of the Board of Directors, by resolution passed by the Shareholders' Meeting on 18 June 2020. For the sake of completeness, note that Pirelli has adopted the Code since it was first issued (October 1999) and the Company was not listed on the Stock Exchange during the period from 26 February 2016 to 3 October 2017.

⁶ In January 2020, the new version was released of the Corporate Governance Code approved by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria, which, as mentioned, will apply starting from the first financial year after 31 December 2020.

2. SHAREHOLDERS' MEETING OF 18 JUNE 2020

Pirelli held its annual Shareholders' Meeting (the “**Shareholders' Meeting**”) on 18 June 2020; there, in an ordinary or extraordinary session, resolutions were passed on the following subjects.

(i) Appointment of the Board of Directors

Approval of the financial statements as at 31 December 2019 marked expiry of the mandate of the Board of Directors. Therefore, the Ordinary Shareholders' Meeting of 18 June 2020 ruled on its renewal and appointed a Board of Directors of 15 members for the three years 2020/2022 (expiring at the shareholders' meeting called to approve the financial statements as at 31 December 2022).

It is specified that by adopting the voting list system, the so-called minorities were able to appoint 3 Directors, corresponding to one fifth of the total (in particular, the Directors Giovanni Lo Storto, Paola Boromei and Roberto Diacetti).

More specifically, 2 slates were presented at the Shareholders' Meeting: one by Marco Polo International Italy S.r.l., together with Camfin S.p.A. (which obtained approximately 87% of the votes of the capital represented in the Shareholders' Meeting) and the other by a group of asset management companies and institutional investors⁷ (which obtained approximately 13% of the votes of the capital represented in the Shareholders' Meeting).

The parties submitting the slates had previously made available to the shareholders the personal and professional profiles for each of the candidates, indicating the fact that some (9 Directors in all) met the requirements laid down for qualification as independent, both in accordance with current legislation and with the Corporate Governance Code.

During the Shareholders' Meeting, therefore, the following were elected: Ning Gaoning, Marco Tronchetti Provera, Bai Xinping, Paola Boromei (newly-appointed Independent Director), Domenico De Sole (Independent Director), Roberto Diacetti (newly-appointed Independent Director), Fan Xiaohua (Independent Director), Giovanni Lo Storto (Independent Director), Marisa Pappalardo (Independent Director), Carlo Secchi (newly-appointed Independent Director), Tao Haisu (Independent Director), Giovanni Tronchetti Provera, Wei Yintao (Independent Director), Yang Xingqiang and Zhang Haitao (new Director). At the Shareholders' Meeting, Giorgio Luca Bruno, Laura Cioli, Ze'ev Goldberg and Cristina Scocchia ceased office.

The Shareholders' Meeting also approved, with approximately 91% of the votes of the capital represented in the Shareholders' Meeting, the appointment of Ning Gaoning as Chairman of the Board of Directors.

Thereafter, during the first meeting of the newly-appointed Board of Directors, held on 22 June 2020, the Board of Directors appointed Director Marco Tronchetti Provera as Executive Vice Chairman and Chief Executive Officer.

* * *

⁷ For details on the parties submitting the minority slate, refer to the information given on the Company's website in the section dedicated to Shareholders' Meetings.

(ii) Report on the remuneration policy and the compensation paid: approval of the 2020 remuneration policy and advisory vote on the report on compensation paid in FY 2019 and the 2020-2022 LTI Plan

In respect of the Report on the remuneration policy and compensation paid (the “**Report**”), the Shareholders' Meeting was also called (i) with binding resolution in accordance with Art. 123-ter, subsection 3-ter of Italian Legislative Decree no. 58 of 24 February 1998 (the “**TUF**”) to approve Section I of the Report on the remuneration policy for FY 2020 (the “**Policy**”), and (ii) with non-binding resolution in accordance with Art. 123-ter, subsection 6 of the TUF, to resolve in favour or not in favour of Section II of the Report, in relation to the compensation paid in FY 2019.

Please note that the definition of the Policy is the result of a clear and transparent process in which the Remuneration Committee and the Company's Board of Directors play a central role. The Policy, which is submitted for approval by the Shareholders' Meeting, was prepared based on the previous application experience and taking into account the provisions of the law and regulations adopted by Consob, also in implementation of Directive (EU) 2017/828 (SHRD II). Moreover, the Policy, based on the principle of the pay for performance, is defined in order to align the interests of Management with those of shareholders, by establishing an actual and verifiable link, between remuneration, on the one hand, and Pirelli's performance on the other. Finally, it also envisages compensation granted to non-executive directors in such an amount as to guarantee adequacy in terms of the skills, professionalism and effort required by their appointment.

The Policy, submitted for the approval of the Shareholders' Meeting, also takes into account the resolutions passed by the Board of Directors on 3 April 2020, under the scope of the action taken in response to the Covid-19 health emergency and, in particular, the cancellation of the short-term incentive system for 2020 (intended for all group management, including the Executive Vice Chairman and CEO and the leadership team).

The Shareholders' Meeting: (i) approved the Policy (with approximately 88% of the votes of the capital represented in the Shareholders' Meeting); and (ii) resolved in favour, with non-binding resolution, on the compensation paid in FY 2019 (with approximately 90% of the votes of the capital represented in the Shareholders' Meeting).

Lastly, in accordance with Art. 114-bis of the TUF - after closure of the 2018-2020 Long-Term Incentive Plan effective as of 31 December 2019, with no disbursement, not even pro-quota of the three-year incentive envisaged therein - the Shareholders' Meeting approved the adoption of a three-year monetary incentive plan (2020-2022) for the Pirelli Group's management, in the part also based on the performance of the Pirelli share, with approximately 93% of the votes of the capital represented at the Shareholders' Meeting.

(iii) Additional resolutions of the ordinary session

The Shareholders' Meeting was also required to express its opinion of the report on the Directors and Officers Liability Insurance policy: the Shareholders' Meeting authorised the stipulation of a Directors and Officers Liability Insurance policy, in line with widespread international practice on the more evolved financial markets, with approximately 99% of the votes of the capital represented at the Shareholders' Meeting.

(iv) Amendment of the Company Bylaws

With regard to the only item on the agenda of the extraordinary session, the Shareholders' Meeting approved, with approximately 99% of the votes of the capital represented in the Shareholders' Meeting, certain amendments to the Company Bylaws - and, in particular, to Articles 6 (Share Capital), 9 (Shareholders' Meetings), 10, 11, 12, 13 (Management of the Company) and 16 (Board of Statutory Auditors) of said Bylaws - connected mainly with the need to adjust the text to comply with recent new regulations on gender balance in the administrative and auditing bodies of listed companies. On this occasion, further updates and improvements were also made to the text, aimed at providing greater clarity, a systematic approach and completeness to the document. The updated text of the Company Bylaws is available at www.pirelli.com.

3. BOARD OF DIRECTORS MEETING OF 22 JUNE 2020

In addition to what has already been said about the appointment of the Executive Vice Chairman and Chief Executive Officer, the newly-appointed Board of Directors, in its meeting held on 22 June 2020, also passed, amongst others, the following resolutions regarding the Company's corporate governance system and, in particular, it:

- confirmed the internal control and risk management system and all related policies, including tax policies and identified the corporate departments involved in said internal control and risk management system (notably Internal Audit, Compliance and Rules, the Tax Risk Officer and Enterprise Risk Management);
- confirmed the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera as director responsible for sustainability;
- after obtaining the favourable opinion of the Board of Statutory Auditors, confirmed, for the term of the current Board of Directors, the Executive Vice President and Chief Financial Officer Francesco Tanzi as the Manager responsible for the preparation of the corporate financial documents;
- confirmed the existing organisational structure and identified the following Company Managers as key managers:
 - the General Manager of Operations, Andrea Casaluci;
 - the Executive Vice President and Chief Financial Officer, Francesco Tanzi;
 - the Executive Vice President Administration, Maurizio Sala;
 - the Executive Vice President Investor Relations, Planning & Controlling, Valeria Leone;
 - the Strategic Advisor and Executive Vice President Technology and Innovation, Maurizio Boiocchi;
 - the Executive Vice President and Chief Human Resources Officer, Davide Sala;
 - the Executive Vice President Region Europe, Francesco Sala; and
 - the Executive Vice President Corporate Affairs, Compliance and Company Secretary, Alberto Bastanzio;
- confirmed and approved the establishment of the following Board Committees, with tasks of investigation, consultation and/or advice, ruling on their composition and approving the related operating regulations:

- Related-Party Transactions Committee comprising Carlo Secchi (Chairman), Giovanni Lo Storto and Marisa Pappalardo;
- Audit, Risks, Sustainability and Corporate Governance Committee, comprising Fan Xiaohua (Chairman), Roberto Diacetti, Giovanni Lo Storto, Marisa Pappalardo, Carlo Secchi and Zhang Haitao; the Board of Directors also considered that Roberto Diacetti, Fan Xiaohua, Giovanni Lo Storto and Carlo Secchi have adequate accounting and financial experience and to acknowledge that the committee, as a whole, has adequate competence in the business sector in which the Company operates, as necessary to assess the relevant risks;
- Remuneration Committee, comprising Tao Haisu (Chairman), Bai Xinping, Paola Boromei, Fan Xiaohua and Carlo Secchi; the Board of Directors also considered that the Director Paola Boromei had adequate financial experience and experience in matters of remuneration policies;
- Appointments and Successions Committee, comprising Marco Tronchetti Provera (Chairman), Bai Xinping, Ning Gaoning and Giovanni Tronchetti Provera; and
- Strategies Committee, comprising Marco Tronchetti Provera (Chairman), Bai Xinping, Domenico De Sole, Giovanni Lo Storto, Ning Gaoning, Wei Yintao and Yang Xingqiang;
- confirmed and adopted the Organisational Model 231, the Ethical Code, the Code of Conduct and the Anti-Corruption Compliance Programme already adopted by the Company;
- confirmed as members of the Company's Supervisory Body for the duration of the mandate of the current Board of Directors and in any case until renewed by the next Board of Directors, the Director Carlo Secchi (Chairman), the Standing Auditor Antonella Carù and the Corporate Vice President Internal Audit Maurizio Bonzi and the Executive Vice President Corporate Affairs, Compliance and Company Secretary Alberto Bastanzio; and
- confirmed the assessments in regard to the absence of management and coordination pursuant to Art. 2497 et seq. of the Italian Civil Code by Marco Polo International Italy S.r.l. nor indeed by any of its direct and indirect parent companies, without prejudice to their right to include Pirelli in their scope of consolidation for accounting purposes.

In addition to the foregoing, during the same meeting, the Board of Directors also, *inter alia*:

- confirmed the corporate governance structure that had been adopted by the previous Board, confirming/adopting all related procedures, including the Market Abuse Procedure, the Related Party Transaction Procedure, the Orientation towards the maximum number of appointments considered compatible with the effective fulfilment of the role of Company Director, the Procedure for information flows to the Directors and Statutory Auditors and the Diversity and Independence Statement in connection with the composition of the Board of Directors and Board of Statutory Auditors; and
- approved the regulation that envisages the rules of operation of the Board of Directors.⁸

The Data Protection Officer (DPO) of Pirelli, in continuation from the previous mandate, was confirmed as the Executive Vice President Corporate Affairs, Compliance and Company Secretary Alberto Bastanzio.

⁸The documentation is available from the Company's website in the section on Company Governance.

For the sake of completeness, please note that the Company has a plan in place for the succession of the Chief Executive Officer (adopted by the newly-appointed Board of Directors in the meeting held on 22 June 2020) and suitable procedures for the succession of the top management.

Please also note that on 22 June 2020, the Board of Directors resolved, pursuant to Art. 2389, subsection 1 of the Italian Civil Code, to allocate the total compensation attributed to the Board by the Shareholders' Meeting on 18 June 2020 (maximum 2 million euros), in line with the compensation attributed during the previous board mandate and under the scope of the conformity criteria established by the Policy.

In continuity with the previous mandates, an induction programme is dedicated to the Directors, in order to provide them, in particular newly-appointed Directors, with suitable knowledge of the business segment and markets in which Pirelli operates, its business carried out, the corporate dynamics and how they evolve, as well as the principles of correct risk management and the reference regulatory and legislative framework.

4. EVENTS FOLLOWING THE CLOSURE OF THE HALF YEAR

(i) Board of Directors meeting of 23 July 2020

The Board of Directors met on 23 July 2020 and established the new role of General Manager co-CEO, assigning it to Angelos Papadimitriou, who joined the group from 1 August 2020.

(ii) Board of Directors meeting of 5 August 2020

The Board of Directors of 5 August 2020 proceeded with the co-option of Angelos Papadimitriou, replacing Carlo Secchi, who resigned with effect as of the approval of the half-yearly financial report as of 30 June 2020, as communicated to the market on 31 July 2020.

Angelos Papadimitriou - who has declared not to be in possession of the independence requirements pursuant to the TUF and the Corporate Governance Code - has been qualified by the Board as "executive director", as he is General Manager of the Company.

The Board also appointed the new director as a member of the Strategies Committee, increasing the number of its components from seven to eight.

In relation to the positions previously held by professor Carlo Secchi within the Board committees, the Board of Directors resolved:

- (i) as far as the Related Parties Transactions Committee is concerned, to appoint Marisa Pappalardo as Chairman and Domenico De Sole as new member;
- (ii) for the Remuneration Committee, to appoint Marisa Pappalardo as new member; and
- (iii) referring to the Audit, Risks, Sustainability and Corporate Governance Committee, to reduce the number of its members from six to five.

5. INFORMATION ON THE SHARE CAPITAL AND OWNERSHIP STRUCTURES

The share capital subscribed and paid up on the date of approval of this report was 1,904,374,935.66 euros, represented by 1,000,000,000 registered ordinary shares with no par value.

The shareholder Marco Polo International Italy S.r.l. - in accordance with Art. 93 of Italian Legislative Decree no. 58/1998 - controls the Company with a share of 46.036% of the capital but does not exercise direction and coordination authority over it.

The Company's website has updated extracts available of the agreements stipulated between certain shareholders, including indirect shareholders, of the Company, which contain shareholder provisions relating, amongst others, to Pirelli's governance.

* * *

For information on the Company's Corporate Governance system, please refer to the additional information available from the Pirelli website (www.pirelli.com), in the Governance and Investor Relation sections and to the annual Report on Corporate Governance and Ownership Structures included in the Annual Report.

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS
AT 30 JUNE 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in thousands of euro)

	Note	06/30/2020		12/31/2019	
			of which related parties (note 40)		of which related parties (note 40)
Property, plant and equipment	7	3,309,758		3,649,809	
Intangible assets	8	5,639,811		5,680,175	
Investments in associates and j.v.	9	76,005		80,846	
Other financial assets at fair value through other comprehensive income	10	42,143		58,967	
Deferred tax assets	11	120,679		81,188	
Other receivables	13	417,266	5,380	342,397	5,617
Tax receivables	14	7,554		9,140	
Derivative financial instruments	25	57,061		52,515	
Non-current assets		9,670,277		9,955,037	
Inventories	15	961,507		1,093,754	
Trade receivables	12	627,892	13,729	649,394	9,823
Other receivables	13	480,028	71,038	451,858	45,154
Other financial assets at fair value through income statement	16	18,878		38,119	
Cash and cash equivalents	17	1,455,229		1,609,821	
Tax receivables	14	50,984		41,494	
Derivative financial instruments	25	51,697		37,148	
Current assets		3,646,215		3,921,588	
Total Assets		13,316,492		13,876,625	
Equity attributable to the owners of the Parent Company:	18.1	4,305,463		4,724,449	
Share capital		1,904,375		1,904,375	
Reserves		2,504,368		2,381,940	
Net income / (loss)		(103,280)		438,134	
Equity attributable to non-controlling interests:	18.2	98,681		102,182	
Reserves		97,110		82,619	
Net income / (loss)		1,571		19,563	
Total Equity	18	4,404,144		4,826,631	
Borrowings from banks and other financial institutions	21	4,940,621	16,318	3,949,836	17,386
Other payables	23	82,721		90,571	
Provisions for liabilities and charges	19	110,272		120,469	
Provisions for deferred tax liabilities	11	1,050,927		1,058,760	
Employee benefit obligations	20	188,587		203,003	
Tax payables	24	11,499		12,555	
Derivative financial instruments	25	11,111		10,327	
Non-current liabilities		6,395,738		5,445,521	
Borrowings from banks and other financial institutions	21	1,182,306	2,183	1,419,403	2,267
Trade payables	22	858,423	81,149	1,611,488	171,909
Other payables	23	330,798	5,225	402,757	4,840
Provisions for liabilities and charges	19	44,910		43,528	
Employee benefit obligations	20	834		4,104	
Tax payables	24	69,369		81,766	
Derivative financial instruments	25	29,970		41,427	
Current liabilities		2,516,610		3,604,473	
Total Liabilities and Equity		13,316,492		13,876,625	

CONSOLIDATED INCOME STATEMENT (in thousands of euro)

	Note	01/01 - 06/30/2020		01/01 - 06/30/2019	
			of which related parties (note 40)		of which related parties (note 40)
Revenues from sales and services	27	1,816,429	3,324	2,654,847	7,410
Other income	28	137,824	29,687	281,666	36,171
Changes in inventories of unfinished, semi-finished and finished products		(76,061)		50,510	
Raw materials and consumables used (net of change in inventories)		(549,446)	(2,974)	(904,358)	(1,719)
Personnel expenses	29	(460,130)	(6,053)	(539,693)	(6,574)
Amortisation, depreciation and impairment	30	(261,327)		(268,211)	
Other costs	31	(647,914)	(101,299)	(844,270)	(123,849)
Net impairment loss on financial assets	32	(17,341)		(7,479)	
Increase in fixed assets for internal works		1,178		1,985	
Operating income / (loss)		(56,788)		424,997	
Net income / (loss) from equity investments	33	(4,633)		2,156	
- share of net income (loss) of associates and j.v.		(3,851)	(3,851)	(1,355)	(1,355)
- gains on equity investments		-		1,787	
- losses on equity investments		(847)		-	
- dividends		65		1,724	
Financial income	34	167,016	901	121,097	260
Financial expenses	35	(240,166)	(461)	(131,140)	(487)
Net income / (loss) before tax		(134,571)		417,110	
Taxes	36	32,862		(110,119)	
Net income / (loss)		(101,709)		306,991	
Attributable to:					
Owners of the Parent Company		(103,280)		297,917	
Non-controlling interests		1,571		9,074	
Total earnings / (losses) per share (in euro per share)	37	(0.103)		0.298	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in thousands of euro)

	01/01 - 06/30/2020	01/01 - 06/30/2019
A		
Total Net income / (loss) for the period	(101,709)	306,991
Other components of comprehensive income:		
B - Items that may not be reclassified to income statement:		
- Remeasurement of employee benefits	9,305	(11,940)
- Tax effect	(3,150)	621
- Fair value adjustment of other financial assets at fair value through other comprehensive income	(16,749)	(1,390)
Total B	(10,594)	(12,709)
C - Items reclassified / that may be reclassified to income statement:		
Exchange differences from translation of foreign financial statements		
- Gains / (losses) for the period	(318,205)	7,962
- (Gains) / losses reclassified to income statement	-	(1,567)
Fair value adjustment of derivatives designated as cash flow hedges:		
- Gains / (losses) for the period	17,577	21,517
- (Gains) / losses reclassified to income statement	(15,039)	(36,999)
- Tax effect	39	3,917
Cost of hedging		
- Gains / (losses) for the period	(189)	(2,120)
- (Gains) / losses reclassified to income statement	(3,846)	(3,371)
- Tax effect	707	1,088
Share of other comprehensive income related to associates and j.v. net of tax	(624)	(1,700)
Total C	(319,580)	(11,273)
D		
Total other comprehensive income (B+C)	(330,174)	(23,982)
A+D		
Total comprehensive income / (loss) for the period	(431,883)	283,009
Attributable to:		
- Owners of the Parent Company	(428,360)	270,705
- Non-controlling interests	(3,523)	12,304

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 06/30/2020

<i>(in thousands of euro)</i>	Attributable to the Parent Company					Non-controlling interests	Total
	Share Capital	Translation reserve	Total IAS Reserves *	Other reserves/ retained earnings	Total attributable to the Parent Company		
Total at 12/31/2019	1,904,375	(313,805)	(89,424)	3,223,303	4,724,449	102,182	4,826,631
Other components of comprehensive income	-	(313,735)	(11,345)	-	(325,080)	(5,094)	(330,174)
Net income / (loss)	-	-	-	(103,280)	(103,280)	1,571	(101,709)
Total comprehensive income / (loss)	-	(313,735)	(11,345)	(103,280)	(428,360)	(3,523)	(431,883)
Effects of High inflation accounting in Argentina	-	-	-	10,347	10,347	-	10,347
Other	-	-	5	(978)	(973)	22	(951)
Total at 06/30/2020	1,904,375	(627,540)	(100,764)	3,129,392	4,305,463	98,681	4,404,144

<i>(in thousands of euro)</i>	Breakdown of IAS reserves *						Total IAS reserves
	Reserve for fair value adjustment of financial assets at fair value through other comprehensive income	Reserve for cost of hedging	Reserve for cash flow hedge	Remeasurement of employee benefits	Tax effect		
Total at 12/31/2019	(228)	9,898	(31,326)	(43,946)	(23,822)	(89,424)	
Other components of comprehensive income	(16,749)	(4,035)	2,538	9,305	(2,404)	(11,345)	
Other changes	-	-	-	5	-	5	
Total at 06/30/2020	(16,977)	5,863	(28,788)	(34,636)	(26,226)	(100,764)	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 06/30/2019

<i>(In thousands of euro)</i>	Attributable to the Parent Company					Non-controlling interests	Total
	Share Capital	Translation reserve	Total IAS Reserves *	Other reserves/ retained earnings	Total attributable to the Parent Company		
Total at 12/31/2018	1,904,375	(303,557)	(66,714)	2,934,017	4,468,121	82,806	4,550,927
Other components of comprehensive income	-	1,464	(28,676)	-	(27,212)	3,230	(23,982)
Net income (loss)	-	-	-	297,917	297,917	9,074	306,991
Total comprehensive income (loss)	-	1,464	(28,676)	297,917	270,705	12,304	283,009
Dividends approved	-	-	-	(177,000)	(177,000)	(8,949)	(185,949)
High inflation Argentina	-	-	-	17,163	17,163	-	17,163
Other	-	-	305	(1,815)	(1,510)	74	(1,436)
Total at 06/30/2019	1,904,375	(302,093)	(95,085)	3,070,282	4,577,479	86,235	4,663,714

<i>(In thousands of euro)</i>	Breakdown of IAS reserves *						Total IAS reserves
	Reserve for fair value adjustment of financial assets at fair value through other comprehensive income	Reserve for cost of hedging	Reserve for cash flow hedge	Reserve for actuarial gains/losses	Tax effect		
Total at 12/31/2018	107	14,258	(25,705)	(30,381)	(24,993)	(66,714)	
Other components of comprehensive income	(1,390)	(5,491)	(15,481)	(11,940)	5,627	(28,676)	
Other changes	31	-	-	273	-	305	
Total at 06/30/2019	(1,252)	8,767	(41,186)	(42,048)	(19,366)	(95,085)	

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of euro)

	Note	01/01 - 06/30/2020		1/1 - 30/06/2019	
			of which related parties (note 40)		of which related parties (note 40)
Net income / (loss) before tax		(134,571)		417,110	
Reversals of amortisation, depreciation, impairment losses and restatement of property, plant and equipment and intangible assets	30	261,327		268,211	
Reversal of Financial expenses	35	240,166		131,140	
Reversal of Financial income	34	(167,016)		(121,097)	
Reversal of Dividends	33	(65)		(1,724)	
Reversal of gains / (losses) on equity investments	33	847		(1,787)	
Reversal of share of net income from associates and joint ventures	33	3,851		1,355	
Reversal of accruals and other		32,517		(8,652)	
Taxes paid		(53,774)		(75,992)	
Reversal of income on tax credits Brazil		-		(71,765)	
Change in Inventories	15	42,340		(29,710)	
Change in Trade receivables	12	(39,002)	(3,906)	(236,675)	(17,863)
Change in Trade payables	22	(649,011)	(90,760)	(412,333)	(82,087)
Change in Other receivables / Other payables		(70,569)	(12,971)	(88,841)	24,185
Uses of Provisions for employee benefit obligations and Other provisions		(12,827)		(32,601)	
A Net cash flow provided by / (used in) operating activities		(545,786)		(263,361)	
Investments in tangible assets	7	(74,199)		(164,340)	
Change in payables for investments in tangible assets		(57,642)		(33,825)	
Disposal of tangible/intangible assets		1,542		2,777	
Investments in intangible assets	8	(7,210)		(3,379)	
Disposals (Acquisition) of investments in subsidiaries		69		10,700	
Disposals (Acquisition) of investments in associates and j.v.		(0)	-	(8,925)	(8,925)
Dividends received		65		1,724	
B Net cash flow provided by / (used in) investing activities		(137,374)		(195,268)	
Change in Financial payables		888,971		175,776	
Change in Financial receivables / Other current financial assets at fair value through income statement		(166,924)	(12,292)	(4,714)	
Financial income / (expenses)		(64,240)		(52,600)	
Dividends paid		0		(185,849)	
Repayment of principal and payment of interest for lease obligations		(43,206)	(1,153)	(53,308)	
C Net cash flow provided by / (used in) financing activities		614,602		(120,696)	
D Total cash flow provided / (used) during the period (A+B+C)		(68,558)		(579,325)	
E Cash and cash equivalents at the beginning of the financial year		1,600,628		1,303,852	
F Exchange rate differences from translation of cash and cash equivalents		(94,540)		4,377	
G Cash and cash equivalents at the end of the period (D+E+F) (*)		1,437,530		728,905	
(*) of which:					
cash and cash equivalents	17	1,455,230		741,767	
bank overdrafts		(17,700)		(12,862)	

EXPLANATORY NOTES

1. GENERAL INFORMATION

Pursuant to article 154 of Legislative Decree no. 58/1998, the Pirelli & C. Group has prepared the condensed consolidated half-year financial statements in accordance with IAS 34, which regulates interim financial reporting, in summary form.

The information contained in the explanatory notes must be read together with the half-year financial report, an integral part of the condensed consolidated half-year financial statements, and the annual financial statements at December 31, 2019.

These condensed consolidated half-year financial statements have been prepared using the euro as reporting currency and all values have been rounded to thousands of euro unless otherwise indicated.

The condensed consolidated half-year financial statements at June 30, 2020 of Pirelli & C. were approved by the Board of Directors on August 5, 2020.

2. BASIS OF PRESENTATION

Financial Statements

The Group has applied the provisions of Consob Resolution no. 15519 of July 27, 2006 in regard to the formats of financial statements and Consob Notice no. 6064293 of July 28, 2006 in regard to corporate disclosure.

The condensed consolidated half-year financial statements at June 30, 2020 consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Explanatory Notes, which are accompanied by the Half-Year Financial Report.

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

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

The Statement of Comprehensive Income includes the result for the period and, for homogeneous categories, the revenues and costs which, in accordance with IFRS, are recorded directly in equity.

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

The Statement of Changes in Equity includes, in addition to the total comprehensive income/loss of the period, the amounts from transactions with equity holders and the changes the changes which occurred during the period in reserves.

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

Scope of Consolidation

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

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

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

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

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

Joint arrangements are agreements under which two or more parties have joint control under a contract. Joint control is the shared, established by agreement, control of an economic activity, which exists only when, decisions on these activities require the unanimous consent of all the parties sharing control. These agreements may give rise to joint ventures or joint operations.

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

The only change that occurred in the first half of 2020 in the scope of consolidation relates to the sale of 100% of the company Omnia Motor S.A. – Sociedad Unipersonal on February 20, 2020.

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

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

3. ACCOUNTING STANDARDS

3.1 Accounting standards adopted

The accounting standards adopted are the same used for the preparation of the consolidated financial statements at December 31, 2019, to which reference should be made for further details, with the exception of:

- the following new standards or amendments to already existing standards, which apply from January 1, 2020, but which do not have an impact on the Group:
 - Amendments to IFRS 3 Business Combinations – Definition of Business
These amendments have introduced a new definition for the term "*business*", according to which, for an acquisition to qualify as a business combination, it must include inputs and processes which contribute substantially in obtaining an output. The definition of output has been amended in a restrictive sense, in that it precisely specifies that any cost savings and other financial benefits are to be excluded as outputs. This amendment results in multiple acquisitions qualifying as asset acquisitions instead of as business acquisitions.
 - Amendments to IAS 1 Presentation of Financial Statements and to IAS 8 Accounting policies, Changes in accounting estimates and errors – Definition of material
In addition to clarifying the concept of materiality of transactions, these amendments focus on the definition of a coherent and unique concept of materiality among the various accounting standards and incorporate the guidelines included in IAS 1 on not material information.

- Amendments to IFRS 9, IAS 39 and IFRS 7: Reference interest rate reform (IBOR reform);

These amendments concern the impacts on the financial statements deriving from the replacement of the current benchmark interest rates with alternative interest rates. In the presence of any hedging relationships impacted by the uncertainty of any benchmark rate reform, these changes make it possible to not carry out the evaluations required by IFRS 9 in the presence of any changes in rates. The effects of these changes on interest rate hedging transactions carried out by the Group are continuously monitored. There are no impacts until LIBOR is replaced by the new benchmark rate (2021).

- Income taxes are recorded on the basis of the best estimate of the weighted average tax rate expected for the entire year, in line with the indications provided by IAS 34 for the preparation of interim financial statements.

3.2 International accounting standards and/or interpretations issued but not yet in force in 2020

Listed below are the new Standards or Interpretations already issued but not yet effective or not yet endorsed by the European Union at June 30, 2020 and therefore not applicable. They are not expected to have a material impact on the Group financial statements at the date of application.

- Amendments to IFRS 16 Leases – Covid-19 rent concessions
These amendments introduce an optional accounting treatment for lessees in the event of permanent (rent holidays) or temporary rent reductions linked to Covid-19. Lessees can choose to account for the reductions in the rents as variable lease payments recognized directly in the Income Statement of the period in which the reduction applies, or treat them as a modification of the lease contract with the consequent obligation to remeasure the lease liability based on the revised rent using a revised discount rate. The amendments, in force as of June 1, 2020, have not yet been endorsed by the European Union.
- Amendments to IAS 1 - Presentation of Financial Statements - Classification of liabilities as current or non-current
The amendments clarify the principles that must be applied for the classification of liabilities as current or non-current.
These amendments, which will come into force on January 1, 2022, have not yet been endorsed by the European Union.
- Amendments to IAS 16 - Property, plant and machinery - Proceeds received before intended use
These amendments prohibit deducting from the cost of property, plant and machinery amounts received from the sale of products, while the asset is being prepared for its intended use.

The proceeds from the sale of the products, and the related production cost must be recorded in the Income Statement.

These amendments, which will come into force on January 1, 2022, have not yet been endorsed by the European Union.

- Amendments to IAS 37 - Provisions, contingent liabilities and contingent assets - Onerous contracts - Costs of fulfilling a contract

These amendments specify the costs to be taken into account when evaluating onerous contracts.

These amendments, which will come into force on January 1, 2022, have not yet been endorsed by the European Union.

- Annual Improvements (cycle 2018 – 2020) issued in May 2020

These are amendments limited to some standards (IFRS 1 First-time adoption of IFRS, IFRS 9 Financial Instruments, IAS 41 Agriculture and illustrative examples of IFRS 16 Leases) that clarify the formulation or correct omissions or conflicts between the requirements of IFRS.

These amendments, which will come into force on January 1, 2022, have not yet been endorsed by the European Union.

Seasonality

The amount of trade receivables at June 30, 2020 is impacted by the effects deriving from the Covid-19 pandemic but also by the usual seasonal factors, which, on equal terms, lead to an increase in the amounts at the end of the half-year compared to the corresponding amounts at year-end. Said phenomena, more accentuated in the more seasonal markets such as Europe and Russia, generally favour a total amount of trade receivables at the end of the year lower than as recorded during the year, due to the almost total collection of receivables related to revenues of winter products in these markets in the fourth quarter, while the collection of most of the receivables related to revenues of summer products was generally completed in the same markets in the third quarter.

COVID-19

The tyre sector in the first half of 2020 was strongly impacted by the Covid-19 emergency and the deteriorating economic outlook, with a general decline in consumption and production, which made it necessary to implement specific actions to mitigate the impact of the pandemic.

Specifically, the Group implemented the following actions:

- strengthening of the capital structure through the subscription of a new "sustainable" banking line for euro 800 million (5 years) and, in general, optimisation of the financial structure by lengthening debt maturities. The liquidity margin of euro 2,174.1 million at 30

June 2020 guarantees the coverage of maturities on debt to banks and other lenders for the next 3 years, also thanks to the company's right to extend bank debt maturing in 2021 for euro 253 million and in 2022 for euro 1,747 million to 2022 and 2024 respectively;

- protection of profitability and cash generation, through:
 - o actions taken to reduce inventories;
 - o cost containment through a specific plan containing short-term actions on SG&A, marketing and communication, manufacturing and R&D.

On the basis of the actions implemented and considering the estimated results for the year 2020, as reported in the section "Outlook for 2020", the going concern assumption underlying the preparation of the condensed interim consolidated financial statements is confirmed, taking as a reference a future period of at least 12 months from the end of the period.

4. ESTIMATES AND ASSUMPTIONS

The estimates and assumptions used to prepare these condensed half-year consolidated financial statements are consistent with those used for the preparation of the consolidated financial statements at December 31, 2019 to which reference is made.

However, these estimates and assumptions have been updated to take into account the effects deriving from the Covid-19 pandemic, which in particular had an impact on the assessment of the recoverability of goodwill and other intangible assets with indefinite useful life, the recoverability of intangible assets with definite useful life and property, plant and equipment, the recoverability of receivables, the determination of taxes (current and deferred) and the assessment of the recoverability of investments in associated companies and joint venture.

These impacts are described in the explanatory notes to which reference is made for further details.

5. INFORMATION ON FAIR VALUE

5.1 Fair value measurement

In relation to financial instruments measured at fair value, the following table shows the classification of these instruments on the basis of the hierarchy of levels pursuant to IFRS 13, reflecting the significance of the inputs used in determining the fair value. The levels are as follows:

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

The following table shows assets and liabilities carried at fair value at **June 30, 2020**, subdivided into the three levels as defined above:

<i>(in thousands of euro)</i>	Note	Carrying amount at 06/30/2020	Level 1	Level 2	Level 3
FINANCIAL ASSETS:					
Financial assets carried at fair value through Income Statement:					
Other current financial assets at fair value through Income Statement	16	18,878	6,233	12,645	-
Current derivative financial instruments	25	51,697	-	51,697	-
Derivative hedging instruments:					
Current derivative financial instruments	25	-	-	-	-
Non current derivative financial instruments	25	57,061	-	57,061	-
Other financial assets at fair value through Other Comprehensive Income					
Securities and shares		38,784	15,237	13,548	9,999
Investment funds		3,359	-	3,359	-
	10	42,143	15,237	16,907	9,999
TOTAL ASSETS		169,779	21,470	138,310	9,999
FINANCIAL LIABILITIES:					
Financial liabilities carried at fair value through Income Statement:					
Current derivative financial instruments	25	(29,970)	-	(29,970)	-
Derivative hedging instruments:					
Non current derivative financial instruments	25	(11,111)	-	(11,111)	-
TOTAL LIABILITIES		(41,081)	-	(41,081)	-

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

<i>(in thousands of euro)</i>	Note	Carrying amount at 12/31/2019	Level 1	Level 2	Level 3
FINANCIAL ASSETS:					
Financial assets carried at fair value through Income Statement:					
Other current financial assets at fair value through Income Statement	16	38,119	-	38,119	-
Current derivative financial instruments	25	26,962	-	26,962	-
Derivative hedging instruments:					
Current derivative financial instruments	25	10,186	-	10,186	-
Non current derivative financial instruments	25	52,515	-	52,515	-
Other financial assets at fair value through Other Comprehensive Income					
Securities and shares		55,020	24,893	20,565	9,562
Investment funds		3,947	-	3,947	-
	10	58,967	24,893	24,512	9,562
TOTAL ASSETS		186,749	24,893	152,294	9,562
FINANCIAL LIABILITIES:					
Financial liabilities carried at fair value through Income Statement:					
Current derivative financial instruments	25	(41,427)	-	(41,427)	-
Derivative hedging instruments:					
Non current derivative financial instruments	25	(10,327)	-	(10,327)	-
TOTAL LIABILITIES		(51,754)	-	(51,754)	-

The following table shows the **changes in the financial assets level 3 that occurred in first half-year of 2020:**

<i>(in thousands of euro)</i>	06/30/2020
Opening balance 01/01/2020	9,562
Translation differences	(30)
Decreases	(44)
Fair value adjustments through Other Comprehensive Income	498
Other changes	13
Closing balance 06/30/2020	9,999

These financial assets are mainly represented by equity investments in Istituto Europeo di Oncologia - the European Institute of Oncology (euro 7,962 thousand), and Ticom I LP (euro 182 thousand).

The **fair value adjustments through other Comprehensive Income**, equal to a positive net value of euro 498 thousand, mainly refers to the adjustment of the value of the investment in Istituto Europeo di Oncologia.

In the half-year ended June 30, 2020, there were no transfers from level 1 to level 2 and vice versa, nor from level 3 to other levels and vice versa.

The fair value of financial instruments traded on active markets is based on the price quotations published at the reporting date. These instruments, included in level 1, mainly include equity investments classified as financial assets at fair value recorded in the other components of the comprehensive income statement.

The fair value of financial instruments not traded on active markets (e.g. derivatives) is measured by means of techniques that maximise the use of observable and available market data, using widely applied financial measurement techniques:

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

6. OPERATING SEGMENTS

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

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

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

With the aim of accelerating the implementation of the business model focused on High Value, in 2020, the Group adopted a new organisation at regional level consisting of five regions.

In addition to APAC, North America and South America, two new macro geographical areas have been renamed:

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

The 2019 comparative data have been restated to adapt them to the new breakdown by geographical area.

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

<i>(in thousands of euro)</i>	01/01 - 06/30/2020	01/01 - 06/30/2019
Europe and Turkey	773,115	1,075,510
North America	359,905	544,030
APAC	347,504	455,105
South America	169,003	345,197
Russia, Nordics & MEAI	166,902	235,005
Total	1,816,429	2,654,847

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

<i>(in thousands of euro)</i>	06/30/2020		12/31/2019	
Europe and Turkey	5,572,204	62.25%	5,697,725	61.08%
North America	389,795	4.36%	468,610	5.02%
APAC	502,731	5.62%	523,549	5.61%
South America	382,888	4.28%	510,318	5.47%
Russia, Nordics & MEAI	217,499	2.43%	242,794	2.60%
Non-current unallocated assets	1,884,452	21.06%	1,886,988	20.22%
Total	8,949,569	100.00%	9,329,984	100.00%

Non-current allocated assets reported above consist of property, plant and equipment and intangible assets, excluding goodwill. **Non-current unallocated assets** relate to goodwill.

7. PROPERTY, PLANT AND EQUIPMENT

The breakdown was as follows:

<i>(in thousands of euro)</i>	06/30/2020	12/31/2019
Net Value	3,309,758	3,649,809
- Tangible assets	2,860,437	3,187,190
- Rights of use	449,321	462,619

7.1 Tangible assets

The breakdown and changes are as follows:

<i>(in thousands of euro)</i>	06/30/2020			12/31/2019		
	Gross Value	Accumulated Depreciation	Net Value	Gross Value	Accumulated Depreciation	Net Value
Land	150,985	-	150,985	189,417	-	189,417
Buildings	805,387	(142,445)	662,942	859,506	(133,598)	725,908
Plant and machinery	2,468,865	(695,464)	1,773,401	2,613,755	(647,884)	1,965,871
Industrial and trade equipment	493,815	(276,207)	217,608	510,899	(264,423)	246,476
Other assets	114,297	(58,796)	55,501	114,520	(55,002)	59,518
Total	4,033,349	(1,172,912)	2,860,437	4,288,097	(1,100,907)	3,187,190

NET VALUE <i>(in thousands of euro)</i>	12/31/2019	High Inflation Argentina	Translation differ.	Increases	Decreases	Depreciation	Devaluation	Recl./Other	06/30/2020
Land	189,417	396	(18,505)	-	-	-	-	(20,323)	150,985
Buildings	725,908	1,813	(56,453)	8,570	(255)	(16,787)	-	146	662,942
Plant and machinery	1,965,871	4,418	(137,626)	34,481	(1,112)	(92,290)	(1,617)	1,276	1,773,401
Industrial and trade equipment	246,476	622	(22,673)	26,662	(464)	(35,053)	(153)	2,191	217,608
Other assets	59,518	(1,405)	(3,217)	4,486	(20)	(5,566)	-	1,705	55,501
Total	3,187,190	5,844	(238,474)	74,199	(1,851)	(149,696)	(1,770)	(15,005)	2,860,437

NET VALUE <i>(in thousands of euro)</i>	12/31/2018	High Inflation Argentina	Translation differ.	Increases	Decreases	Depreciation	Devaluation	Recl./Other	06/30/2019
Land	189,026	659	1,633	-	-	-	-	(1,068)	190,250
Buildings	697,247	1,615	8,818	11,141	(471)	(15,742)	-	2,911	705,519
Plant and machinery	1,905,358	4,755	12,715	108,469	(962)	(85,009)	(15,246)	(345)	1,929,736
Industrial and trade equipment	242,242	517	4,029	34,802	(1,159)	(39,162)	(30)	2,632	243,871
Other assets	58,812	440	(274)	9,927	(174)	(5,719)	(54)	2,340	65,299
Total	3,092,685	7,985	26,922	164,340	(2,766)	(145,632)	(15,330)	6,470	3,134,674

The item **High inflation Argentina** refers to the revaluation of the assets held by the Argentinian company for first half-year of 2020 as a result of the application of the accounting standard IAS 29 – Financial Reporting in Hyperinflationary Economies.

Increases, totalling euro 74,199 thousand, are mainly regarding High Value assets and constant improvement of the mix and quality of all the factories.

The ratio of investments for first half-year of 2020 with depreciation was equal to 0.50 (1.13 in the same period 2019).

The item **reclassification/other** is mainly due to the reclassification of government concessions on land in China to the item “Concessions, licenses and trademarks” under intangible assets (see Note 8 – Intangible assets).

Tangible assets in progress at June 30, 2020 included in the single fixed asset categories amounted to euro 194,338 thousand (euro 217,620 thousand at December 31, 2019). It is noted that, with regard to the investment projects underway before the start of the Covid-19 pandemic, it was necessary to postpone the end date of the implementation with respect to the one originally planned.

As part of loans stipulated in Brazil, the Group companies have pledged their plants and machinery as collateral for a total value of euro 807 thousand.

The crisis induced by the Covid-19 pandemic and the New Guidance published by the company on April 3, 2020, which revised the group's targets for 2020 compared to those published on February 19, 2020 on the occasion of the presentation of the Strategic Plan 2020-2022, represent indicators of possible impairment of the Group's Cash Generating Units; an impairment test was therefore carried out using available information updated to the post Covid-19 context consistent with the assumptions made for the purposes of the goodwill impairment test (see note 8 below - Intangible assets).

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

7.2 Rights of use

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

<i>(in thousands of euro)</i>	06/30/2020	12/31/2019
Right of use land	14,517	15,323
Right of use buildings	350,847	355,939
Right of use plant and machinery	29,447	30,689
Right of use other assets	54,510	60,668
Total	449,321	462,619

Increases in rights of use in first half-year of 2020 amounted to euro 46,976 thousand for new lease contracts stipulated mainly in Europe and North America.

There were no reassessments or significant changes in contracts in the first half-year 2020.

At June 30, 2020, depreciation of user rights recorded in the income statement and included in the item Depreciation, amortisation and impairments (Note 30) are as follows:

<i>(in thousands of euro)</i>	01/01 - 06/30/2020
Land	564
Building	30,800
Plant e machinery	3,796
Other assets	10,114
Total depreciation of right of use	45,274

For interest on lease payables, reference is made to Note 35 – Financial expenses.

The information related to costs for lease contracts with a duration of less than twelve months, lease contracts for low unit value assets and lease contracts with variable lease payments, is included in Note 31 – Other costs.

With regard to the impairment considerations, reference should be made to note 7.1.

8. INTANGIBLE ASSETS

The breakdown and changes are as follows:

<i>(in thousands of euro)</i>	12/31/2019	Translation differences	Increase	Decrease	Amortisation	Riclass./Other	06/30/2020
Concessions / licenses / trademarks - finite life	59,834	(1,112)	166	(6)	(2,557)	20,330	76,655
Pirelli Brand - indefinite life	2,270,000	-	-	-	-	-	2,270,000
Goodwill	1,886,988	(2,536)	-	-	-	-	1,884,452
Customer relationships	308,585	(6)	-	-	(17,276)	-	291,303
Technology	1,122,317	-	-	-	(38,425)	-	1,083,892
Software applications	18,971	(352)	4,538	(2)	(4,622)	6,542	25,075
Patents and design patent rights	4,490	-	2,080	-	(340)	-	6,230
Other intangible assets	8,990	(370)	426	-	(335)	(6,507)	2,204
Total	5,680,175	(4,376)	7,210	(8)	(63,555)	20,365	5,639,811

<i>(in thousands of euro)</i>	12/31/2018	Translation differences	Effect of business combination	Increase	Decrease	Amortisation	Other	06/30/2019
Concessions/licenses/trademarks - finite life	63,375	548	-	3	-	(2,474)	82	61,534
Pirelli Brand - indefinite life	2,270,000	-	-	-	-	-	-	2,270,000
Goodwill	1,886,862	171	338	-	-	-	-	1,887,371
Customer relationships	342,796	191	-	-	-	(17,269)	-	325,718
Technology	1,199,167	-	-	-	-	(38,425)	-	1,160,742
Software applications	18,333	3	-	418	-	(4,163)	213	14,804
Other intangible assets	2,805	(155)	0	2,958	(11)	(432)	293	5,458
Total	5,783,338	758	338	3,379	(11)	(62,763)	588	5,725,627

Intangible assets mainly include:

- Pirelli Brand (indefinite useful life) for an amount equal to euro 2,270,000 thousand. The useful life of a brand is based on a series of factors including the competitive environment, market share, history of the brand, life cycles of the underlying product, operational plans and the macroeconomic environment of the countries in which the related products are sold. With regard to the Pirelli Brand, considering its over one hundred years of success (the brand was

established in 1872) and the intention and ability of the Group to continue investing in order to support and maintain the brand, the life was considered as indefinite;

- Metzeler Brand (useful life of 20 years) equal to euro 49,971 thousand and included under the item Concessions, licenses and brands – finite life;
- Customer relationships (useful life of 10-20 years) for euro 291,303 thousand, which mainly include the value of commercial relationships both in the Original Equipment channel and in the Replacement channel. No impairment indicators are detected;
- Technology which includes the value of both product and process technologies as well the value of the In-Process R&D (being formed at the time of the acquisition of the Group in 2015) for an amount equal to euro 1,013,892 thousand and euro 70,000 thousand respectively. The useful life of the product and process Technology was determined to be 20 years, while the useful life for In-Process R&D was 10 years;

The crisis induced by the Covid-19 pandemic and the New Guidance published by the company on April 3, 2020, which revised the group's targets for 2020 compared to those published on February 19, 2020 at the presentation of the Strategic Plan 2020-2022, are indicators of possible impairment also for intangible technology; an impairment test was therefore carried out using available information updated to the post Covid-19 context consistent with the assumptions made for the purposes of the goodwill impairment test. On the basis of the analyses carried out, no impairment losses emerged.

- Goodwill for euro 1,884,452 thousand, of which euro 1,877,363 thousand recorded at the time of acquisition of the Group in September 2015. The residual portion refers to the goodwill determined as part of the acquisition of the company JMC Pneus Comercio Importação e Exportação Ltda. in 2018.

Impairment test of goodwill

Goodwill, pursuant to IAS 36, is not subject to amortisation, but to impairment testing on an annual basis or more frequently, if specific events or circumstances occur that could lead to a presumption of impairment.

The crisis induced by the Covid-19 pandemic and the decline in capitalization in the half-year lower than the book equity, represent impairment indicator of goodwill; it was therefore necessary to repeat the impairment test already carried out in December 2019 at June 30, 2020.

For the purpose of the impairment test, goodwill, amounting to euro 1,884,452 thousand, was allocated to the CGU group Consumer Activities, which represents the only sector of activity in which the Group operates and considers the minimum level at which goodwill is monitored for the purposes of internal management control.

The impairment test consists in comparing the recoverable value of Consumer Activities and their carrying amount, including the related operating assets and goodwill.

The value configuration used to determine the recoverable value of Consumer Activities at June 30, 2020, in line with the impairment test carried out December 31, 2019, is the value in use that corresponds to the present value of future cash flows expected to be generated by the group of CGU, using a rate that reflects the specific risks of the CGU group on the valuation date.

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

At December 31, 2019, reference was made to the 2020-2022 Strategic Plan, as presented to the market on February 19, 2020 and external evidence represented by the consensus of analysts.

The estimated value in use at June 30, 2020 took into account the following circumstances:

- a) a new strategic plan is not available, but only guidance relating to 2020 (announced to the market on April 3, 2020);
- b) the consensus of analysts (post guidance) covers the three-year period 2020-2022; however, by 2022, the effects of the pandemic will not be fully reabsorbed and therefore the flows of 2022 do not express a stabilized situation to which the estimate of the terminal value should be anchored;
- c) IAS 36 allows the use of an explicit forecast period of up to five years precisely to allow the terminal value to be estimated on the basis of stabilized result flows;
- d) ESMA recommends a multi-scenario analysis to address the uncertainty caused by the Covid-19 pandemic;
- e) management believes that since the result flows for 2022 estimated by analysts do not differ significantly from the 2020 forecasts of the pre-Covid business plan, it is realistic to achieve the results that the pre-Covid plan forecasts for 2022 with two years of delay (2024);
- f) to take into account the uncertainty relating to the actual achievement in 2024 of the results that were expected in 2022 in the pre-Covid plan, a multivariate analysis was carried out based on the Montecarlo method that assumes the range of variation of the key plan variables from the historical volatility of the variables;
- g) since the risk profile of the Covid effect is captured in the expected cash flows (consensus of analysts + Montecarlo analysis), the cost of capital has been estimated in continuity of method with the previous impairment tests on the basis of a fundamental criterion (CAPM) and reconciled with the discount rates used by equity analysts who follow the security.

In summary, the value in use has been estimated on the basis of analysts' consensus forecasts for revenues and projected adjusted EBITDA for 2020 (as more conservative than internal forecasts) and revenues and projected adjusted EBITDA for 2021 and 2022 (as not internally available), and linear convergence in 2023 - 2024 to the Group's stabilized results as derived from a Montecarlo analysis that takes as a reference point the results that the pre-Covid plan expected in 2022.

The average cumulative annual growth rate (CAGR) of revenues for the explicit forecast period, calculated with respect to revenues recorded in 2019, is 1.16% while the average Ebitda margin for

the period is 25.0% with a CAGR of 1.40% with respect to the absolute value recorded in 2019. In the impairment test at 31 December 2019 these values were 2.8% CAGR of revenues and 25.1% Ebitda margin for the period with a CAGR of 4.17%.

The impairment test at June 30, 2020 was performed using the assistance of an independent third-party professional.

The discount rate, defined as the weighted average cost of capital (WACC) net of taxes applied to the expected cash flows is equal to 6.67%, while the growth rate of operating cash flows for the purpose of estimating the value terminal (g) is zero. The capitalization rate of operating cash flows (WACC - g) is therefore 6.67%. For the purposes of the impairment test at December 31, 2019, the capitalization rate of operating cash flows was 6.48%.

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

The recoverable value is higher than the carrying amount of Consumer Activities (8%) while, for the value in use to be equal to the carrying amount, a worsening is necessary of key parameters, in particular:

- increase in the discount rate of 56 basis points;
- decrease in the annual growth rate beyond the explicit forecast period g of 77 basis points;
- decrease in EBITDA margin adjusted of 129 basis points.

Impairment test of the Pirelli Brand (asset with indefinite useful life)

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

Also in this case, the crisis caused by the Covid-19 pandemic and the fall in stock market capitalization during the half-year below shareholders' equity represent impairment indicators of goodwill of the Pirelli Brand; it was therefore necessary to repeat the impairment test already carried out in December 2019 at June 30, 2020.

The impairment test at June 30, 2020 was performed using the assistance of an independent third-party professional.

The recoverable value configuration for the purposes of the impairment test at June 30, 2020 is the Fair Value, calculated on the basis of the income approach (Level 3 of the hierarchy of IFRS 13 – Fair Value measurement) and is based on:

- the same revenue flows used for impairment testing of goodwill, i.e. the most recent consensus forecasts of equity analysts covering the three-year period 2020-2022 and

an extrapolation of revenues to 2024 after applying the multivariate analysis based on of the Montecarlo method previously described;

- the average compound annual growth rate of revenues for the explicit forecast period calculated compared to 2019 is 0.48%;
- evaluation criterion for the sum of parts that also considers the contribution in terms of royalties from the Prometeon Tyre Group for the use of the Pirelli brand in the Industrial segment;
- royalty rate applied to the revenues of the Consumer High Value and Consumer Standard valuation units taken from the royalty rates implicit in the valuations made by an independent entity relative to the main brands of the listed companies of the Tyre sector and equal to an average royalty rate of 4.51%. With reference to the contribution in terms of royalties from the Prometeon Tyre Group, the royalties provided by the existing contract were used;
- discount rate of 8.24%, which includes a premium with respect to WACC determined on the basis of the risk of the specific asset;
- growth rate “g” in the terminal value assumed to be zero;
- TAB (Tax Amortisation Benefit), which is the tax benefit that could potentially benefit the market participant that acquired the asset separately due to the possibility of fiscally amortizing it.

For the purposes of the impairment test, the recoverable value of the Pirelli Brand cum TAB is compared with the respective carrying amount (cum TAB) and no impairment has emerged.

The recoverable value is higher than the carrying amount of the Brand (3%) while, for the Fair Value to be equal to the carrying amount, a worsening is necessary of key parameters, in particular:

- decrease in the royalty rates of the Consumer valuation units of 28 basis points and the simultaneous cancellation of royalties from the license contract with Prometeon Tyre Group;
- increase in the discount rate of 46 basis points;
- decrease in the growth rate “g” of 76 basis points.

9. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

<i>(in thousands of euro)</i>	06/30/2020			12/31/2019		
	Associates	JV	Total	Associates	JV	Total
Opening balance	8,703	72,143	80,846	8,419	64,286	72,705
Increases	-	-	-	-	27,580	27,580
Distribution of dividends	-	-	-	(200)	-	(200)
Share of net income / (loss)	131	(3,982)	(3,851)	249	(9,927)	(9,678)
Share of other components recognised in Equity	-	(624)	(624)	-	(1,176)	(1,176)
Use of provision for future risks and expenses	-	-	-	-	(8,620)	(8,620)
Other	(366)	-	(366)	235	-	235
Closing balance	8,468	67,537	76,005	8,703	72,143	80,846

9.1 Investments in associates

The breakdown of the item was as follows:

<i>(in thousands of euro)</i>	12/31/2019	Share of net income / (loss)	Other	06/30/2020
Eurostazioni S.p.A.	6,395	-	-	6,395
Joint Stock Company Kirov Tyre Plant	1,417	37	(169)	1,285
Other Group companies	891	94	(197)	788
Total	8,703	131	(366)	8,468

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

9.2 Investments in joint ventures

The breakdown of the item was as follows:

<i>(in thousands of euro)</i>	12/31/2019	Share of net income / (loss)	Share of other components recognised in Equity	06/30/2020
PT Evoluzione Tyres	15,015	(345)	(624)	14,046
Xushen Tyre (Shanghai) Co, Ltd	57,128	(3,637)	-	53,491
Total joint ventures	72,143	(3,982)	(624)	67,537

The Group holds:

- an investment of 63.04% in PT Evoluzione Tyres, an entity which operates in Indonesia and is active in motorcycle tyre production. Even though the company is 63.04% owned, as a result of the contractual agreements between shareholders, it falls under the definition of a joint venture in that the governance regulations explicitly require unanimous consensus for significant business decisions. The investment was evaluated using the equity method;
- an investment of 49% in the company Xushen Tyre (Shanghai) Co., Ltd., a joint venture which, through the company Jining Shenzhou Tyre Co., owns a Consumer tyre manufacturing plant in China. The purchase was finalized on October 9, 2018 for an amount equal to euro 65,222 thousand. The new plant will provide the necessary production flexibility for the High Value segment, taking into account the evolution of the Chinese market, the expected developments in the electric car segment and the increasing share of homologations obtained in the Original Equipment segment in China, Japan and Korea. The investment was evaluated using the equity method.

The **share of net income/(loss)**, negative for euro 3,982 thousand, refers for euro 3,637 thousand to the pro quota of the loss relating to the first half-year of 2020 of the joint venture Xushen Tyre (Shanghai) Co, Ltd. and for euro 345 thousand to the pro quota of the loss relating to the first half-year of 2020 of the joint venture PT Evoluzione Tyres.

It should be noted that, with regard to the investment in Xushen Tyre (Shanghai) Co, Ltd., it was considered that the negative result deriving from the company that owns the production plant together with the fact that the company operates in a market affected by the crisis induced by the Covid-19 pandemic represented an indicator of impairment and therefore the investment was subject to an impairment test. The recoverable value of the investment was higher than its carrying value and therefore no impairment was recognised.

With regard to the investment in PT Evoluzione Tyres, it is noted that no indicators emerged that would require an impairment test.

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

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

The changes in other financial assets at fair value through other comprehensive income amounted to euro 42,143 thousand and were changed as follows:

(in thousands of euro)

Opening balance at 01/01/2020	58,967
Translation differences	(29)
Decreases	(44)
FV adjustment through other comprehensive income	(16,750)
Other	(1)
Closing balance 06/30/2020	42,143

The breakdown of the item by individual securities is as follows:

<i>(in thousands of euro)</i>	06/30/2020	12/31/2019
RCS Mediagroup S.p.A.	15,237	24,892
Total listed securities	15,237	24,892
Fin. Priv. S.r.l.	13,548	20,565
Fondo Anastasia	3,359	3,947
Istituto Europeo di Oncologia S.r.l.	7,962	7,465
Euroqube	10	10
Ticom I LP	182	195
Other companies	1,845	1,893
Total unlisted securities	26,906	34,075
Total other financial assets at FV through Other Comprehensive Income	42,143	58,967

The **fair value adjustment through other comprehensive income**, equal to a negative net value of euro 16,750 thousand, mainly refers to RCS MediaGroup S.p.A. (euro 9,655 thousand) and Fin.Priv. (euro 7,017 thousand).

The fair value of listed securities corresponds to the stock market price at June 30, 2020. The fair value of unlisted securities was determined by making estimates on the basis of the best information available.

11. DEFERRED TAX ASSETS AND PROVISION FOR DEFERRED TAX LIABILITIES

The breakdown is as follows:

<i>(in thousands of euro)</i>	06/30/2020	12/31/2019
Deferred tax assets	120,679	81,188
Provision for deferred tax liabilities	(1,050,927)	(1,058,760)
Total	(930,248)	(977,572)

Deferred tax assets and deferred tax liabilities are offset if there is a legal right that allows compensation of receivables for current taxes and payables for current taxes and the deferred taxes refer to the same legal entity and the same taxation authority.

The tax effect of gains and losses recorded directly in equity was negative for euro 2,404 thousand (positive for euro 5,627 thousand in first half-year of 2019) and are shown in the Statement of Comprehensive Income. These changes were mainly due to tax effects connected to actuarial gains/losses on employee benefits and to the fair value adjustment of derivatives in cash flow hedging.

The increase in deferred tax assets in the first half of the year includes the tax effect of the loss before tax for the first half of 2020 recorded in the various subsidiaries, which, according to the company's updated plans, are expected to be reversed by the end of the year following the expected profits in the second half.

12. TRADE RECEIVABLES

Trade receivables are analyzed as follows:

<i>(in thousands of euro)</i>	06/30/2020			12/31/2019		
	Total	Non-current	Current	Total	Non-current	Current
Trade receivables	696,421	-	696,421	715,361	-	715,361
Provision for bad debts	(68,529)	-	(68,529)	(65,967)	-	(65,967)
Total	627,892	-	627,892	649,394	-	649,394

Impaired receivables include both significant individual positions subject to individual impairment and positions with similar credit risk characteristics that were grouped together and impaired on a collective basis. The calculation of the impairment, based on a matrix that includes the customer rating provided by independent market operators, includes an updated assessment of the probability of default and consequently, of the expected losses due to the impacts that Covid-19 had on specific markets in which the counterparties operate.

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

13. OTHER RECEIVABLES

Other receivables are analyzed as follows:

<i>(in thousands of euro)</i>	06/30/2020			12/31/2019		
	Total	Non-current	Current	Total	Non-current	Current
Financial receivables	323,289	275,217	48,072	180,150	140,324	39,826
Trade accruals and deferrals	79,852	14,522	65,330	46,399	15,803	30,596
Receivables from employees	11,968	843	11,125	7,513	899	6,614
Receivables from social security and welfare institutions	7,851	-	7,851	2,136	-	2,136
Receivables from tax authorities not related to income taxes	361,952	100,427	261,525	458,921	150,513	308,408
Other receivables	121,544	29,428	92,116	108,080	39,186	68,894
	906,456	420,437	486,019	803,199	346,725	456,474
Provision for bad debts	(9,162)	(3,171)	(5,991)	(8,944)	(4,328)	(4,616)
Total	897,294	417,266	480,028	794,255	342,397	451,858

Non-current financial receivables (euro 275,217 thousand) refer mainly to euro 58,232 thousand in sums deposited as guarantees for tax and legal disputes in relation to the subsidiary Pirelli Pneus Ltda (Brazil) and remunerated at market rates, to euro 182,261 thousand in sums deposited into escrow accounts in favour of the pension funds of Pirelli UK Ltd. and Pirelli UK Tyres Ltd., to euro 14,464 thousand in contributions paid in cash at the time of signing an association in participation contract, to euro 5,381 thousand for the loan disbursed to the Indonesian Joint Venture PT Evoluzione Tyres. The increase in escrow accounts is the main reason for the increase in financial receivables in the half-year; starting from February 2020, the Group has in fact considered economically more convenient not to renew the insurance guarantees previously given to guarantee its obligations towards Pirelli UK Ltd. pension funds, therefore replaced by escrow deposit accounts. Due to the market conditions prevailing from time to time, Pirelli will decide whether to restore the insurance guarantees.

Current financial receivables (euro 48,072 thousand) refer for euro 38,390 thousand to the short-term portion of loans granted to JV Jining Shenzhou Tyre Co, Ltd. and for euro 2,636 thousand to accruals on Cross Currency Interest Rate Swaps derivative contracts relating to the unsecured Facilities syndicated loan granted to Pirelli & C. S.p.A.

The **provision for bad debts** (euro 9,162 thousand) mainly includes euro 6,444 thousand relating to impairments of financial receivables.

Receivables from tax authorities not related to income taxes (euro 361,952 thousand) mainly consist of receivables for VAT (value added tax) and other indirect taxes. The decrease compared to December 31, 2019 mainly refers to the use for offsetting of tax payables during the half-year as well as to the exchange rate impact since these are receivables mainly recorded by the Brazilian subsidiaries whose currency underwent a devaluation during the period.

Other non-current receivables (euro 29,428 thousand) mainly refer to amounts deposited as guarantees for legal and tax disputes involving the Brazilian business units (euro 26,637 thousand), to receivables pledged as guarantees in favour of Pirelli that may be exercised in the event of contingent liabilities for euro 1,385 thousand arising in relation to the acquisition of the company Campneus Lider de Pneumaticos Ltda (Brazil), subsequently merged into the company Comercial e Importadora de Pneus Ltda.

Other current receivables (euro 92,116 thousand) mainly include advances to suppliers amounting to euro 40,545 thousand, receivables from the disposal of real estate property not used for industrial operations in Brazil amounting to euro 1,625 thousand, and receivables from associates and JV amounting to euro 14,522 thousand mainly refers to the sale of materials and moulds and receivables relative to the Prometeon group for the amount of euro 11,467 thousand.

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

14. TAX RECEIVABLES

The item tax receivables refers to income taxes which amounted to euro 58,538 thousand (of which euro 7,554 thousand was non-current) compared to euro 50,634 thousand at December 31, 2019 (of which euro 9,140 thousand non-current). In more detail, they mainly refer to receivables for withholding taxes on payments received from third parties in Brazil and other receivables for income taxes.

15. INVENTORIES

Inventories are analyzed as follows:

<i>(in thousands of euro)</i>	06/30/2020	12/31/2019
Raw and auxiliary materials and consumables	130,271	121,048
Sundry materials	7,234	7,915
Work in progress and semi-finished products	46,860	58,183
Finished products	776,734	905,713
Advances to suppliers	408	895
Total	961,507	1,093,754

Inventories are not subject to any guarantee obligation.

16. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT – CURRENT

Other financial assets at fair value through the income statement amounted to euro 18,878 thousand at June 30, 2020 compared to euro 38,119 thousand at December 31, 2019.

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

Changes in fair values for the period were recorded in the Income Statement as Financial expenses (Note 35).

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents went from euro 1,609,821 thousand at December 31, 2019 to euro 1,455,229 thousand at June 30, 2020.

They are concentrated at the treasury centres of the Group and Group Companies that generate cash and use it locally. These were essentially used in the short-term bank account and maturity deposits market through leading banking counter-parties at interest rates consistent with the prevailing market conditions.

For the purposes of the cash flow statement, the balance of cash and cash equivalents was recorded net of passive current accounts for euro 17,700 thousand at June 30, 2020.

18. SHAREHOLDERS' EQUITY

18.1 Attributable to the Parent Company

Equity attributable to the Parent Company went from euro 4,724,449 thousand at December 31, 2019 to euro 4,305,463 thousand at June 30, 2020.

The subscribed and paid-up **share capital** at June 30, 2020 amounted to euro 1,904,375 thousand and was represented by 1,000,000,000 registered ordinary shares without indication of their nominal value.

The **conversion reserve**, generated by the conversion into euro of the financial statements of the subsidiaries that have a currency other than the euro as functional currency, was negative for euro 627,540 thousand at June 30, 2020 (euro 313,805 thousand at December 31, 2019). The change during the period includes a negative change of euro 313,735 thousand relating to exchange rate differences from the conversion of the foreign financial statements of subsidiaries and associates and JV. The impact is mainly due to the depreciation of the Brazilian and Mexican currencies during the first half-year.

IAS reserves went from a negative value of euro 89,424 thousand at December 31, 2019 to a negative value of euro 100,764 thousand at June 30, 2020 mainly due to the losses linked to the fair value adjustment of other financial assets (negative for euro 16,749 thousand). Reserves mainly include cumulative actuarial gains/losses negative on pension funds for euro 34,636 thousand, the negative cash flow hedge reserve for euro 28,788 thousand and the fair value adjustment reserve for financial assets at fair value through other comprehensive income, negative for euro 16,977 thousand.

Other reserves/retained earnings went from euro 3,223,303 thousand at December 31, 2019 to euro 3,129,392 thousand at June 30, 2020, essentially due to the effect of the net result for the period (negative for euro 103,280 thousand) and the effect of high inflation accounting in Argentina (positive for euro 10,347 thousand).

18.2 Attributable to non-controlling interests

Equity attributable to non-controlling interests went from euro 102,182 thousand at December 31, 2019 to euro 98,681 thousand at June 30, 2020. The increase was mainly due to income for the period (positive for euro 1,571 thousand), offset by the exchange rate differences from the conversion (negative for euro 5,094 thousand).

19. PROVISIONS FOR LIABILITIES AND CHARGES

Below are the changes during the period of the **non-current portion**:

PROVISION FOR LIABILITIES AND CHARGES - NON-CURRENT PORTION <i>(in thousands of euro)</i>	12/31/2019	Translation differences	Increases	Uses	Reversals	Reclass.	Other	06/30/2020
Labour disputes	13,520	(3,456)	2,714	(836)	(243)	-	12	11,711
Provision for tax risks not related to income taxes	6,019	(1,271)	562	-	(119)	-	-	5,190
Provision for environmental risks	2,575	-	-	(80)	-	-	-	2,495
Provision for restructuring and reorganisation	26,181	(3,936)	-	(188)	(149)	114	-	22,022
Provision for other risks	72,174	(276)	337	(1,682)	-	(1,700)	-	68,854
Total	120,469	(8,939)	3,613	(2,786)	(511)	(1,586)	12	110,272

Increases mainly refer to accruals for labour disputes of the subsidiary Pirelli Pneus Ltda. and tax risks.

Uses refer mainly to disputes relating to occupational illnesses.

The item **other risks** includes the provision of euro 33.5 million referable to the decision taken by the European Commission – subsequently confirmed by the sentence of the European Union Court of July 12, 2018, against which on September 21, 2018, Pirelli & C. S.p.A. (Pirelli) filed an appeal before the Court of Justice of the European Union – at the conclusion of the antitrust investigation started in relation to allegedly restricting competition in the European energy cable market. This Decision provides for a sanction against Prysmian Cavi e Sistemi S.r.l. (Prysmian) as directly involved in the alleged cartel, of which a part (euro 67 million), Pirelli, despite having been found to not have been involved in said cartel, was held as being jointly liable with Prysmian, based solely on the application of the principle of parental liability, in that during part of the period of the alleged infringement, the capital of Prysmian was directly or indirectly held by Pirelli. The amount set aside of euro 33.5 million corresponds for the first demand bank guarantee issued by Pirelli – similar to as was carried out by Prysmian – for the benefit of the Commission (and at the request of the latter) for an amount equal to 50% of the joint penalty to Pirelli and Prysmian of euro 67 million.

Below are the changes during the period of the **current portion**:

PROVISION FOR LIABILITIES AND CHARGES - CURRENT PORTION <i>(in thousands of euro)</i>	12/31/2019	Translation differences	Increases	Uses	Reversals	Reclass.	Other	06/30/2020
Labour disputes	312	(20)	327	(120)	(122)	-	-	378
Provision for tax risks not related to income taxes	2,039	(221)	3,816	-	-	-	-	5,634
Provision for environmental risks	2,665	-	500	-	-	-	-	3,165
Provision for restructuring and reorganisation	13,591	(3,572)	-	-	-	(114)	-	9,905
Provision for claims and warranties	10,226	(193)	118	(184)	(40)	-	-	9,926
Provision for other risks	14,695	(260)	2,977	(2,929)	(242)	1,700	(40)	15,901
Total	43,528	(4,266)	7,739	(3,232)	(404)	1,586	(40)	44,910

20. EMPLOYEE BENEFIT OBLIGATIONS

Employee benefit obligations – non-current portion

The breakdown of the item is as follows:

<i>(in thousands of euro)</i>	06/30/2020	12/31/2019
Pension funds:		
- funded	14,969	26,235
- unfunded	84,570	89,690
Employee leaving indemnities (TFR - Italian companies)	31,176	32,680
Healthcare plans	15,125	17,825
Other benefits	42,747	36,573
Total	188,587	203,003

Pension funds

The following table shows the **breakdown of pension funds at June 30, 2020**:

<i>(in thousands of euro)</i>	06/30/2020						Total funded pension funds
	Germany	Sweden	Total unfunded pension funds	USA	UK	Other countries	
Funded funds							
Present value of funded liabilities				123,418	1,151,055	33,067	1,307,540
<i>Fair value of plan assets</i>				(93,104)	(1,172,854)	(26,613)	(1,292,571)
Unfunded funds							
Present value of unfunded liabilities	81,431	3,139	84,570				
Net liabilities recognised in the Financial Statements	81,431	3,139	84,570	30,314	(21,799)	6,454	14,969

The following table shows the **breakdown of pension funds at December 31, 2019**:

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

Changes in first half-year of 2020 in net liabilities of defined benefits (refers to funded and non-funded pension funds) were as follows:

<i>(in thousands of euro)</i>	Present value of gross liabilities	Fair value of plan assets	Total net liabilities
Opening balance at January 1, 2020	1,429,002	(1,313,077)	115,925
Translation difference	(80,900)	81,908	1,008
Movements through income statement:			
- current service cost	871	-	871
- cost of services rendered for previous years	-	-	-
- interest expense / (income)	14,016	(13,498)	518
	14,887	(13,498)	1,389
Remeasurements recognized in equity:			
- actuarial (gains) / losses from change in demographic assumptions	(3,333)	-	(3,333)
- actuarial (gains) / losses from change in financial assumptions	73,802	-	73,802
- experience adjustment (gains) losses	(3,533)	-	(3,533)
- return on plan assets, net of interest income	-	(75,579)	(75,579)
	66,936	(75,579)	(8,643)
Employer contributions	-	(8,191)	(8,191)
Employee contributions	-	-	-
Benefits paid	(37,387)	34,741	(2,646)
Other	(428)	1,125	697
Closing balance at June 30, 2020	1,392,110	(1,292,571)	99,539

Both the past and current services costs are included in the item Personnel expenses (Note 29), and the net interests payable are included in the item Financial expenses (Note 35).

Employee severance indemnity (TFR)

Changes in the first half-year in the employee severance indemnity are as follows:

<i>(in thousands of euro)</i>	06/30/2020	12/31/2019
Opening balance	32,680	32,175
Movements through Income Statement:		
- current service cost	432	22
- interest expense	120	498
Remeasurements recognized in equity:		
- actuarial (gains) / losses arising from changes in financial assumptions	(870)	1,443
Indemnities/advanced payments	(828)	(1,364)
Other	(360)	(94)
Closing balance	31,176	32,680

The current cost for services rendered by employees is included in the item Personnel expenses (Note 29), while interest payables are included in the item Financial expenses (Note 35).

Medical healthcare plans

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

<i>(in thousands of euro)</i>	USA
Liabilities recognised in the Financial Statements at 06/30/2020	15,125
Liabilities recognised in the Financial Statements at 12/31/2019	17,825

The following changes occurred during the period:

<i>(in thousands of euro)</i>	06/30/2020	12/31/2019
Opening balance	17,825	17,126
Translation differences	102	328
Movements through income statement:		
- current service cost	1	2
- cost of services rendered for previous years	(3,105)	-
- interest expense	217	682
Remeasurements recognised in equity:		
- actuarial / (gains) losses arising from changes in financial assumptions	681	1,834
- actuarial / (gains) losses arising from changes in demographic assumptions	-	(329)
- experience adjustment (gains) losses	-	(775)
Benefits paid	(596)	(1,043)
Closing balance	15,125	17,825

The cost for the service is included in Personnel expenses (Note 29), and net interest expenses are included in Financial expenses (Note 35).

Additional information relating to benefits after the employment relationship

The net actuarial gains accrued in first half-year of 2020, attributed directly to equity, amount to euro 9,305 thousand.

The main actuarial assumptions used at **June 30, 2020** were as follows:

	Italy	Germany	Sweden	UK	USA	Switzerland
Discount rate	1.10%	1.30%	0.90%	1.70%	2.65%	0.35%
Inflation rate	1.00%	1.50%	1.30%	2.69%	N/A	0.75%

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

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

Other long-term benefits

The breakdown is as follows:

<i>(in thousands of euro)</i>	06/30/2020	12/31/2019
Long-term incentive plans	3,400	-
Jubilee awards	19,246	19,513
Leaving indemnities	10,073	12,154
Other long-term benefits	10,028	4,906
Total	42,747	36,573

The item **Long-term incentive plans** relates to the amount set aside for the monetary, three-year long-term 2020-2022 incentive plan for Group management and related to the objectives contained in the 2020-2022 business plan.

Employee benefit obligations – current portion

The item decreased compared to December 31, 2019 since in first half-year of 2020 was the liquidation of the third part of the retention plan approved by the Board of Directors on February 26, 2018 and intended for Key Executives and a selected number of Senior Managers and Executives.

21. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Borrowings from banks and other financial institutions are as follows:

<i>(in thousands of euro)</i>	06/30/2020			12/31/2019		
	Total	Non-current	Current	Total	Non-current	Current
Bonds	1,271,701	1,071,636	200,065	1,271,392	1,071,475	199,917
Borrowings from banks	4,304,378	3,469,354	835,024	3,532,377	2,472,056	1,060,321
Borrowings from other financial institutions	38,588	-	38,588	56,384	-	56,384
Lease obligations	482,363	399,601	82,762	483,172	405,375	77,797
Accrued financial expenses and deferred financial income	11,120	-	11,120	21,459	-	21,459
Other financial payables	14,777	30	14,747	4,455	930	3,525
Total	6,122,927	4,940,621	1,182,306	5,369,239	3,949,836	1,419,403

The item **bonds** refers to:

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

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

<i>(in thousands of euro)</i>	06/30/2020	12/31/2019
Nominal value	1,278,000	1,278,000
Transaction costs	(7,683)	(7,683)
Bond discount	(2,988)	(2,988)
Amortisation of effective interest rate	4,372	4,063
Total	1,271,701	1,271,392

Borrowings from banks, which amounted to euro 4,304,378 thousand, mainly refer to:

- use of the unsecured loan (Facilities) granted to Pirelli & C. S.p.A. for euro 2,000,703 thousand, of which euro 252,915 thousand classified under current Borrowings from banks. The nominal refinanced total subscribed to on June 27, 2017 (with a closing date of June 29, 2017) amounted to euro 2.7 billion (the net amount of repayments made since the date of signing – the original amount of the credit facility granted was euro 4.2 billion). On November 29, 2018, the loan was modified to include the right of the Pirelli Group to extend the maturity of the individual lines of the loan up to 2 years at its discretion with respect to their original contractual maturity of 3 and 5 years. During the half-year, the Group exercised its extension option, extending the maturity of a tranche of euro 253 million by one year to June 2021, compared to the original maturity set in June 2020;
- Sustainable Credit Line for euro 795,026 thousand relating to the credit line of euro 800 million stipulated on March 31, 2020 with a pool of leading Italian and international banks and with a 5-year maturity. The banking line is entirely sustainable, i.e., parametrized to the Group's economic and environmental sustainability objectives;
- euro 921,888 thousand relating to three bilateral loans disbursed to Pirelli & C. S.p.A. by leading banking institutions, of which nominal euro 600 million maturing in February 2024 at variable rate, euro 200 million maturing in September 2021 at fixed rate and euro 125 million with maturity August 2023 at variable rate;
- euro 452,548 thousand relative to loans disbursed in Brazil by local and international banking institutions of which euro 2,813 thousand has been classified under non-current Borrowings from banks;
- bank loans and uses of credit lines at local level in Russia (euro 56,256 thousand), China (euro 53,169 thousand), Mexico (euro 11,662 thousand) and the United States (euro 5,426 thousand) classified entirely as current Borrowings from banks.

At June 30, 2020, the Group had a liquidity margin equal to euro 2,174.1 million composed of euro 700.0 million in the form of non-utilized committed credit facilities and of euro 1,455.2 million in cash, in addition to financial assets at fair value recorded in the Income Statement for euro 18.9 million.

Lease obligations represent financial liabilities relating to the application of IFRS 16.

Non-discounted future payments for lease contracts for which the exercise of extension options is not considered reasonably certain amounted to euro 84,125 thousand at June 30, 2020 and are not included in this item.

Accrued financial expenses and deferred financial income (euro 11,120 thousand) mainly refers to accruals of interest on loans from banks for euro 3,163 thousand (euro 11,731 thousand at December 31, 2019), and to the accrued interest matured on bonds for euro 5,269 thousand (euro 9,082 thousand at December 31, 2019).

Current and non-current financial payables backed by secured guarantees (pledges and mortgages) totalled euro 20 thousand (euro 215 thousand at December 31, 2019).

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

<i>(in thousands of euro)</i>	06/30/2020		12/31/2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	1,071,636	1,067,587	1,071,475	1,084,830
Borrowings from banks	3,469,354	3,503,183	2,472,056	2,500,469
Other financial payables	399,631	399,632	406,305	406,306
Total non-current financial payables	4,940,621	4,970,402	3,949,836	3,991,604

The unrated public bonds issued by Pirelli & C. S.p.A. are listed on an active market and the related fair value was measured with reference to prices at the end of the period. Therefore, it is classified in level 1 of the hierarchy required by IFRS 13 – Fair Value Measurement. The fair value of the Schuldschein loan and of borrowings from bank was calculated by discounting each expected borrowings cash flow at the market swap rate for the currency and at the maturity date, increased by the Group's creditworthiness for debt instruments similar by nature and technical characteristics, which therefore places it at level 2 of the hierarchy as provided for by IFRS 13 – Fair Value Measurement.

At June 30, 2020, there are hedging derivatives for interest rate and exchange rate on payables at variable rate in foreign currency.

The cost of the payable on an annual basis (calculated as the average of the last twelve months) stood at 2.22% against 2.83% at December 31, 2019.

This decrease mainly reflects:

- a lower incidence of debt denominated in high yield currencies, mainly in Brazil and Mexico;
- the favourable comparison with first half-year 2019 that included a wash-down of fees not yet amortized following the early repayment of bank payables;
- the decrease in the interest margin, in the second half of 2019 on the main banking line, following the improvement in the Group's leverage to which these margins are indexed;
- general decrease in interest rates.

With regard to the existence of financial covenants, it is noted that (i) Group's main bank credit facility (Facilities) granted to Pirelli & C. S.p.A. and Pirelli International Plc (currently usable only by and in its entirety by Pirelli & C.), (ii) the Schuldschein loan (iii) the bilateral line of 600 million euro granted to Pirelli & C. in the first quarter of 2019 (Bilateral) and (iv) the Sustainable Credit Line, require compliance with 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.

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

Specifically, this event of default will have the consequence, in cases of exercise of the relative remedies by the lending banks (i) as part of the Facilities, only if requested by a number of lending banks representing at least 66 2/3% of the total commitment, the early (partial or total) repayment of the loan with simultaneous cancellation of the related commitment; (ii) as part of the Schuldschein loan, individually and independently if requested by each lending bank for its portion, the early repayment of the loan only for said portion; (iii) as part of the Bilateral, if requested by the only bank that granted said loan, the termination of the contract and the early repayment for the entire amount disbursed; and (iv) as part of the Sustainable Credit Line, only if requested by a number of lending banks that represents 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.

It is noted that at June 30, 2020, this parameter is respected.

The Facilities, the Schuldschein loan, the Bilateral and the Sustainable Credit Line also provide for Negative Pledge clauses and other usual provisions, the terms of which are in line with market standards for each of the aforementioned types of credit facilities.

Other outstanding financial payables at June 30, 2020 did not contain financial covenants.

22. TRADE PAYABLES

The breakdown of trade payables was as follows:

<i>(in thousands of euro)</i>	06/30/2020			12/31/2019		
	Total	Non-current	Current	Total	Non-current	Current
Trade payables	832,041	-	832,041	1,546,714	-	1,546,714
Bill and notes payable	26,382	-	26,382	64,774	-	64,774
Total	858,423	-	858,423	1,611,488	-	1,611,488

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

23. OTHER PAYABLES

Other payables were as follows:

<i>(in thousands of euro)</i>	06/30/2020			12/31/2019		
	Total	Non-current	Current	Total	Non-current	Current
Accrued expenses and deferred income	88,519	59,209	29,310	83,268	57,684	25,584
Tax payables not related to income taxes	98,611	5,322	93,289	86,252	7,002	79,250
Payables to employees	85,129	52	85,077	91,426	62	91,364
Payables to social security and welfare institutions	54,943	17,137	37,806	67,404	24,131	43,273
Dividends payable	314	-	314	270	-	270
Contract liabilities	2,134	-	2,134	4,754	-	4,754
Other payables	83,869	1,001	82,868	159,954	1,692	158,262
Total Other payables	413,519	82,721	330,798	493,328	90,571	402,757

Non-current accrued and deferred income refer to euro 49,505 thousand in capital contributions received for investments in Romania, the benefits of which are recognized in the Income Statement in proportion to the costs for which the contribution was disbursed, and to euro 7,452 thousand in costs for trade initiatives in Brazil.

Current accrued and deferred income include euro 2,972 thousand for various trade initiatives realized in Germany and Brazil, euro 7,774 thousand in government grants and incentives received mainly in Italy and Romania, and euro 2,266 thousand for costs related to insurance coverage in some European countries.

The item **tax payables not related to income taxes** mainly consists of payables for VAT and other indirect taxes, withholding tax for employees and other not income taxes.

Payables to employees mainly include amounts accrued during the period but not yet paid.

Contract liabilities refer to advances received from customers, for which the performance obligation has not yet been completed, in line with the provisions of IFRS 15.

Other payables (euro 83,869 thousand) mainly include:

- euro 46,561 thousand for the purchase of property, plant and equipment (euro 109,634 thousand at December 31, 2019);
- euro 11,569 thousand in payables to representatives, agents, professionals and consultants;
- euro 8,051 thousand for withholding taxes on income;
- euro 4,739 thousand in payables to companies in the Prometeon group, particularly in Brazil and China;
- euro 814 thousand in payables to Directors, Auditors and supervisory bodies.

24. TAX PAYABLES

Tax payables were for the most part related to national and regional income taxes in different countries and amounted to euro 80,868 thousand (of which euro 11,499 thousand was for non-current liabilities), compared to euro 94,321 thousand at December 31, 2019 (of which euro 12,555 thousand was for non-current liabilities). Income tax payables include the evaluation of management with reference to the effects of any uncertainty on the treatment of income taxes.

25. DERIVATIVE FINANCIAL INSTRUMENTS

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

<i>(in thousands of euro)</i>	06/30/2020				12/31/2019			
	Non current assets	Current assets	Non current liabilities	Current liabilities	Non current assets	Current assets	Non current liabilities	Current liabilities
Without adoption of hedge accounting								
Exchange rate derivatives - commercial positions	-	4,655	-	(4,272)	-	5,058	(4,272)	(9,724)
Exchange rate derivatives - included in net financial position	-	46,706	-	(25,697)	-	21,904	(25,697)	(31,703)
Interest rate derivatives - included in net financial position	-	335	-	-	-	-	-	-
Hedge accounting adopted								
- cash flow hedge:								
Interest rate derivatives	63	-	(11,111)	-	481	-	(10,327)	-
Other derivatives	56,998	-	-	-	52,034	10,186	-	-
	57,061	51,697	(11,111)	(29,970)	52,515	37,148	(10,327)	(41,427)
Total derivatives included in net financial position	57,061	47,041	(11,111)	(25,697)	52,515	32,090	(10,327)	(31,703)

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

<i>(in thousands of euro)</i>	06/30/2020	12/31/2019
Current assets		
Forward foreign exchange contracts - fair value recognised in the Income Statement	51,362	26,962
Cross currency interest rate swaps - cash flow edge	-	10,186
Interest rate swaps - fair value recognised in the Income Statement	335	-
Total current assets	51,697	37,148
Non current assets		
Interest rate swaps - cash flow hedge	63	481
Cross currency interest rate swaps - cash flow hedge	56,998	52,034
Total non current assets	57,061	52,515
Current liabilities		
Forward foreign exchange contracts - fair value recognised in the Income Statement	(29,970)	(41,427)
Total current liabilities	(29,970)	(41,427)
Non current liabilities		
Interest rate swaps - cash flow hedge	(11,111)	(10,327)
Total non current liabilities	(11,111)	(10,327)

Derivative financial instruments not in hedge accounting

The value of **exchange rate derivatives** included in current assets and liabilities corresponds to the fair value of forward currency purchases/sales outstanding at the closing date of the period. These involve hedges of Group commercial and financial transactions for which hedge accounting was not adopted. The fair value was determined by using the forward exchange rate at the reporting date.

The value of **interest rate derivatives** included in current assets refers to the fair value measurement of five IRS basis swaps USD for a total of USD 1,761 million starting April 2020 and duration of one year. These are hedging transactions of the basis 1 - 3 months following the change in the liquidation period of interest on the underlying liability from 3 months to 1 month, for which the hedge accounting option has not been adopted. The Group pays Libor USD 3 months that nets the proceeds from the pre-existing CCIRS and collects Libor USD 1 month that will serve the interest flows on liabilities in USD liquidated on a monthly basis.

Derivative financial instruments in hedge accounting

The value of **interest rate derivatives** recorded under non-current assets for euro 11,111 thousand refers to the fair value of nine interest rate swaps, of which five forward start, with the following characteristics:

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

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

- future interest flows on a liability in EUR at variable rate;
- future interest flows on the combination of a USD variable rate liability and a CCIRS or cross-currency interest rate swap (Basis Swap);
- future interest flows on the Schuldschein loan (see Note 21 – Borrowings from banks and other financial institutions).

The change in the fair value of the period, negative for euro 2,313 thousand, was entirely suspended in equity, while in the Income Statement, euro 1,111 thousand was reversed to the item Financial expenses (Note 35), correcting the financial expenses recorded on the liability hedged.

The value of **other derivatives**, recorded as non-current assets for euro 56,998 thousand, refers to the fair value measurement of six Cross Currency Interest Rate Swaps with the following characteristics:

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

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

The positive change in the fair value for the period of euro 10,854 thousand was suspended in equity (cash flow hedge reserve positive for euro 11,043 thousand and cost of hedging reserve negative for euro 189 thousand), while the following were reversed to the Income Statement:

- gains for euro 3,919 thousand to offset the unrealized exchange rate losses recorded on the hedged liability;
- net interest income for euro 16,076 thousand thereby correcting the financial expenses recorded on the hedged liability.

Reference is made to Note 35 – Financial expenses for further details.

26. COMMITMENTS AND RISKS

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

The commitments to purchase property, plant and equipment and intangible assets amounted respectively to euro 38,592 thousand and euro 3,660 thousand, related mainly to subsidiaries in Romania, Brazil, Italy, China, the UK and Mexico.

COMMITMENTS FOR THE PURCHASE OF EQUITY INVESTMENTS/FUND UNITS

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

LEASE CONTRACT COMMITMENTS

At 30 June 2020, the total of future non-discounted payments for lease contracts not yet in force and for which no financial payable was recorded amounted to euro 17,278 thousand, mainly related to lease contracts for warehouses and offices.

OTHER RISKS

Disputes against Prysmian before the Court of Milan

Pending the decision of the Community proceeding pursuant to Note 19 – Provision for risks and charges, in November 2014, Pirelli & C. S.p.A. (Pirelli) commenced legal action before the Court of Milan in order to obtain an assessment and the declaration by Prysmian Cavi e Sistemi S.r.l. to hold Pirelli harmless from any claim regarding the alleged anti-competitive agreement for the energy cables sector, including the penalty imposed by the European Commission and confirmed by the decision of the General Court of the European Union on July 12, 2018, referred to in Note 19 – against which, on September 21, 2018, Pirelli filed an appeal before the Court of Justice of the European Union.

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

On the basis of accurate analyses provided by external counsel, Pirelli believes that the full and final liability for any breach must be borne exclusively by the company directly involved, since it was not involved in committing the alleged irregularities.

In October 2019, Pirelli took further action before the Court of Milan against Prysmian Cavi e Sistemi S.r.l. and Prysmian S.p.A. requesting the assessment and declaration of the obligation of Prysmian Cavi e Sistemi S.r.l. to indemnify and release it from any charge, expense, cost and/or damage resulting from claims of private and/or public third parties (including authorities other than the European Commission) relating, connected and/or consequential to the facts covered by the Decision of the European Commission, as well as the consequent conviction of Prysmian Cavi e Sistemi S.r.l. to reimburse any charge, expense, cost or damage incurred or suffered by Pirelli.

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

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

Other disputes in relation to the European Commission Decision

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

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

Lastly, also in April 2019, the Electricity and Water Authority of Bahrain, the GCC Interconnection Authority, the Kuwait Ministry of Electricity and Water and the Oman Electricity Transmission Company, served a summons against Pirelli, some Prysmian Group companies and others recipients of the aforementioned European Commission Decision, jointly agreeing with each other to obtain compensation for the damage allegedly suffered as a result of the alleged anti-competitive conduct. The proceeding was brought before the Court of Amsterdam. At present, the plaintiffs have not yet quantified the damage allegedly suffered.

On the basis of accurate legal analyses provided by external counsel, Pirelli believes that the full and final liability for any breach must be borne exclusively by the company directly involved, since it was not involved in committing the alleged irregularities. In consequence of the above, the risk assessment related to the disputes described above is such as not to have to request the allocation of any specific provision in the Consolidated Financial Statements at June 30, 2020, also considering their initial status.

Tax disputes in Brazil

The subsidiary Pirelli Pneus is involved in some tax disputes and proceedings. The most relevant are described below:

Dispute related to ICMS tax receivables assigned by the State of Santa Catarina

With reference to the dispute, concerning the ICMS tax receivables (Imposto Sobre Operações Relativas à Circulação or state value added tax) assigned by the State of Santa Catarina, Pirelli Pneus Ltda received notices of assessment that disavowed the ICMS tax receivables. The claim was motioned by the State of São Paulo, according to which Pirelli Pneus benefited from the ICMS tax credits assigned by the State of Santa Catarina. However, they were deemed to have been unlawful from the start in that they were assigned by the latter in violation of the Brazilian Constitution, in the absence of a previous agreement between the various States. The dispute has been presented before the competent administrative and tax commissions and, despite the first decisions not being favourable to Pirelli Pneus, the Group maintains that it has a good chance of winning in following court proceedings. This assessment is based on the orientation in favour of the taxpayer that is consolidating at judicial level, and in particular on another case examined by the Brazilian Supreme Court, which will have to express itself through a sentence with binding force *erga omnes*, on the impossibility for a Federal state to penalize the taxpayer for the use of claims granted by law by another federal state, even if this law did not observe constitutional rules. According to the previous jurisprudence of the Supreme Court, this controversy should be managed by the Federal States, without unduly penalizing the taxpayer. In addition to the above, a legislative provision (Complementary Law no. 160) came into force on August 8, 2017, to put an end to this dispute between the various states in Brazil. This regulation validates the incentives that have been considered illegitimate up to now, and therefore, also extinguish the related sanctions imposed by the Brazilian tax authorities. The implementation aspects of this new provision have so far been defined by the Brazilian States and, therefore, Pirelli Pneus has also already filed request for amnesty for the dispute in question. This request does not interrupt the dispute underway in court, which can therefore continue if the amnesty should have a negative outcome. The risk is estimated at approximately euro 143 million, inclusive of taxes, interests and penalties. The risk of losing has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for this dispute.

Litigation concerning the IPI tax rate applicable to certain types of tyres

Pirelli Pneus is part of a dispute with the Brazilian tax authorities concerning the IPI tax (Imposto sobre Produtos Industrializados or tax on industrialized products) in particular, with reference to the tax rate applicable to the production and import of tyres for Sport Utility Vehicles (SUV), vans and other light industrial means of transport (such as, for example, trucks). According to statements by Brazilian tax authorities in the tax assessment notices issued in 2015 and 2017, the

aforementioned tyres should have been subjected to the IPI tax rate for the production and import of tyres for Cars – for which a rate of 15% is applicable – instead of the 2% rate applied by Pirelli Pneus, as envisaged for the production and import of tyres for heavy industrial vehicles. To date, the dispute is pending before the competent administrative and tax commissions and, also in light of the recent sentences in favour of Pirelli Pneus, the Group maintains that it has a good chance of winning. This position is also supported by an appraisal prepared by a Brazilian government institution (INT – National Institute of Technology) specifically commissioned by Pirelli Pneus, and who concluded their analysis by equating, in light of their similar characteristics, the tyres discussed with those used for heavy industrial vehicles. The risk is estimated at approximately euro 32 million, inclusive of taxes, interests and penalties. The risk of losing has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for this dispute.

Disputes concerning the IPI tax rate with respect to the sale of tyres to the automotive sector

Pirelli Pneus is involved in a dispute concerning the IPI tax rate, (Imposto sobre Produtos Industrializados or tax on industrialised products) also with reference to the sale of components to companies operating in the automotive sector. According to the Brazilian tax authority's claim as stated in a notice of assessment issued in 2013, Pirelli Pneus should not benefit, as regards its secondary office established in the city of Ibitè in the Federal State of Minas Gerais, from the IPI tax rate exemption as provided for by law in the case of sales of certain components to companies operating in the automotive sector. The dispute is under discussion before the competent administrative and judicial courts. However, the Group believes it has solid reasons, such as to resist the claim of the tax administration. The risk is estimated at approximately euro 18 million, inclusive of taxes, interests and penalties. The risk of losing has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for this dispute.

Dispute relating to the tax impacts deriving from the Plano Verão

Pirelli Pneus has a pending tax dispute with the Brazilian tax administration which, in the opinion of the company - in the period from 1989 to 1994 - collected higher taxes than as actually due following the Plano Verão, an economic measure introduced by the then Brazilian government in order to control the phenomenon of hyperinflation that was affecting the country, through a freezing of prices. However, the difference between real and index inflation had the effect of creating significant distortions on the financial statements of companies and, not least, on the amount of taxes paid by them. Pirelli Pneus referred to the real inflation rate for its evaluations of financial statements and, at the same time, started an administrative-judicial proceeding aimed at asserting its reasons for the correct amount of taxes due. During the above proceeding, Pirelli Pneus first adhered to an amnesty for the tax disputes to settle the dispute under discussion and, only later, on the basis of a ruling with binding effects *erga omnes* of the Brazilian Supreme Court, requested the annulment of the effects of the amnesty, to which it had previously adhered. The proceeding is

pending before the competent judicial courts and the risk is estimated at between euro 17 and 31 million, including tax, interest and penalties. The risk of losing has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for this dispute.

Other Pirelli Pneus disputes

Pirelli Pneus is part of two other tax disputes concerning federal taxes and excises (such as IPI - Imposto sobre Produtos Industrializados or tax on industrialized products, PIS - Programa de Integração Social or social contribution tax, and COFINS - Contribuição Social para o Financiamento da Seguridade Social or tax on Social Security Financing) as well as the ICMS (Imposto Sobre Operações Relativas à Circulação or state value added tax). In particular, Pirelli Pneus has pending some administrative and judicial proceedings aimed at making its own reasons prevail over those of the financial administration with reference to:

- (i) dispute referred to as Desenvolve and related to a tax incentive recorded by the Federal State of Bahia but, as claimed by the Brazilian tax authorities, incorrectly calculated by Pirelli Pneus – about euro 9 million including taxes, penalties and interest;
- (ii) dispute related to the customs import value of natural rubber which, in the opinion of the Brazilian tax authorities, is underestimated not considering the value of intragroup royalties – about euro 10 million including taxes, penalties and interest.

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

27. REVENUES FROM SALES AND SERVICES

Revenues from sales and services are analyzed as follows:

<i>(in thousands of euro)</i>	01/01 - 06/30/2020	01/01 - 06/30/2019
Revenues from sales of goods	1,768,995	2,577,185
Revenues from services	47,434	77,662
Total	1,816,429	2,654,847

These revenues refer to contracts with customers.

For further information on the performance of revenues from sales and service, please refer to the “Group performance and results” section in this document.

28. OTHER INCOME

The breakdown of the item is as follows:

<i>(in thousands of euro)</i>	01/01 - 06/30/2020	01/01 - 06/30/2019
Other income from Prometeon Group	23,316	32,228
Sales of Industrial products	58,341	78,790
Gains on disposal of property, plant and equipment	328	450
Rent income	1,586	1,350
Income from sublease of rights of use assets	461	782
Recoveries and reimbursements	20,742	115,539
Government grants	8,378	9,483
Other income	24,672	43,044
Total	137,824	281,666

The item **other income from the Prometeon Group** mainly includes sales of semi-finished and finished products for euro 5,861 thousand, royalties recorded for the trademark license contract for euro 7,368 thousand, royalties recorded for the know-how license contract for euro 5,000 thousand, and services rendered for euro 5,041 thousand.

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

The item **recoveries and reimbursements** mainly includes:

- tax and duty reimbursements totalling euro 3,214 thousand, of which euro 1,121 thousand received in Germany for tax reimbursements on the purchase of gas and energy and euro 1,092 thousand received in Brazil for VAT reimbursements. In first half-year of 2019, this item included euro 87,698 thousand received in Brazil, and attributable for euro 75,163

thousand to the benefit recorded after obtaining favourable sentence by the Federal Regional Court of Brasilia that recorded the right to deduct the ICMS tax (State tax on transactions related to the movement of goods and the provision of interstate transport, intermunicipal and communication services) from the basis of calculation of the social contributions PIS (Programa de Integracao Social) and COFINS (Contribucao para Financiamento de Seguridade Social) for the period 2003-2014;

- tax refunds totalling euro 1,154 thousand arising from tax incentives mainly obtained in the state of Bahia, Brazil, for commercial exports;
- proceeds from the sale of tyres and scrap materials obtained in the United Kingdom for a total of euro 1,702 thousand.

The item **other** includes income from sporting activities amounting to euro 6,090 thousand.

29. PERSONNEL EXPENSES

The breakdown of the item is as follows:

<i>(in thousands of euro)</i>	01/01 - 06/30/2020	01/01 - 06/30/2019
Wages and salaries	350,527	408,473
Social security and welfare contributions	69,673	87,170
Costs for employee leaving indemnities and similar	6,394	10,068
Costs for defined contribution pension funds	11,448	12,036
Costs for defined benefit pension funds	(2,278)	444
Costs for jubilee awards	7,091	3,867
Costs for defined contribution healthcare plans	1,816	2,629
Other costs	15,459	15,006
Total	460,130	539,693

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

30. DEPRECIATION, AMORTISATION AND IMPAIRMENTS

The breakdown of the item is as follows:

<i>(in thousands of euro)</i>	01/01 - 06/30/2020	01/01 - 06/30/2019
Amortisation	63,555	62,763
Depreciation (excl. Depreciation of right of use)	149,696	145,630
Depreciation of right of use	45,274	44,488
Impairment of property, plant and equipment and intangible assets	2,802	15,330
Total	261,327	268,211

For the breakdown of the amortisation of the rights of use, see Note 7.2 – Rights of use.

31. OTHER COSTS

The breakdown of the item is as follows:

<i>(in thousands of euro)</i>	01/01 - 06/30/2020	01/01 - 06/30/2019
Selling costs	110,862	160,316
Purchases of goods for resale	180,558	226,010
Fluids and energy	63,322	89,938
Advertising	53,556	90,586
Warehouse operating costs	30,894	38,657
IT expenses	21,658	17,294
Consultants	21,229	23,475
Maintenance	17,439	25,317
Insurance	17,831	16,418
Leases and rentals	13,692	17,833
Outsourcing	11,823	18,286
Duty stamps, duties and local taxes	11,484	15,418
Other provisions	11,352	7,707
Travel expenses	7,473	20,042
Key managers compensations	2,960	3,728
Cleaning expenses	6,006	7,722
Canteen	5,544	8,166
Security expenses	5,456	4,896
Waste disposal	3,159	3,567
Telephone expenses	2,789	4,833
Other	48,827	44,061
Total	647,914	844,270

The item **Leases and rentals** includes costs relating to the application of the accounting standard IFRS 16, in particular:

- euro 7,428 thousand for lease contracts with a duration of less than twelve months (euro 11,987 thousand at June 30, 2019);
- euro 3,723 thousand for lease contracts for low unit value assets (euro 2,940 thousand at June 30, 2019);
- euro 2,541 thousand for lease contracts with variable lease payments (euro 2,906 thousand at June 30, 2019).

The item **Other** includes, among others, work services from third parties for euro 17,047 thousand and expenses for technological tests for euro 5,846 thousand.

The total decrease in the item is mainly attributable to the costs of sale and purchases of goods destined for resale, linked to the decrease in volumes.

32. NET IMPAIRMENT OF FINANCIAL ASSETS

The item, negative for euro 17,341 thousand compared to euro 7,479 thousand in first half-year of 2019, mainly includes the net impairment of trade receivables for euro 14,835 thousand (euro 7,455 thousand in first half-year of 2019). Reference is made to Note 12 – Trade receivables for further details.

33. RESULT FROM EQUITY INVESTMENTS

33.1 Share of net income/(loss) of associates and joint ventures

The share of net income/(loss) from equity investments in associates and joint ventures accounted for using the equity method is negative for euro 3,851 thousand (negative euro 1,355 thousand in first half-year of 2019) and refers mainly to the joint venture Xushen Tyre (Shanghai) Co., Ltd., negative for euro 3,637 thousand.

33.2 Gains on equity investments

In first half-year of 2019, the item mainly referred to the positive impact of euro 1,682 thousand relating to the sale of the subsidiary Center of New Technologies & Materials ATOM – Russia.

33.3 Losses on equity investments

The value refers to the sale of the subsidiary Omnia Motor S.A. – Sociedad Unipersonal.

33.4 Dividends

The amount for first half-year of 2019 referred mainly to dividends received from RCS MediaGroup S.p.A. equal to euro 1,482 thousand.

34. FINANCIAL INCOME

The breakdown of the item is as follows:

<i>(in thousands of euro)</i>	01/01 - 06/30/2020	01/01 - 06/30/2019
Interest	7,048	5,347
Other financial income	2,737	102,972
Net gains on exchange rates	-	12,600
Fair value measurement of currency derivatives	156,896	-
Fair value measurement of other derivatives	335	178
Total	167,016	121,097

Interest mainly includes euro 1,864 thousand in interest on fixed-income securities and euro 2,091 thousand in interest income from financial institutions.

The item **other financial income** includes accrued interest on tax receivables and security deposits paid by the Brazilian subsidiaries to guarantee legal and tax disputes. The amount of the previous year included the interest accrued on the receivables from the Brazilian tax authorities recorded after obtaining, in first half-year of 2019, favorable sentences by the Federal Regional Courts based in Brasilia and Sao Paulo that entitled the Brazilian subsidiary to deduct the state tax on goods and services (ICMS) from the basis for calculating the social contributions PIS (Programa de Integracao Social) and COFINS (Contribucao para Financiamento de Seguridade Social).

The **fair value measurement of currency derivatives** relates to forward purchases/sales of foreign currencies to hedge commercial and financial transactions, in accordance with the Group exchange rate risk management policy. For transactions still open at the end of the period, the fair value was determined using the forward exchange rate at the reporting date of the Consolidated Financial Statements. The fair value assessment includes two elements: the interest component linked to the interest rate spread between the currencies subject to the individual hedges, a net cost of euro 11,375 thousand, and the exchange rate component, a net gain of euro 168,272 thousand.

The exchange rate component of the fair value measurement of Cross Currency Interest Rate Swaps, for which cash flow hedge accounting of was adopted, positive for euro 3,919 thousand, was reclassified to the item net exchange rate losses, to offset unrealized exchange rate losses recorded on the hedged liability. To ensure comparability with the previous year, the exchange rate component of first half-year of 2019, positive for euro 10,986 thousand, was reclassified to increase net exchange rate gains, to offset unrealized exchange rate losses recorded in first half-year of 2019 on the hedged liability.

35. FINANCIAL EXPENSES

The breakdown of the item is as follows:

<i>(in thousands of euro)</i>	01/01 - 06/30/2020	01/01 - 06/30/2019
Interests	46,209	56,435
Commissions	6,257	8,982
High inflation effect	4,012	8,711
Other financial expenses	2,344	6,247
Interest expenses on lease obligations	10,542	11,965
Net losses on exchange rates	169,735	-
Net interest costs on employee benefit obligations	1,067	2,288
Fair value measurement of exchange rate derivatives	-	36,512
Total	240,166	131,140

Interest for a total amount of euro 46,209 thousand includes:

- euro 33,601 thousand for the bank loan lines held by Pirelli & C. S.p.A.;
- euro 7,633 thousand of financial expenses related to bonds, of which euro 4,897 thousand related to unrated bonds and euro 2,735 thousand related to the Schuldschein loan, both issued by Pirelli & C. S.p.A.;
- euro 12,580 thousand of net interest income which include interest of the Cross Currency Interest Rate Swap and Interest Rate Swaps, for which hedge accounting was adopted, to adjust the flow of financial expenses of the bank lines and bonds referred to in the previous points. For further details, refer to as reported in Note 25 – Derivative financial instruments;
- euro 13,328 thousand of financial expenses relating to bank loans for foreign affiliates.

Commissions include in particular euro 1,556 thousand in costs relative to transactions for the assignment of receivables using the no recourse (pro-soluto) clause mainly in South America, Italy and Germany, and euro 4,501 thousand relative to expenses for guarantees and other bank commissions.

The item **high inflation effect** refers to the effect on monetary items deriving from the application of IAS 29 – Hyperinflation by the subsidiary in Argentina Pirelli Neumaticos SAIC. Reference is made to Note 39 – Hyperinflation for further details.

Net losses on exchange rate of euro 169,735 thousand (gains of euro 1,544,666 thousand and losses of euro 1,714,401 thousand) refer to the adjustment to the exchange rate at the end of the period of the items expressed in the currency other than the functional one still in effect at the closing date of the Consolidated Financial Statements and the net losses on items closed during the period.

Comparing the net losses on exchange rate, equal to euro 169,735 thousand recorded on receivables and payables in currencies other than the functional currency in the various subsidiaries, with the fair value measurement of the exchange rate component of hedging exchange derivatives equal to a net income of euro 168,272 thousands, included in Financial income (see Note 34), there is a negative imbalance of euro 1,463 thousand and therefore, exchange rate risk management is substantially in equilibrium.

36. TAXES

The breakdown of taxes is as follows:

<i>(in thousands of euro)</i>	01/01 - 06/30/2020	01/01 - 06/30/2019
Current taxes	(25,620)	(104,498)
Deferred taxes	58,482	(5,621)
Total	32,862	(110,119)

First half-year of 2020 reports **tax income** of euro 32,862 thousand compared to a loss before tax of euro 134,571 thousand with a tax rate that stood at 24.4%, in line with the expected tax rate for 2020. Instead, first half-year of 2019 reported tax expenses of euro 110,119 thousand against a income before tax of euro 417,110 thousand (26.4% tax rate).

37. EARNINGS/(LOSSES) PER SHARE

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

<i>(in thousands of euro)</i>	01/01 - 06/30/2020	01/01 - 06/30/2019
Net income/(loss) attributable to the Parent Company	(103,280)	297,917
Weighted average number of ordinary shares outstanding (in thousands)	1,000,000	1,000,000
Earnings /(losses) per share (in euro per share)	(0.103)	0.298

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

38. DIVIDENDS PER SHARE

In first half-year of 2020, Pirelli & C. S.p.A. did not distribute dividends.

39. HYPERINFLATION

In accordance with Group accounting standards regarding the criteria for introducing/ending inflation accounting, the Argentinian subsidiary Pirelli Neumaticos SAIC has adopted inflation accounting since July 1, 2018 and is the only Group company operating in a high-inflation country. The price index used for this purpose was the national consumer price index (CPI) published by the National Institute for Statistics and Census (INDEC).

For the Financial Statements at June 30, 2020, the official inflation index was used estimated at 44%.

The losses on the net monetary position were recorded in the Income Statement as Financial Expenses (Note 35) for euro 4,012 thousand.

40. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties, including intercompany transactions, are neither unusual nor exceptional, but are part of the ordinary course of business of Group companies. Such transactions, when not concluded at standard conditions or dictated by specific laws, are in any case regulated at conditions in line with market conditions and implemented in accordance with the provisions of the Company's Procedure for transactions with related parties.

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

STATEMENT OF FINANCIAL POSITION <i>(in millions of euro)</i>	Total reported at 06/30/2020	of which related parties	% incidence	Total reported at 12/31/2019	of which related parties	% incidence
Non current assets						
Other receivables	417.3	5.4	1.3%	342.4	5.6	1.6%
Current assets						
Trade receivables	627.9	13.7	2.2%	649.4	9.8	1.5%
Other receivables	480.0	71.0	14.8%	451.9	45.2	10.0%
Non-current liabilities						
Borrowings from banks and other financial institutions	4,940.6	16.3	0.3%	3,949.8	17.4	0.4%
Current liabilities						
Borrowings from banks and other financial institutions	1,182.3	2.2	0.2%	1,419.4	2.3	0.2%
Trade payables	858.4	81.1	9.5%	1,611.5	171.9	10.7%
Other payables	330.8	5.2	1.6%	402.8	4.8	1.2%

INCOME STATEMENT <i>(in millions of euro)</i>	01/01 - 06/30/2020	of which related parties	% incidence	01/01 - 06/30/2019	of which related parties	% incidence
Revenue from sales and services	1,816.4	3.3	0.2%	2,654.8	7.4	0.3%
Other income	137.8	29.7	21.5%	281.7	36.2	12.8%
Raw materials and consumables used	(549.4)	(3.0)	0.5%	(904.4)	(1.7)	0.2%
Personnel expenses	(460.1)	(6.1)	1.3%	(539.7)	(6.6)	1.2%
Other costs	(647.9)	(101.3)	15.6%	(844.3)	(123.8)	14.7%
Financial income	167.0	0.9	0.5%	121.1	0.3	0.2%
Financial expenses	(240.2)	(0.5)	0.2%	(131.1)	(0.5)	0.4%
Net income (loss) from equity investments	(4.6)	(3.9)	n.a.	2.2	(1.4)	n.a.

CASH FLOW <i>(in millions of euro)</i>	01/01 - 06/30/2020	of which related parties	% incidence	01/01 - 06/30/2019	of which related parties	% incidence
Net cash flows operating activities:						
Trade receivables	(39.0)	(3.9)	n.a.	(236.7)	(17.9)	n.a.
Trade payables	(649.0)	(90.8)	n.a.	(412.3)	(82.1)	n.a.
Other receivables/payables	(70.6)	(13.0)	n.a.	(88.8)	24.2	n.a.
Net cash flows investing activities:						
Disposals (Acquisition) of investments in associates and JV	-	-	n.a.	(8.9)	(8.9)	n.a.
Net cash flows financing activities:						
Change in Financial receivables/Other current financial assets at fair value through income statement	(166.9)	(12.3)	n.a.	(4.7)	(20.8)	n.a.
Repayment of principal and payment of interest for lease obligations	(43.2)	(1.2)	n.a.	(53.3)	(0.9)	n.a.

The effects of transactions with related parties, contained in the Income Statement and the Statement of Financial Position on the consolidated data of the Group were as follows.

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

STATEMENT OF FINANCIAL POSITION		
(in millions of euro)	06/30/2020	31/12/2019
Other non current receivables	5.4	5.6
<i>of which financial</i>	5.4	5.6
Trade receivables	6.9	3.4
Other current receivables	56.7	40.7
<i>of which financial</i>	39.0	26.5
Borrowings from banks and other financial institutions non-current	14.9	15.4
Borrowings from banks and other financial institutions current	1.7	1.6
Trade payables	18.9	36.2
Other current payables	0.0	0.0

INCOME STATEMENT		
(in millions of euro)	01/01 - 06/30/2020	01/01 - 06/30/2019
Revenues from sales and services	3.3	7.3
Other income	2.9	0.4
Raw materials and consumables (net of change in inventories)	2.3	-
Other costs	33.5	28.0
Financial income	0.8	0.2
Financial expenses	0.3	0.3
Net income/ (loss) from equity investments	3.9	(1.4)

RENDICONTO FINANZIARIO		
(in millions of euro)	01/01 - 06/30/2020	01/01 - 06/30/2019
Change in trade receivables	(3.5)	(4.0)
Change in trade payables	(17.3)	0.8
Change in Other receivables/Other payables	(3.5)	16.8
Change in Financial receivables	(12.3)	(20.8)
Cash outflow for lease obligations	(0.4)	(0.8)
Net cash flows provided by / (used in) financing activities	-	(8.9)

Transactions – Statement of Financial Position

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

The item **trade receivables** includes, among others, receivables for services rendered to the Chinese JV Jining Shenzhou Tyre Co. for euro 6.6 million and to PT Evoluzione Tyres for euro 0.3 million.

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

- receivables for advances for the supply of motorcycle products, of Pirelli Tyre S.p.A. to PT Evoluzione Tyres for euro 3.2 million;
- receivables for sales of materials and molds from the Joint Stock Company Kirov Tyre Plant for euro 6.7 million;
- receivables for the recovery of costs of Pirelli Tyre S.p.A. from PT Evoluzione Tyres and Jining Shenzhou Tyre Co. for euro 3.1 million and euro 1.5 million respectively;
- a loan granted by Pirelli Tyre Co. to Jining Shenzhou Tyre Co. for euro 38.4 million.

The item **non-current borrowings from banks and other financial institutions** refers to the payable for the rental of machinery of the company Pirelli Deutschland GmbH towards the company Industriekraftwerk Breuberg GmbH.

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

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

Transactions – Income statement

The item **revenues from sales and services** mainly refers to sales of materials and services to Jining Shenzhou Tyre Co. for euro 3 million and to PT Evoluzione Tyres for euro 0.3 million.

The item **other costs** mainly refers to costs for the purchase of products from PT Evoluzione Tyres and from Jining Shenzhou Tyre Co for euro 12.4 million and euro 12.3 million respectively, costs for the purchase of energy and the rental of machinery from Industriekraftwerk Breuberg GmbH for euro 6.4 million.

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

The item **financial expenses** refers to interest related to the rental of machinery.

TRANSACTIONS WITH OTHER RELATED PARTIES

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

STATEMENT OF FINANCIAL POSITION		
(in millions of euro)	06/30/2020	31/12/2019
Trade receivables	6.8	6.4
Other current receivables	14.3	4.4
Borrowings from banks and other financial institutions non-current	1.4	2.0
Borrowings from banks and other financial institutions current	0.5	0.6
Trade payables	62.2	135.7
Other current payables	5.2	4.8

INCOME STATEMENT		
(in millions of euro)	01/01 - 06/30/2020	01/01 - 06/30/2019
Revenues from sales and services	0.0	0.1
Other income	26.8	35.8
Raw materials and consumables (net of change in inventories)	0.7	1.7
Other costs	64.8	92.1
Financial income	0.1	0.1
Financial expenses	0.2	0.2

RENDICONTO FINANZIARIO		
(in millions of euro)	01/01 - 06/30/2020	01/01 - 06/30/2019
Change in trade receivables	(0.4)	(13.8)
Change in trade payables	(73.5)	(82.9)
Change in Other receivables/Other payables	(9.5)	7.4
Cash outflow for lease obligations	(0.8)	(0.2)

Transactions – Statement of Financial Position

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

The item **other current receivables** mainly refers to amounts from Prometeon Group companies for euro 11.5 million and receivables for royalties from Aeolus Tyre Co. Ltd. for euro 2.8 million.

The item **non-current borrowings from banks and other financial institutions** refers to the payable for the rental of machinery of the company Pirelli Otomobil Lastikleri A.S. towards Prometeon Turkey Endüstriyel ve Ticari Lastikleri A.S. for euro 1 million and Pirelli Pneus Ltda towards TP Industrial de Pneus Brasil Ltda for euro 0.4 million.

The item **current borrowings from banks and other financial institutions** refers to the short-term portion of the aforementioned payables, respectively for euro 0.3 million and euro 0.2 million.

The item **trade payables** refers almost exclusively to payables to companies of the Prometeon Group for euro 61.4 million.

The item **other current payables** mainly refers to other current payables to companies of the Prometeon Group for euro 4.8 million.

Transactions – Income statement

The item **other income** includes royalties paid to Aeolus Tyre Co. Ltd, against the license contract stipulated in 2016 and regarding the remodelling of some terms in February 2019, for euro 3,5 million. The item also includes income from companies of the Prometeon Group mainly related to:

- royalties recorded in respect the license contract for the use of the Pirelli trademark for euro 7.4 million;
- Sale of raw materials, finished and semi-finished products for a total of euro 5.9 million of which euro 4.6 million made by Pirelli Pneus Ltda;
- Long Term Service Agreement for euro 3.4 million, of which euro 1.7 million to Pirelli Sistemi Informativi S.r.l. and euro 0.5 million to Pirelli Pneus Ltda;
- Logistic services for a total of euro 0.5 million almost exclusively provided by the Spanish company Pirelli Neumaticos S.A.I.C.;
- License for know-how charged by Pirelli Tyre S.p.A. for euro 5 million.

The item **raw materials and consumables** used mainly refers to costs to companies of the Prometeon Group for the purchase of direct materials/consumables/compounds of which euro 0.4 million carried out by the Turkish company Pirelli Otomobil Lastikleri A.S.

The item **other costs** includes contributions to the Hangar Bicocca Foundation and the Pirelli Foundation for euro 0.5 million and costs payable to companies of the Prometeon Group mainly for:

- Purchase of truck products for a total of euro 37.2 million, of which euro 29.7 million made by the Brazilian company Comercial e Importadora de Pneus Ltda for the Brazilian commercial network, euro 4.4 million made by the Russian company Limited Liability Company Pirelli Tyre Russia and euro 2.4 million made by the German company Driver Reifen und KFZ-Technik GmbH;
- Purchase of Car/Motorcycle and semi-finished products for a total amount of euro 16.7 million, of which euro 15.7 million carried out by the Turkish company Pirelli Otomobil Lastikleri A.S. in respect of the Off-Take contract, and euro 1.4 million on the part of Pirelli Pneus Ltda for the purchase of inner tubes for tyres;
- Costs for euro 3.5 million incurred by Pirelli Pneus Ltda for the transformation of raw materials following toll manufacturing contract activities;

The item **financial expenses** refers to the interest related to the rental of machinery between the Turkish and Brazilian companies with the Prometeon Group.

BENEFITS FOR KEY MANAGERS OF THE COMPANY

The remuneration payable to key managers amounted to euro 9,013 thousand at June 30, 2020 (euro 10,302 thousand in first half-year of 2019). The portion relating to employee benefits was recorded in the Income Statement as personnel expenses for euro 6,053 thousand (euro 6,574 thousand in first half-year of 2019) and euro 2,960 thousand as Other costs (euro 3,728 thousand in first half-year of 2019).

41. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE HALF-YEAR

On **July 23, 2020**, consistent with that which had already been announced to the market on July 15, 2020, the Pirelli Board of Directors constituted, at the proposal of the Executive Vice Chairman and CEO Marco Tronchetti Provera, the Office of General Manager and co-CEO which directly reports to him, and entrusted it to Angelos Papadimitriou, effective August 1, 2020. In order to maximise operational effectiveness, the General Manager and co-CEO has been assigned the executive levers and the general coordination of the support functions necessary for the implementation of the integrated business model, and for the achievement of business objectives.

On **July 31, 2020**, Carlo Secchi, due to supervening new personal commitments, announced his resignation from the Pirelli & C. S.p.A. Board of Directors effective as of the same date of the approval of the Half-Year Financial Report at June 30, 2020. Professor Carlo Secchi will continue to hold the position of Chairman of the Company's Supervisory Board. For the resolutions passed by the Board of Directors on August 5, 2020 following the resignation of Professor Secchi, reference should be made to the section "Half-Year Report on Corporate Governance".

42. OTHER INFORMATION

Research and development expenses

Research and development expenses for first half-year of 2020 amounted to euro 95.0 million and accounted for 5.2% of sales (euro 124.1 million in first half-year of 2019 and accounted for 4.7% of sales).

Atypical and/or unusual transactions

Pursuant to Consob Communication no. 6064293 of July 28, 2006, it is specified that no atypical and/or unusual transactions as defined in said communication were carried out in first half-year of 2020.

Exchange rates

The main exchange rates used for consolidation were as follows:

<i>(local currency vs euro)</i>	Period-end exchanges rates		Change in %	Average exchange rates 1H		Change in %
	06/30/2020	12/31/2019		2020	2019	
Swedish Krona	10.48040	10.4489	0.30%	10.65878	10.5141	1.38%
Australian Dollar	1.63440	1.5995	2.18%	1.67746	1.6003	4.82%
Canadian Dollar	1.53240	1.4598	4.97%	1.50326	1.5069	(0.24%)
Singaporean Dollar	1.56480	1.5111	3.55%	1.54107	1.5356	0.36%
U.S. Dollar	1.11980	1.1234	(0.32%)	1.10205	1.1298	(2.46%)
Taiwan Dollar	33.10465	33.6919	(1.74%)	33.07857	34.9958	(5.48%)
Swiss Franc	1.06510	1.0854	(1.87%)	1.06415	1.1295	(5.79%)
Egyptian Pound	18.14580	18.0936	0.29%	17.51879	19.6338	(10.77%)
Turkish Lira (new)	7.70820	6.6506	15.90%	7.12193	6.3461	12.23%
New Romanian Leu	4.84230	4.7793	1.32%	4.81641	4.7415	1.58%
Argentinian Peso	78.90111	67.2804	17.27%	78.90111	48.3229	63.28%
Mexican Peso	25.72349	21.1707	21.51%	23.84269	21.6565	10.09%
South African Rand	19.44250	15.7773	23.23%	18.31121	16.0434	14.14%
Brazilian Real	6.15390	4.5305	35.83%	5.42112	4.3449	24.77%
Chinese Yuan	7.92762	7.8371	1.16%	7.74953	7.6608	1.16%
Russian Ruble	78.68120	69.3406	13.47%	76.43140	73.6363	3.80%
British Pound	0.91243	0.8508	7.24%	0.87463	0.8736	0.12%
Japanese Yen	120.66000	121.9400	(1.05%)	119.26683	124.2836	(4.04%)

NET FINANCIAL POSITION

(Alternative performance indicator not envisaged by accounting standards)

<i>(in thousands of euro)</i>	Note	06/30/2020	31/12/2019
		of which related parties (note 40)	of which related parties (note 40)
Current borrowings from banks and other financial institutions	21	1,182,305	1,419,404
Current derivative financial instruments (liabilities)	25	25,697	31,703
Non-current borrowings from banks and other financial institutions	21	4,940,621	3,949,836
Non-current derivative financial instruments (liabilities)	25	11,111	10,327
Total gross debt		6,159,734	5,411,270
Cash and cash equivalents	17	(1,455,229)	(1,609,821)
Other financial assets at fair value through income statement	10	(18,878)	(38,119)
Current financial receivables and other assets**	13	(44,800)	(35,503)
Current derivative financial instruments (assets)	25	(47,041)	(32,090)
Net financial debt *		4,593,786	3,695,737
Non-current derivative financial instruments (assets)	25	(57,061)	(52,515)
Non-current financial receivables and other assets**	13	(272,046)	(135,996)
Total net financial (liquidity) / debt position		4,264,678	3,507,226

* Pursuant to Consob Notice of July 28, 2006 and in compliance with ESMA/2013/319 Recommendations

** The item "financial receivables and other assets" is reported net of the relative provision for impairment which amounted to euro 6.444 million at June 30, 2020 and euro 8.651 million at December 31, 2019.

SCOPE OF CONSOLIDATION

Companies consolidated line-by-line						
Company	Business Headquarter		Currency	Share Capital	% holding	Held by
Europe						
Austria						
Pirelli GmbH	Tyre	Wien	Euro	726,728	100.00%	Pirelli Tyre (Suisse) SA
Belgium						
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700,000	99.996% 0.004%	Pirelli Tyre (Suisse) SA 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	Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Driver Reifen und KFZ-Technik GmbH (ex Pneumobil Reifen und KFZ-	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% 0.10%	Pirelli Tyre S.p.A. Pirelli Tyre (Suisse) SA
Pirelli Hellas S.A. (in liquidation)	Tyre	Athens	US \$	22,050,000	79.86%	Pirelli Tyre S.p.A.
The Experts in Wheels - Driver Hellas C. S.A.	Tyre	Elliniko- Argyroupoli	Euro	100,000	72.80%	Elastika Pirelli C.S.A.

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 Settimo	Euro	50,000	100.00%	Pirelli & C. S.p.A.
Pirelli Industrie Pneumatici S.r.l.	Tyre	Torinese (To)	Euro	40,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli International Treasury S.p.A.	Tyre	Milano	Euro	125,000,000	70.00%	Pirelli Tyre S.p.A.
					30.00%	Pirelli & C. S.p.A.
Pirelli Servizi Amministrazione e Tesoreria S.p.A.	Services	Milan	Euro	2,047,000	100.00%	Pirelli & C. S.p.A.
Pirelli Sistemi Informativi S.r.l.	Information Systems	Milan	Euro	1,010,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre S.p.A.	Tyre	Milan	Euro	558,154,000	100.00%	Pirelli & C. S.p.A.
Poliambulatorio Bicocca S.r.l.	Services	Milan	Euro	10,000	100.00%	Pirelli Tyre S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104,000	90.35%	Pirelli & C. S.p.A.
					2.95%	Pirelli Tyre S.p.A.
					0.95%	Poliambulatorio Bicocca S.r.l.
					0.98%	Pirelli International Treasury S.p.A.
					0.95%	Driver Italia S.p.A.
					0.98%	Pirelli Industrie Pneumatici S.r.l.
					0.95%	Pirelli Servizi Amministrazione e Tesoreria S.p.A.
					0.95%	Pirelli Sistemi Informativi S.r.l.
					0.95%	HB Servizi S.r.l.
The Netherlands						
E-VOLUTION Tyre B.V.	Tyre	Rotterdam	Euro	170,140,000	100.00%	Pirelli Tyre S.p.A.
Pirelli China Tyre N.V.	Tyre	Rotterdam	Euro	38,045,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Rotterdam	Euro	18,152	100.00%	Pirelli Tyre (Suisse) SA
Poland						
Driver Polska Sp. z o.o.	Tyre	Warsaw	Pol. Zloty	100,000	63.50%	Pirelli Polska Sp. z o.o.
Pirelli Polska Sp. z o.o.	Tyre	Warsaw	Pol. Zloty	625,771	100.00%	Pirelli Tyre S.p.A.

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
United Kingdom						
CTC 2008 Ltd	Tyre	Burton on Trent	British Pound	100,000	100.00%	Pirelli UK Tyres Ltd
Pirelli Cif Trustees Ltd	Financial	Burton on Trent	British Pound	4	25.00%	Pirelli General Executive Pension Trustees LTD
					25.00%	Pirelli General & Overseas Pension Trustees LTD
					25.00%	Pirelli Tyres Executive Pension Trustees LTD
					25.00%	Pirelli Tyres Pension Trustees LTD
Pirelli International Limited (ex Pirelli International plc)	Financial	Burton on Trent	Euro	250,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Motorsport Services Ltd	Tyre	Burton on Trent	British Pound	1	100.00%	Pirelli UK Ltd
Pirelli General Executive Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli UK Ltd
Pirelli General & Overseas Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli UK Ltd
Pirelli Tyres Executive Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli Tyres Ltd
Pirelli Tyres Ltd	Tyre	Burton on Trent	British Pound	16,000,000	100.00%	Pirelli UK Tyres Ltd
Pirelli Tyres Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli Tyres Ltd
Pirelli UK Ltd	Financial	Burton on Trent	British Pound	163,991,278	100.00%	Pirelli & C. S.p.A.
Pirelli UK Tyres Ltd	Tyre	Burton on Trent	British Pound	85,000,000	100.00%	Pirelli Tyre S.p.A.
Slovakia						
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Euro	6,639	100.00%	Pirelli Tyre S.p.A.
Romania						
Pirelli & C. Eco Technology RO S.r.l.	Sustainable mobility	Slatina	Rom. Leu	20,002,000	99.995%	Pirelli Tyre S.p.A.
					0.005%	Pirelli Tyres Romania S.r.l.
Pirelli Tyres Romania S.r.l.	Tyre	Slatina	Rom. Leu	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
Joint Stock Company "Scientific institute of medical polymers"	Tyre	Moscow	Russian Rouble	7,392,000	100.00%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company Pirelli Tyre Services	Tyre	Moscow	Russian Rouble	54,685,259	95.00%	Pirelli Tyre (Suisse) SA
					5.00%	Pirelli Tyre S.p.A.
Limited Liability Company "Industrial Complex "Kirov Tyre"	Tyre	Kirov	Russian Rouble	348,423,221	100.00%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company Pirelli Tyre Russia	Tyre	Moscow	Russian Rouble	6,153,846	65.00%	E-VOLUTION Tyre B.V.

Company	Business Headquarter		Currency	Share Capital	% holding	Held by
Spain						
Euro Driver Car S.L.	Tyre	Valencia	Euro	960,000	58.44%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Neumaticos Arco Iris, S.A.	Tyre	Barcelona	Euro	302,303	66.20%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Pirelli Neumaticos S.A. - Sociedad Unipersonal	Tyre	Valencia	Euro	25,075,907	100.00%	Pirelli Tyre S.p.A.
Tyre & Fleet S.L. - Sociedad Unipersonal	Tyre	Valencia	Euro	20,000	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Sweden						
Dackia Aktiebolag	Tyre	Stockholm	Swed. Krona	31,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyre Nordic Aktiebolag	Tyre	Stockholm	Swed. Krona	950,000	100.00%	Pirelli Tyre S.p.A.
Switzerland						
Driver (Suisse) SA	Tyre	Bioggio	Swiss Franc	100,000	100.00%	Pirelli Tyre (Suisse) SA
Pirelli Group Reinsurance Company SA	Reinsurance	Basel	Swiss Franc	3,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre (Suisse) SA	Tyre	Basel	Swiss Franc	1,000,000	100.00%	Pirelli Tyre S.p.A.
Turkey						
Pirelli Lastikleri Dis Ticaret A.S.	Tyre	Istanbul	Turkey Lira	50,000	100.00%	Pirelli Otomobil Lastikleri A.S.
Pirelli Otomobil Lastikleri A.S.	Tyre	Istanbul	Turkey Lira	85,000,000	100.00%	Pirelli Tyre S.p.A.
Hungary						
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint	3,000,000	100.00%	Pirelli Tyre S.p.A.
North America						
Canada						
Pirelli Tire Inc.	Tyre	St-Laurent (Quebec)	Can. \$	6,000,000	100.00%	Pirelli Tyre (Suisse) SA
USA						
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	380,718,453	100.00%	Pirelli Comercial de Pneus Brasil Ltda
CPA - Comercial e Importadora de Pneus Ltda.	Tyre	Sao Paulo	Bra. Real	200,000	100.00%	Comercial e Importadora de Pneus Ltda
Pirelli Comercial de Pneus Brasil Ltda.	Tyre	Sao Paulo	Bra. Real	1,149,296,303	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participações Ltda
Pirelli Latam Participações Ltda.	Tyre	Sao Paulo	Bra. Real	343,514,252	100.00%	Pirelli Tyre S.p.A.
Pirelli Ltda.	Financial	Santo André	Bra. Real	14,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Pneus Ltda.	Tyre	Campinas	Bra. Real	1,132,178,494	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participações 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 Participações Ltda
C.P.Complexo Automotivo de Testes, Eventos e Entretenimento Ltda.	Tyre	Elias Fausto (Sao Paulo)	Bra. Real	6,812,000	100.00%	Pirelli Pneus Ltda
TLM - Total Logistic Management Serviços de Logistica Ltda.	Tyre	Santo André	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 Participações 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 Participações Ltda
Mexico						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Silao	Mex. Peso	335,691,500	99.997%	Pirelli Tyre S.p.A.
					0.003%	Pirelli Ltda.
Pirelli Neumaticos S.A. de C.V.	Tyre	Silao	Mex. Peso	11,260,032,348	99.83%	Pirelli Tyre S.p.A.
					0.17%	Pirelli Latam Participações Ltda
Pirelli Servicios S.A. de C.V.	Tyre	Silao	Mex. Peso	50,000	99.00%	Pirelli Tyre S.p.A.
					1.00%	Pirelli North America Inc.

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Africa						
Egypt						
Pirelli Egypt Tyre Trading S.A.E.	Tyre	Giza	Egy. Pound	84,250,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Egypt Consumer Tyre Distribution S.A.E.	Tyre	Giza	Egy. Pound	89,000,000	99.89%	Pirelli Egypt Tyre Trading S.A.E.
					0.06%	Pirelli Tyre S.p.A.
					0.06%	Pirelli Tyre (Suisse) SA
South Africa						
Pirelli Tyre (Pty) Ltd	Tyre	Gauteng 2090	S.A. Rand	1	100.00%	Pirelli Tyre (Suisse) SA
Oceania						
Australia						
Pirelli Tyres Australia Pty Ltd	Tyre	Sydney	Aus. \$	150,000	100.00%	Pirelli Tyre (Suisse) SA
Asia						
China						
Pirelli Taiwan Co. Ltd	Tyre	New Taipei City	N.T. \$	10,000,000	100.00%	Pirelli Tyre (Suisse) SA
Pirelli Trading (Beijing) Co., Ltd.	Tyre	Beijing	Ch. Renminbi	4,200,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyre (Jiaozuo) Co., Ltd.	Tyre	Jiaozuo	Ch. Renminbi	350,000,000	80.00%	Pirelli Tyre S.p.A.
Pirelli Tyre Co., Ltd	Tyre	Yanzhou	Ch. Renminbi	2,071,150,000	90.00%	Pirelli China Tyre N.V.
Pirelli Tyre Trading (Shanghai) Co., Ltd	Tyre	Shanghai	US \$	700,000	100.00%	Pirelli China Tyre N.V.
Yanzhou HIXIH Ecotech Environment Co., Ltd	Sustainable mobility	Yanzhou	Ch. Renminbi	130,000,000	100.00%	Pirelli Tyre Co. Ltd
Korea						
Pirelli Korea Ltd	Tyre	Seoul	Korean Won	100,000,000	100.00%	Pirelli Asia Pte Ltd
Japan						
Pirelli Japan Kabushiki Kaisha	Tyre	Tokyo	Jap. Yen	2,200,000,000	100.00%	Pirelli Tyre S.p.A.
Singapore						
Pirelli Asia Pte Ltd	Tyre	Singapore	Sing. \$	2	100.00%	Pirelli Tyre (Suisse) SA

Investments accounted for by the equity method

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Europe						
Germany						
Industriekraftwerk Breuberg GmbH	Cogeneration	Hoechst / Odenwald	Euro	1,533,876	26.00%	Pirelli Deutschland GmbH
Greece						
Eco Elastika S.A.	Tyre	Athens	Euro	60,000	20.00%	Elastika Pirelli C.S.A.
Italy						
Consorzio per la Ricerca di Materiali Avanzati (CORIMAV)	Financial	Milan	Euro	103,500	100.00%	Pirelli & C. S.p.A.
Eurostazioni S.p.A.	Financial	Rome	Euro	160,000,000	32.71%	Pirelli & C. S.p.A.
Focus Investments S.p.A.	Financial	Milan	Euro	183,333	8.33%	Pirelli & C. S.p.A. (25% of the voting share capital)
Poland						
Centrum Utylizacji Opon Organizacja Odzysku S.A.	Tyre	Warsaw	Pln	1,008,000.00	20.00%	Pirelli Polska Sp. z o.o.
Slovakia						
ELT Management Company Slovakia S.R.O.	Tyre	Bratislava	Euro	132,000.00	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	5,665,418.00	20.00%	Limited Liability Company Pirelli Tyre Russia
Spain						
Signus Ecovalor S.L.	Tyre	Madrid	Euro	200,000	20.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Asia						
China						
Xushen Tyre (Shanghai) Co, Ltd	Tyre	Shanghai	Ch. Renminbi	1,050,000,000	49.00%	Pirelli Tyre S.p.A.
Jining Shenzhou Tyre Co, Ltd	Tyre	Jining City	Ch. Renminbi	1,050,000,000	100.00%	Xushen Tyre (Shanghai) Co, Ltd
Indonesia						
PT Evoluzione Tyres	Tyre	Subang	Rupees	1,313,238,780,000	63.04%	Pirelli Tyre S.p.A.

CERTIFICATIONS

**CERTIFICATION OF THE CONDENSED INTERIM FINANCIAL STATEMENTS
PURSUANT TO ARTICLE 154-BIS OF LEGISLATIVE DECREE 58 OF
FEBRUARY 24, 1998, AND PURSUANT TO ARTICLE 81-TER OF CONSOB
REGULATION NO. 11971 OF MAY 14, 1999, AS AMENDED**

1. The undersigned Marco Tronchetti Provera, in his capacity as Executive Vice Chairman and Chief Executive Officer, and Francesco Tanzi, in his capacity as Corporate Financial Reporting Manager of Pirelli & C. S.p.A. hereby certify pursuant to, inter alia, Article 154-bis, clauses 3 and 4, of Legislative Decree 58 of February 24, 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application

of the administrative and accounting procedures for preparation of the condensed interim financial statements, during the period January 1, 2020 – June 30, 2020.

2. In this regard it should be noted that the adequacy of the administrative and accounting procedures for preparation of the condensed interim financial statements referred to the period January 1, 2020 – June 30, 2020, was determined on the basis of an assessment of the internal control system. This assessment was based on a specific process defined in accordance with the criteria laid down in the “Internal Control – Integrated Framework” guidelines issued by the “Committee of Sponsoring Organizations of the Treadway Commission” (COSO), which is a reference framework generally accepted at the international level.

3. We also certify that:

3.1 the condensed interim financial statements:

- a. were prepared in accordance with the applicable international accounting standards recognized in the European Union under the terms of Regulation (EC) 1606/2002 of the European Parliament and Council, of July 19, 2002;
- b. correspond to the information in the account ledgers and books;
- c. give a true and fair view of the assets, liabilities, income, expenses and financial position of the reporting entity and of the Group of companies included in the scope of consolidation.

3.2 The interim report on operations includes a reliable analysis of the significant events mentioned in the report that occurred during the first six months of the year and their impact on the condensed




interim financial statements, together with a description of the principal risks and uncertainties faced in the remaining six months of the year.

The interim report on operations also contains a reliable analysis of the information provided on material transactions with related parties.

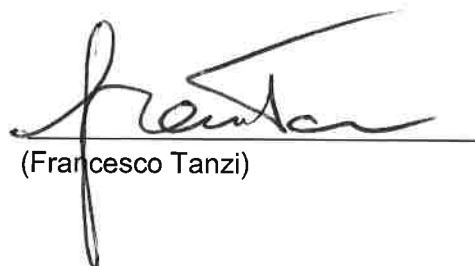
August 5, 2020

The Executive Vice Chairman and Chief
Executive Officer

A handwritten signature in black ink, consisting of stylized initials and a surname, written over a horizontal line.

(Marco Tronchetti Provera)

The Corporate Financial Reporting Manager

A handwritten signature in black ink, written in a cursive style, written over a horizontal line.

(Francesco Tanzi)



PIRELLI & C. SPA

**REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS AS OF AND FOR THE SIX-MONTH
PERIOD ENDED 30 JUNE 2020**



REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the shareholders of
Pirelli & C. SpA

Foreword

We have reviewed the accompanying condensed consolidated interim financial statements of Pirelli & C. SpA and its subsidiaries (Pirelli & C. group) as of and for the six-month period ended 30 June 2020 comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows and related notes. Pirelli & C. SpA directors are responsible for the preparation of the condensed consolidated interim financial statements in accordance with international accounting standard applicable to interim financial reporting (IAS34) as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution 10867 of 31 July 1997. A review of condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed consolidated interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements of Pirelli & C. group as of and for the six-month period ended 30 June 2020 have not been prepared, in all material respects, in accordance with the international accounting standard applicable to interim financial reporting (IAS34), as adopted by the European Union.

Milan, 5 August 2020

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

This report is an English translation of the original report, which was issued in Italian. This report has been prepared solely for the convenience of international readers.

PricewaterhouseCoopers SpA

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