HALF-YEAR FINANCIAL REPORT

AT JUNE 30, 2019

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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The Board of Directors[1]

Chairman	Ning Gaoning
Executive Vice Chairman and Chief Executive Officer	Marco Tronchetti Provera
Director	Yang Xingqiang
Director	Bai Xinping
Director	Giorgio Luca Bruno
Independent Director	Laura Cioli
Independent Director	Domenico De Sole
Independent Director	Fan Xiaohua
Director	Ze'ev Goldberg
Independent Director	Giovanni Lo Storto
Independent Director	Marisa Pappalardo
Independent Director	Cristina Scocchia
Independent Director	Tao Haisu
Director	Giovanni Tronchetti Provera
Independent Director	Wei Yintao

Secretary of the Board Alberto Bastanzio

Board of Statutory Auditors[2]

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

[1]Appointment: August 1, 2017 effective August 31, 2017. Expiry: Shareholders’ Meeting convened for the approval of the Financial Statements at December 31, 2019. Giovanni Lo Storto was appointed Director by the Shareholders' Meeting held on May 15, 2018. Ning Gaoning was co-opted by the Board of Directors on August 7, 2018, replacing Ren Jianxin, who resigned on July 30, 2018, and was confirmed as Director and Chairman by the Shareholders' Meeting held on May 15, 2019.

[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	Laura Cioli
Independent Director	Giovanni Lo Storto
Independent Director	Cristina Scocchia

Committee for Related Party Transactions

Chairman – Independent Director	Domenico De Sole
Independent Director	Marisa Pappalardo
Independent Director	Cristina Scocchia

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	Laura Cioli
Independent Director	Giovanni Lo Storto

Strategies Committee

Chairman	Marco Tronchetti Provera
	Yang Xinqiang
	Bai Xinping
	Giorgio Luca Bruno
Independent Director	Domenico De Sole
	Ze'ev Goldberg
Independent Director	Wei Yintao

Independent Auditor[3]	PricewaterhouseCoopers S.p.A.
Corporate Financial Reporting Manager[4]	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 on August 31, 2017. Expiry: jointly with the current Board of Directors.

MACROECONOMIC AND MARKET SCENARIO

Economic overview

The macroeconomic scenario during the first two quarters of 2019 was affected by the slowdown in global growth particularly influenced by trade tensions between the US and China. During the second quarter the GDP of the United States, the European Union, China and Russia showed signs of a slowdown compared to the previous quarter, while growth in Brazil - according to the most recent economic indicators – was expected to modestly recover in the second quarter following the slowdown registered during the first quarter.

Economic growth, percentage change in GDP

	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2
EU 28	2.4	2.2	1.9	1.5	1.6	1.2
US	2.9	3.2	3.1	2.5	2.7	2.3
China	6.8	6.7	6.5	6.4	6.4	6.2
Brazil	1.2	0.9	1.3	1.1	0.4	1.3
Russia	1.8	2.1	2.2	2.8	1.9	1.6

Note: Percentage change of the corresponding period of the previous year. Data are current up to Q1, Q2 for the US and China. Source: Q2 estimates by IHS Markit, forecasts for July 2019.

Exchange rates

During the first half-year of 2019, the US dollar appreciated against the euro as well as the main currencies of emerging countries. The euro versus US dollar average stood at 1.13, a decline of -6.7% compared to the average for the first half-year of 2018.

Key exchange rates	Second quarter		First Half	
	2019	**2018**	**2019**	**2018**
US$ per euro	1.12	1.19	1.13	1.21
Chinese yuan per US$	6.82	6.38	6.78	6.37
Brazilian real per US$	3.92	3.61	3.85	3.43
Russian rouble per US$	64.53	61.94	65.18	59.35

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

Trade tensions between the US and China led to a depreciation of the Chinese yuan during the first half-year of 2019, compared to the same period of the previous year, with an average that went from 6.37 for the first half-year of 2018, to 6.78 for the same period of 2019 (a depreciation of -6.0%). The Brazilian real depreciated by -10.8% against the US dollar during the first six months year-on-year, while Russia's currency depreciated by -8.9% against the dollar.

Raw materials prices

Prices for energy sources fell during the first half-year of 2019 compared to the same period of 2018. The average price of Brent stood at US$ 66.1 per barrel for the first half-year of 2019, down by -6.9% compared to the same period of 2018. Despite the production limits set by OPEC and Russia in order to control supply, the increase in the production of crude oil in the US plus the slowdown in global demand, contained the price of Brent for the first half-year. The price trend for Butadiene followed that of oil with an average of euro 883 per tonne for the first half-year, down -4.3% compared to the first half-year of 2018. Natural rubber instead registered a +1.5% increase in price for the first half-year of 2019, thanks to a recovery during the second quarter.

Raw material prices	2nd quarter			First half		
	2019	2018	% change	2019	2018	% change
Brent ($ / barrel)	68.3	74.9	-8.8%	66.1	71.0	-6.9%
Butadiene (€ / tonne)	900	1037	-13.2%	883	923	-4.3%
Natural rubber TSR20 ($ / tonne)	1514	1399	8.2%	1455	1433	1.5%

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

Trends in Car Tyre Markets

Tyre sales for the first half-year of 2019 fell by -1.9% (-2.2% for the second quarter), due to macroeconomic uncertainties and a slowdown in demand for the Original Equipment channel, where the tyre market saw a -7.3% decline (-8.5% for the second quarter). During the same period vehicle production in fact, registered a decline of -6.7% (-7.5% for the second quarter), which was particularly accentuated for the Premium segment in Europe at -7.3% (-8.4% for the second quarter), and China at -6.3% (-8.4% for the second quarter), influenced by the early introduction of new CO_2 emissions regulations in China (China VI).

The New Premium segment (tyres with a rim diameter ≥18 inches) was the segment with the highest growth, with +4.5% at global level, driven by a good performance by the Replacement channel (+10.1% for the first half-year, +9.1% for the second quarter) in all markets, while the Original Equipment channel registered a decline of -2.0% (-2.6% for the second quarter) mainly in EMEA (-2.7%, -5.1% for the second quarter), APAC (-2.2%, -3.6% for the second quarter) and North America (-1.6%, -0.2% for the second quarter).

The Standard segment (tyres with rim diameter ≤17 inches) declined by -3.1% for the first half-year of 2019 (-3.3% for the second quarter) with Original Equipment down by -8.9% (-10.3% for the second quarter), particularly in EMEA (-11.9%), APAC (-9.8%) and North America (-4.0%), with the Replacement channel at -0.8% (-0.7% for the second quarter), and negative results in Russia (-7.7%), South America (-5.2%) and EMEA (-3.3%).

SIGNIFICANT EVENTS OF THE FIRST HALF-YEAR OF 2019

On **April 8, 2019** a judgement which became final (res judicata) was passed by the Regional Federal Court of the 1st Region (TRF-1 with registered office in Brasilia, Federal District) which recognised the right of the Brazilian subsidiary Pirelli Pneus Ltda to exclude the ICMS tax (State Tax on Operations levied on the delivery of goods and interstate and inter-municipal transport and communication services) from the calculation basis of the PIS and COFINS social contributions for the period 2003-2014.

Following this ruling, as was disclosed to the market on **April 1, 2019**, during the second quarter a positive impact on the net income of approximately euro 102 million was recognised in the Income Statement.

On **May 13, 2019** Pirelli announced the reorganisation of its production facilities in Brazil in order to improve its competitiveness in the country, through the creation of a technology hub for High Value Car, Motorsport and Motorcycle tyres at Campinas, to where the production of Motorcycle tyres currently produced at Gravataì will be transferred. An investment plan of euro 120 million is planned for the 2019-2021 period for the modernisation and conversion of production installations from Standard to High Value, plus the continuous improvement of the mix and quality in the Campinas manufacturing plants (Sào Paolo), and Feira de Santana (Bahia). The resources for this reorganisation derive mainly from the signing of the Patent Box tax agreement which took place in October 2018, and which as previously expected, were destined to the further focusing on the High Value segment and to the more rapid reduction of the Standard segment. The optimisation of Campinas will allow for the recruitment of approximately 300 people by 2022. During the period of transfer of production from Gravataì to Campinas, the objective is to find agreement with the unions so that all measures can be taken to mitigate the social impacts on the Gravataì plant, which employed approximately 900 people on the announcement date.

On **May 15, 2019**, the Pirelli & C. S.p.A. Shareholders' Meeting - convened as an ordinary session - approved the 2018 Financial Statements, as well as the distribution of a dividend of euro 0.177 per ordinary share, equal to a dividend amount of euro 177 million. The Shareholders' Meeting also confirmed Ning Gaoning - already co-opted by the Board on August 7, 2018 - for the position of Director and Chairman of the Board of Directors. Ning Gaoning, who declared that he did not possess the requisites to qualify as an independent, was qualified by the Board as a non-executive Director, a mandate which will expire together with the current Board of Directors at the time of the approval of the financial statements at December 31, 2019. The Shareholders’ Meeting also expressed its favourable opinion on the Remuneration Policy.

GROUP PERFORMANCE AND RESULTS

In this document, in addition to the financial measures 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.

* * *

This Half-Year Financial Report at June 30, 2019 has been prepared by applying the new accounting standard IFRS 16 – Leases, which came into force as of January 1, 2019 (transition date).

Following the application of this standard, at the transition date the Group accounted for the following impacts in relation to lease contracts previously classified as operating:

- a financial liability of euro 494.3 million, equal to the present value of residual future payments at the transition date, discounted using the incremental borrowing rate applicable at the transition date for each contract. Financial liabilities at June 30, 2019 amounted to euro 469.8 million;

- a right of use included under assets of euro 491.7 million, equal to the value of the financial liability at the transition date, net of any accruals and deferrals relative to the lease and recognised in the Statement of Financial Position at the transition date. The right of use at June 30, 2019 amounted to euro 458.9 million.

As of January 1, 2019, lease payments previously included in the EBITDA have been recognised as a reduction of lease obligations (for the capital portion), and under financial expenses (for the interest portion). At the same time, the amortisation of the rights of use of lease assets which had initially been recognised under assets in the Statement of Financial Position in respect of lease obligations, were recognised in the EBIT.

The Income Statement, Statement of Financial Position and Financial Statement figures at June 30, 2019 include the impacts deriving from the application of the new standard, while the comparative data for 2018 have not been restated. With the transition, the Group did in fact adopt the modified retrospective method, and has recognised the cumulated effects deriving from the first application at January 1, 2019.

* * *

During the first half-year of 2019, the tyre sector was affected by the slowdown in market demand for the Original Equipment channel, where the decline in vehicle production (-6.7% during the first half-year, -7.5% during the second quarter) led to a drop in tyre sales of -7.3% (-8.5% for the second quarter). In order to guarantee an adequate level of saturation in the manufacturing plants and contain the formation of inventories, many operators in the sector redirected production originally planned for the Original Equipment channel to the Replacement market, with a consequent impact on prices. These reductions mainly affected the Standard segment and High Value products with a lower technological content.

Given this context, Pirelli continued its strategy of focusing on the High Value segment which is less exposed to competitive pressure, and strengthening its presence on the Specialties ≥18" market whose products are characterised by a high technological content. The company also intensified its cost reduction plan in the second quarter, in order to contain the impact of weak demand for High Value products on the Original Equipment channel, and pressure on prices.

Pirelli's results for the first half-year of 2019 were characterised by:

- revenues of euro 2,654.8 million, a growth of +0.9% (+1.4% excluding the exchange rate impact), marked by the strengthening of the high-end products range (a +6.2% growth in High Value revenue which accounted for approximately 67.3% of total sales), and by the continuation of the reduction of the Standard segment (-8.4%);
- EBIT adjusted which equalled euro 440.5 million (euro 450.1 million for the first half-year of 2018) with a margin equal to 16.6% (17.1% for the first half-year of 2018). Internal levers (price/mix, efficiencies, cost rationalisation) contributed in containing the impacts of the external scenario (exchange rate volatility, increase in the cost of production factors, weakness in market demand and the pressure on prices);
- net income related to continuing operations which amounted to euro 307 million, an increase of +68.8% compared to euro 181.9 million for the first half-year of 2018. This result benefitted from the recognition of tax credits in Brazil;
- a Net Financial Position which was negative at euro 4,491.8 million. Excluding lease obligations of euro 469.8 million which were recorded following the introduction of IFRS 16, the net financial position equalled euro 4,022.0 million (euro 3,180.1 million at December 31, 2018), impacted by the usual seasonality of working capital and the payment of dividends amounting to euro 177 million. During the half-year, net cash flow before dividends, extraordinary transactions and investments improved (euro -623.1 million compared to euro -829.7 million at June 30, 2018) with cash absorption lower by euro 206.6 million. During the second quarter the generation of net cash flow was positive to the amount of euro 72.6 million, a marked improvement compared to the second quarter of 2018 (positive at euro 32.5 million) thanks to the management of working capital.

The main actions underlying these results can be summarised as follows:

- **strengthening of the High Value segment** which represented 67.3% of revenues (up +3.3 percentage points compared to 64.0% for the first half-year of 2018). High Value volumes recorded a growth of +3.9% impacted mainly by the fall in Car tyre production. Given this market environment, Pirelli did in any case improve its market share for the Replacement channel for the Car New Premium segment (Pirelli’s sales volumes grew by +13.1% for Car tyres ≥18” compared to the +10.1% growth of the market) while the trend for New Premium Original Equipment (-3.4%) reflected, in addition to the mentioned market slowdown (-2%), an unfavourable year-on-year basis of comparison (a volume growth of +23.1% for the first half-year of 2018 led by Europe and the doubling of sales volumes in APAC), as well as Pirelli's decision to adopt an even more selective and value-oriented policy for some supplies for the Original Equipment channel to protect profitability;
- **reduction of exposure to the Standard segment** with a -13.9% decline in volumes driven by the progressive exit from products with lower rim diameters and lower profitability, given the general slowdown of the Standard market.

  The combination of High Value and Standard segment performances resulted in an overall change in volumes of -5%;
- **improvement of the price/mix component**: +6.4% for the first half-year of 2019 due to the increasing share of high-end range products and the continued improvement of the product mix and channels;
- **implementation of the efficiencies program**: (euro 36,1 million for the first half-year of 2019, equal to 1.4% of revenues, with the target for the year set at euro 70 million), which offset cost inflation (euro -34,9 million for the first half-year). These programs involved product and industrial activities ranging from the optimisation of raw materials costs and the simplification of products to improved productivity, thanks to the increasing digitalisation of processes;
- **strengthened cost recovery**: (euro 17 million during the second quarter, euro 13 million during the first quarter, mainly for marketing and advertising costs, consultancy fees and general and administrative expenses) in response to the slowing market demand for Car Original Equipment and to the pressure on prices.

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

(in millions of euro)		**1H 2019**	**1H 2018**
Net sales		**2,654.8**	**2,630.3**
EBITDA adjusted without start-up costs (°)		**657.5**	**608.3**
% of net sales		24.8%	23.1%
EBITDA adjusted (°°)		**636.1**	**587.9**
% of net sales		24.0%	22.4%
EBITDA (°°°)		**677.9**	**572.8**
% of net sales		25.5%	21.8%
EBIT adjusted without start-up costs (°)		**462.4**	**473.3**
% of net sales		17.4%	18.0%
EBIT adjusted		**440.5**	**450.1**
% of net sales		16.6%	17.1%
Adjustment:	- amortisation of intangible assets included in PPA	(57.3)	(57.3)
	- non-recurring, restructuring expenses and other	(30.0)	(15.1)
	- income from Brazilian tax credits	71.8	-
EBIT		**425.0**	**377.7**
% of net sales		16.0%	14.4%
Net income/(loss) from equity investments		2.1	(4.5)
Financial income/(expenses) (°°°)		(10.0)	(118.0)
- of which financial income from Brazilian tax credits		*99.8*	-
Net income/(loss) before tax		**417.1**	**255.2**
Tax expenses		(110.1)	(73.3)
Tax rate %		26.4%	28.7%
Net income/(loss) related to continuing operations		**307.0**	**181.9**
Eanings/(loss) per share related to continuing operations (in euro per share)		0.30	0.18
Net income/(loss) related to continuing operations adjusted		255.9	232.6
Net income/(loss) related to discontinued operations		-	(4.7)
Total net income/(loss)		**307.0**	**177.2**
Net income attributable to owners of the Parent Company		297.9	172.0

(°) Start-up costs refer to contribution to EBITDA and EBIT (amounting to euro 21.4 million (euro 20.4 million in first half of 2018) and euro 21.9 million (euro 23.2 million in first half 2018) respectively of the Cyber and Velo activities and costs sustained for the digital transformation of the Group.

(°°) Adjustments refer to non recurring and restructuring expenses amounting to euro 26.8 million (euro 6.5 million in first half of 2018), income from Brazilian tax credit amounting to euro 71.8 million and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018 amounting to euro 3.2 million (euro 8.6 million in first half of 2018)

(°°°) The item includes for 2019, the impacts deriving from the application of the new accounting standard IFRS 16 - Leases to the amount of euro 51.7 million on EBITDA and euro -12 million on financial expenses.

(in millions of euro)	**06/30/2019**	**12/31/2018**	**06/30/2018**
Fixed assets related to continuing operations without IFRS 16	9,016.3	9,017.8	8,881.2
Right of use IFRS 16	458.9	n/a	n/a
Fixed assets related to continuing operations	**9,475.2**	**9,017.8**	**8,881.2**
Inventories	1,165.1	1,128.5	983.3
Trade receivables	862.1	628.0	864.4
Trade payables	(1,200.3)	(1,604.7)	(1,052.2)
Operating working capital related to continuing operations	**826.9**	**151.8**	**795.5**
% of net sales (*)	15.6%	2.9%	15.1%
Other receivables/other payables	311.2	34.3	113.5
Net working capital related to continuing operations	**1,138.1**	**186.1**	**909.0**
% of net sales (*)	21.4%	3.6%	17.3%
Net invested capital held for sale	0.8	10.7	38.6
Net invested capital	**10,614.1**	**9,214.6**	**9,828.8**
Equity	**4,663.7**	**4,550.9**	**4,323.2**
Provisions	1,458.6	1,483.6	1,589.1
Net financial (liquidity)/debt position without IFRS 16	**4,022.0**	**3,180.1**	**3,916.5**
Lease obligations IFRS 16	469.8	n/a	n/a
Total Net financial (liquidity)/debt position	**4,491.8**	**3,180.1**	**3,916.5**
Equity attributable to owners of the Parent Company	4,577.5	4,468.1	4,242.9
Investments in property, plant and equipment and intangible assets without IFRS16	167.7	463.4	179.2
Investments in property, plant and equipment and intangible assets IFRS16	17.2	n/a	n/a
Research and development expenses	124.1	219.0	116.8
% of net sales	4.7%	4.2%	4.4%
Research and development expenses - High Value	114.6	202.9	106.8
% on sales High Value	6.4%	6.1%	6.3%
Employees (headcount at end of period)	31,599	31,489	31,526
Industrial sites (number)	19	19	19

(°) during interim periods net sales are annualised

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

(in millions of euro)		1 Q		2 Q		TOTAL 1 H	
		2019	**2018**	**2019**	**2018**	**2019**	**2018**
Net sales		**1,313.8**	1,310.3	**1,341.0**	1,320.0	**2,654.8**	2,630.3
	yoy	0.3%		1.6%		0.9%	
	*organic yoy **	1.2%		1.6%		1.4%	
EBITDA adjusted without start-up costs		**327.0**	298.0	**330.5**	310.3	**657.5**	608.3
	% of net sales	24.9%	22.7%	24.6%	23.5%	24.8%	23.1%
EBITDA adjusted		**315.6**	288.1	**320.5**	299.8	**636.1**	587.9
	% of net sales	24.0%	22.0%	23.9%	22.7%	24.0%	22.4%
EBITDA		**308.2**	282.4	**369.7**	290.4	**677.9**	572.8
	% of net sales	23.5%	21.6%	27.6%	22.0%	25.5%	21.8%
EBIT adjusted and without start-up costs		**230.7**	229.4	**231.7**	243.9	**462.4**	473.3
	% of net sales	17.6%	17.5%	17.3%	18.5%	17.4%	18.0%
EBIT adjusted		**219.2**	218.4	**221.3**	231.7	**440.5**	450.1
	% of net sales	16.7%	16.7%	16.5%	17.6%	16.6%	17.1%
Adjustment: - 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		(7.4)	(5.7)	(22.6)	(9.4)	(30.0)	(15.1)
- income from Brazilian tax credits		-	-	71.8	-	71.8	-
EBIT		**183.1**	184.0	**241.9**	193.7	**425.0**	377.7
	% of net sales	13.9%	14.0%	18.0%	14.7%	16.0%	14.4%

* before exchange rate effect and high inflation accounting in Argentina

Net sales amounted to euro 2,654.8 million and recorded an organic growth of +1.4% compared to the previous financial year, or +0.9% including the combined impact of the exchange rate effect and the adoption of hyper-inflation accounting in Argentina (totalling -0.5%).

High Value revenues for the first half-year of 2019 amounted to euro 1,787.6 million, a growth of +6.2% (+4.5% excluding the positive impact of the exchange rate effect of +1.7%) which accounted for 67.3% of turnover (+3.3 percentage points compared to the first half-year of 2018).

(in millions of euro)	**1H 2019**	% of total	**1H 2018**	% of total	Change YoY	Organic change YoY
High Value	1,787.6	67.3%	1,683.7	64.0%	6.2%	4.5%
Standard	867.2	32.7%	946.6	36.0%	-8.4%	-4.2%
Total net sales	**2,654.8**	**100.0%**	**2,630.3**	**100.0%**	**0.9%**	**1.4%**

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

	2019		
	1Q	**2Q**	**1H**
Volume	-6.5%	-3.5%	-5.0%
of which:			
- High Value	*4.5%*	*3.4%*	*3.9%*
- Standard	*-16.6%*	*-11.0%*	*-13.9%*
Price/mix	7.7%	5.1%	6.4%
Change on a like-for-like basis	**1.2%**	**1.6%**	**1.4%**
Translation effect/High inflation Argentina	-0.9%	-	-0.5%
Total change	**0.3%**	**1.6%**	**0.9%**

The performance for sales volumes (-5% for the first half-year of 2019, -3.5% for the second quarter) reflected the different trend between the High Value and Standard segments.

High Value volumes recorded a growth of +3.9%. Volume growth for Car tyres ≥18" was more sustained (+5.5% compared to +4.5% for the market), with an improvement in market share in the main geographic regions. For the Replacement channel in particular, Pirelli recorded a volume growth of +13.1% while the Original Equipment channel (-3.4% for the first half-year) was affected by:

- the fall in the production of Premium automobiles in Europe and China (respectively -7.3% and -6.3%) due to macroeconomic uncertainties and the early introduction of the new CO2 emissions regulations in China (China VI);
- an unfavourable year-on-year basis of comparison (a volume growth of +23.1% for the first half-year of 2018 led by Europe and the doubling of sales volumes in APAC);
- Pirelli's decision to adopt an even more selective and value-oriented policy for some supplies for the Original Equipment channel to protect profitability.

The delta between the growth performance of the High Value segment and that of Car tyres ≥18" was attributable to the weakening demand for Specialties ≤17” particularly on the Original Equipment channel, consistent with the fall in Car tyre production.

During the second quarter the growth of the High Value segment (+ 3.4%) reflected the decline in demand on the Original Equipment channel while for the Replacement channel Pirelli recorded double-digit growth, outperforming the market (+14.0% for Car tyres ≥18" compared to +9.1% for the market).

There was an opposite performance by the Standard segment which recorded a decline of -13.9% compared to the first half-year of 2018, (-11% for the second quarter). This trend was impacted by:

- on the one hand, by the fall in the demand for Standard products in all markets (global performance for the Standard Car segment recorded -3.1%, with -4.8% for LatAm, -5.1% for EMEA);
- on the other, by Pirelli's decision to continue the reduction in volumes of lower profitability products.

The price/mix improvement (+6.4% for the half-year) was the result of the implementation of Pirelli's value strategy, supported by the growing turnover share of High Value products and by the improvement in the mix for the Standard segment. Price/mix performance was more contained for the second quarter (+5.1%) and was affected by:

- a lesser reduction in Standard volumes compared to the first quarter (-11% compared to -16.6% for the first quarter);
- the increase in competitive pressure on prices, which was more contained for the High Value segment thanks also to its high exposure to the *Specialties* segment.

The exchange rate performance was negative (-0.5%) due to the volatility of exchange rates in emerging countries versus the euro, mitigated by the revaluation of the US Dollar and the adoption of high inflation accounting in Argentina.

With the objective of accelerating the implementation of the business model focused on the High Value segment, during this period Pirelli had adopted a new organisational model at regional level, composed of five regions instead of six.

In addition to APAC, North America (previously called NAFTA) and LatAm, two new macro geographic regions were created:

- EMEA, which includes Europe, the Middle East and Africa. Gulf countries fall under this area, that is, markets with increasing exposure to the High Value segment;
- Russia and Nordics, which are markets with high similarities. The objective is to create a productive and commercial synergy, particularly for *Winter* products.

The apportionment of **net sales by geographic region** was composed as follows:

	1H 2019				1H 2018 **
	Euro\mln	*%*	*yoy*	*Organic Yoy**	*%*
EMEA	1,166.7	43.9%	*-3.8%*	*-3.2%*	46.1%
North America	544.0	20.5%	*11.7%*	*4.6%*	18.5%
APAC	461.7	17.4%	*5.4%*	*4.2%*	16.7%
South America	345.2	13.0%	*-2.7%*	*8.6%*	13.5%
Russia and Nordics	137.2	5.2%	*-0.2%*	*2.5%*	5.2%
Total	**2,654.8**	**100.0%**	***0.9%***	***1.4%***	**100.0%**

* before exchange rate effect and high inflation accounting in Argentina
**data for 2018 have been restated according to the new regional aggregation

EMEA (43.9% of sales) closed the first half-year with an organic revenue change of -3.2% (-3.8% including the negative exchange rate effect of -0.6 percentage points), impacted by the fall in Premium Car production in Europe during the first half-year (-7.3%).

Given this context, Pirelli consolidated its market share both for the Original Equipment channel for Car tyres ≥18”, thanks to a diversified homologations portfolio, and for the Replacement channel thanks to the pull-through effect.

The performance of Car Specialties ≤17" was instead negative, impacted by the fall in motor vehicle production in Europe.

High Value revenues recorded an organic growth of +0.6%, impacted by the weakness of the Original Equipment channel and greater competitive pressure on Replacement channel prices.

There was the continued reduction of exposure to the less profitable products of the Standard segment. This segment recorded an organic decline in revenues of -12.7%.

Profitability was in the mid-teens range and had declined compared to the first half-year of 2018, due to the impact of the previously mentioned slowdown on the Original Equipment channel.

North America (20.5% of sales) recorded an organic revenue growth of +4.6% (+11.7% including the positive exchange rate effect of +7.1 percentage points) driven by the High Value segment (an organic growth of +7.2%), where Pirelli recorded an increase in market share thanks to the success of *Specialties* tyres ≥18’’ and *All Season* products.

Profitability (EBIT margin adjusted) improved by more than +2 percentage points to the twenties level (high-teens for the first half-year of 2018), thanks to the high-end range’s increasing share of turnover, to cost efficiencies efforts, and to the progressive strengthening of the US Dollar.

APAC (17.4% of sales) which recorded an organic revenue growth of +4.2% (+5.4% including the positive exchange rate effect of 1.2 percentage points) was the geographic region with the highest growth and profitability (an EBIT margin adjusted in the twenties range), representing an improvement compared to the previous financial year. The performance of High Value revenues (a +4.9% organic growth) was affected by the decline in Original Equipment sales due to the slowdown in Premium vehicle production (-6.3% in China); sales, on the other hand, improved significantly for the Replacement channel, with an increase in market share for Car ≥18" rim diameter tyres, thanks to the pull-through effect, and to an ever wider commercial presence which counts over 4,500 points of sale.

Sales for the Standard segment grew with an organic change of +1.7% (+2.6% including the exchange rate effect which was positive at +0.9 percentage points), thanks to the recovery in the Replacement market for ≥17" rim diameter tyres.

South America (13.0% of sales) recorded an organic revenue growth of +8.6% (-2.7% including the exchange rate effect, and the adoption of inflation accounting in Argentina which totalled a negative -11.3%), mainly due to a drop in volumes of -11.5% as a result of:

- market weakness (-4.4% for the total car market, -4.8% for the Replacement channel and -2.9% for the Original Equipment market);
- the continued focus on mix, with the reduction in sales of less profitable Standard segment products with lower rim diameters;
- the allocation of a portion of production for export to North America in view of the growing demand for High Value Pirelli products, and the continued growth of the mix recorded by the Brazilian factories.

High Value revenues rose sharply (+38.5% excluding the exchange rate impact) with Pirelli gaining 4 percentage points and further strengthening its market leadership position.

The price/mix saw a marked improvement (+20.1% for the first half-year of 2019 compared to the corresponding period of 2018), thanks to the price increases implemented in Brazil during the fourth quarter of 2018, and to the strong improvement in the product mix.

Profitability (EBIT margin adjusted) in the high single-digits range had improved compared to the first half-year of 2018, due to continued efforts aimed at cost efficiencies and to the improvement and conversion of the mix.

Russia and Nordics (5.2% of sales) recorded an organic change in revenues of +2.5% (-0.2% including the negative exchange rate effect of -2.7 percentage points): he strategy of focusing on the most profitable segments and on market recovery favourably impacted the results of the half-year with an organic growth in High Value revenues of +34.1% (a +31.6% growth including the impact of the negative exchange rate effect of -2.5 percentage points), and an organic reduction in Standard revenues by -6.5% (-9.3% including the exchange rate effect).

There was a significant improvement in profitability compared to the first half-year of 2018 (an EBIT margin adjusted in the mid-teens range, compared to the mid-single-digit levels of 2018).

EBITDA adjusted without start-up costs at June 30, 2019 equalled euro 657.5 million, a growth of +8.1% compared to euro 608.3 million for the corresponding period of 2018. It includes a benefit of euro 51.7 million deriving from the application - as of January 1, 2019 - of the new accounting standard IFRS 16 which establishes a new method of accounting for lease contracts.

EBIT adjusted without start-up costs equalled euro 462.4 million (euro 473.3 million for the first half-year of 2018). The EBIT margin adjusted without start-up costs stood at 17.4% (18.0% for the first half-year of 2018).

EBIT adjusted equalled euro 440.5 million (euro 450.1 million for the first half-year of 2018) with a margin equal to 16.6% (17.1% for the first half-year of 2018) which was affected by the mentioned slowdown in demand for the Original Equipment channel and the consequent impact on prices. Internal levers (price/mix, efficiencies and the cost reduction program) contributed in containing the impacts of the external scenario (exchange rate volatility, increase in the cost of production factors, weakness in market demand and the pressure on prices).

In more detail:

- improvement in the price/mix (euro 100.6 million) contributed in reducing the impact deriving from the rise in the price of raw materials (euro -58.5 million), from exchange rate volatility (euro -4.7 million), as well as from the aforementioned fall in volumes (euro -56.9 million);
- industrial efficiencies (euro 36.1 million, 1.4% of revenues) offset cost inflation (euro -34.9 million);
- the cost reduction plan equal to euro 30 million (included under the item *"Depreciation and other costs"* aimed mainly at the general and administrative expenses, consultancy fees, and marketing and advertising costs for the Standard segment) contributed in offsetting the growing pressure on prices and in covering the higher costs associated with the development of the High Value segment;
- slightly lower start-up costs (an impact of euro -1.3 million on the EBIT, went from euro -23.2 million euro for the first half-year of 2018 to euro -21.9 million for the first half-year of 2019) and were mainly for the digital transformation of the Group and Cyber activities.

(in millions of euro)	**1 Q**	**2 Q**	**1 H**
2018 EBIT Adjusted	**218.4**	**231.7**	**450.1**
- Internal levers:			
Volumes	(37.7)	(19.2)	(56.9)
Price/mix	62.7	37.9	100.6
Amortisation, depreciation and other costs	3.4	5.3	8.7
Efficiencies	16.4	19.7	36.1
- External levers:			
Cost of production factors (commodities)	(27.0)	(31.5)	(58.5)
Cost of production factors (labour/energy/others)	(14.9)	(20.0)	(34.9)
Difference from foreign currency translation	(2.1)	(2.6)	(4.7)
Total change	**0.8**	**(10.4)**	**(9.6)**
2019 EBIT adjusted	**219.2**	**221.3**	**440.5**

EBIT which amounted to euro 425.0 million (compared to euro 377.7 million for the first half-year of 2018) included:

- the amortisation of intangible assets identified during the Purchase Price Allocation (PPA) of euro 57.3 million (consistent with the first half-year of 2018);
- non-recurring and restructuring expenses to the amount of euro 26.8 million, of which approximately euro 15 million was for the impairment of property, plant and equipment due to restructuring actions in Brazil and Italy during the course of the second quarter (euro 6.5 million for the first half-year of 2018), and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018 to the amount of euro 3.2 million (euro 8.6 million for the first half-year of 2018);
- income of euro 71.8 million due to the recognition of tax credits in Brazil, net of the associated legal expenses.

Income from equity investments was positive to the amount of euro 2.1 million (negative at euro 4.5 million for the first half-year of 2018) and mainly included dividends received to the amount of euro 1.7 million.

Net financial expenses equalled euro 10 million (euro 118 million at June 30, 2018). The amount includes the positive effect of euro 99.8 million, deriving from the recognition of tax credits in Brazil, and the negative impact of euro 12 million in lease expenses deriving from the application of the new accounting standard IFRS 16 - Leases. Excluding these effects, net financial expenses stood at euro 97.8 million for the first half-year of 2019, a decrease of euro 20.2 million compared with the first half-year of 2018 (net financial expenses of euro 118 million), mainly due to an improvement of euro 22 million in exchange rate losses. It should be noted that, during the course of 2018, most of these losses were incurred in Argentina, a country whose financial market is such that it did not allow adequate coverage for exchange risk exposure, and where the Group has therefore effectively intervened in order to mitigate the underlying risk.

The cost of debt year-on-year (last 12 months) which refers to expenses relative to the net financial debt of the Group without IFRS 16 stood at 2.97%, consistent with the figures recorded at December 31, 2018 (2.95%); the reduced exposure of the net financial debt to high interest rate currencies made it possible to offset the negative effects due, on the one hand, to the exit from the perimeter of net positive accounting effects (repricing of the debt and the make-whole option for the early repayment of the bond loan) during the first quarter of 2018, and on the other hand, to the increase in interest rates in Romania.

Tax expenses for the first half-year of 2019 amounted to euro 110.1 million against a net income before tax of euro 417.1 million, with a tax rate which at 26.4% was consistent with the expected tax rate for the 2019 financial year.

Net income related to continuing operations amounted to euro 307.0 million compared to earnings of euro 181.9 million for the first half-year of 2018. This result also benefitted from tax credits in Brazil of euro 102 million.

Net income related to continuing operations adjusted amounted to euro 255.9 million, compared to euro 232.6 million for the same period of 2018.

The following table shows the calculation for net income related to continuing operations adjusted:

(in millions of euro)	**1H**	
	2019	**2018**
Net income/(loss) related to continuing operations	**307.0**	**181.9**
Amortisation of intangible assets included in PPA	57.3	57.3
Non-recurring and restructuring expenses	26.8	6.5
Income from Brazilian tax credits	(71.8)	-
Retention plan	3.2	8.6
Financial income from Brazilian tax credits	(99.8)	-
Other net financial income	-	(3.0)
Tax	33.2	(18.7)
Net income/(loss) related to continuing operations adjusted	**255.9**	**232.6**

Net income related to discontinued operations for the first half-year of 2018 included the financial data of some of the residual Industrial activities in China and Argentina, whose separation was for the most part completed at the end of 2018.

Net income attributable to the owners of the Parent Company amounted to euro 297.9 million compared to the positive result of euro 172.0 million for the first half-year of 2018.

Equity went from euro 4,550.9 million at December 31, 2018 to euro 4,663.7 million at June 30, 2019.

Equity attributable to the owners of the Parent Company at June 30, 2019 amounted to euro 4,577.5 million compared to euro 4,468.1 million at December 31, 2018.

The change is shown in the table below:

(in millions of euro)	**Group**	**Non-controlling interests**	**Total**
Equity at 12/31/2018	**4,468.1**	**82.8**	**4,550.9**
Translation differences	1.5	3.2	4.7
Net income/(loss)	297.9	9.1	307.0
Actuarial gains/(losses) on employee benefits	(11.9)	-	(11.9)
Dividends approved/paid	(177.0)	(8.9)	(185.9)
High inflation accounting Argentina	17.2	-	17.2
Other	(18.3)	-	(18.3)
Total changes	**109.4**	**3.4**	**112.8**
Equity at 06/30/2019	**4,577.5**	**86.2**	**4,663.7**

The **Net Financial Position** was negative to the amount of euro 4,491.8 million (euro 4,022.0 million excluding lease obligations pursuant to IFRS 16 of euro 469.8 million), compared to euro 3,180.1 million at December 31, 2018. It was composed as follows:

(in millions of euro)	**06/30/2019**	**12/31/2018**
Current borrowings from banks and other financial institutions without IFRS 16	1,322.1	800.1
Current derivative financial instruments	34.4	53.5
Non-Current borrowings from banks and other financial institutions without IFRS 16	3,606.8	3,929.1
Non-Current derivative financial instruments	35.6	13.8
Lease obligations IFRS 16	469.8	-
Total gross debt	**5,468.7**	**4,796.5**
Cash and cash equivalents	(741.8)	(1,326.9)
Other financial assets at fair value through Income Statement	(12.8)	(27.2)
Current financial receivables and other assets**	(35.6)	(27.4)
Current derivative financial instruments	(54.5)	(91.2)
Net financial debt *	**4,624.0**	**3,323.8**
Non-Current derivative financial instruments	(17.6)	(20.1)
Non-current financial receivables and other assets**	(114.6)	(123.6)
Total net financial (liquidity)/debt position	**4,491.8**	**3,180.1**
Lease obligations IFRS 16	(469.8)	-
Total net financial (liquidity)/debt position without IFRS 16	**4,022.0**	**3,180.1**

* Pursuant to Consob Notice of July 28, 2006 and in compliance with ESMA/2013/319 Recommendations.
** The amount for "financial receivables and other assets" is reported net of the relative provision for impairment amounting to euro 9.1 million as at June 30, 2019 and 6.1 million as at December 31, 2018.

The **structure of gross debt** which amounted to euro 5,468.7 million, was as follows:

(in millions of euro)	**06/30/2019**	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")	2,114.7	397.1	-	1,717.6	-	-	-
Bond EURIBOR +0,70% - 2018/2020	199.2	-	199.2	-	-	-	-
Bond 1,375% - 2018/2023	547.8	-	-	-	547.8	-	-
Schuldschein	523.5	-	-	81.8	-	421.8	19.9
Bilateral long term borrowing	597.5	-	-	-	-	597.5	-
ISP short term borrowing	200.0	200.0	-	-	-	-	-
Other loans	816.2	759.0	14.5	38.4	3.6	0.7	-
Lease obligations IFRS 16	469.8	77.3	68.4	54.3	48.7	41.8	179.3
Total gross debt	**5,468.7**	**1,433.4**	**282.1**	**1,892.1**	**600.1**	**1,061.8**	**199.2**
		26.2%	*5.2%*	*34.6%*	*11.0%*	*19.4%*	*3.6%*

At June 30, 2019 the Group had a liquidity margin equal to euro 1,454.6 million composed of euro 700.0 million in the form of non-utilised committed credit facilities, and euro 741.8 million in cash and cash equivalents, in addition to financial assets at fair value through the Income Statement to the amount of euro 12.8 million.

The following table shows the reconciliation between the net financial position at December 31, 2018, not including the effects deriving from the application of IFRS 16, and the net financial position at June 30, 2019, which includes these effects:

(in millions of euro)	
Total net financial (liquidity)/debt position 12/31/2018	**3,180.1**
Net cash flow without IFRS 16	841.9
Total net financial (liquidity)/debt position 06/30/2019 without IFRS 16	**4,022.0**
Lease obligations IFRS 16 at transition date (01/01/2019)	494.3
Net cash flow from lease obligations IFRS 16	(24.5)
Total net financial (liquidity)/debt position 06/30/2019	**4,491.8**

Cash flows for the period, in terms of change in the net financial position, were negative to the amount of euro 817.4 million, (negative at euro 841.9 million without IFRS 16) and can be summarised as follows:

(in millions of euro)	1Q		2Q		1 H	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
EBIT adjusted	219.2	218.4	221.3	231.7	440.5	450.1
Amortisation and depreciation (excluding PPA amortisation)	96.5	69.7	99.1	68.1	195.6	137.8
Investments in property, plant and equipment and intangible assets without IFRS16	(78.0)	(85.3)	(89.7)	(93.9)	(167.7)	(179.2)
Investments in property, plant and equipment IFRS16	(3.2)	n.a.	(14.0)	n.a.	(17.2)	n.a.
Change in working capital/other	(836.0)	(928.8)	10.1	(68.9)	(825.9)	(997.7)
Operating net cash flow	**(601.5)**	**(726.0)**	**226.8**	**137.0**	**(374.7)**	**(589.0)**
Financial income/(expenses)	(48.1)	(55.2)	38.1	(62.8)	(10.0)	(118.0)
Reversal of financial income from tax credits in Brazil	-	-	(99.8)	-	(99.8)	-
Taxes paid	(30.1)	(31.1)	(45.9)	(36.2)	(76.0)	(67.3)
Cash Out for non-recurring and restructuring expenses/other	(16.0)	(38.2)	(17.9)	(11.9)	(33.9)	(50.1)
Other dividends paid	-	-	(8.9)	-	(8.9)	-
Differences from foreign currency translation/other	-	(11.7)	(19.8)	6.4	(19.8)	(5.3)
Net cash flow before dividends, extraordinary transactions and investments	**(695.7)**	**(862.2)**	**72.6**	**32.5**	**(623.1)**	**(829.7)**
Industrial reorganisation	-	5.3	-	(10.3)	-	(5.0)
Disposals/(Acquisition) of investments	(17.2)	136.5	(0.2)	0.2	(17.4)	136.7
Net cash flow before dividends paid by Parent Company	**(712.9)**	**(720.4)**	**72.4**	**22.4**	**(640.5)**	**(698.0)**
Dividends paid by Parent Company	-	-	(176.9)	-	(176.9)	-
Net cash flow (*)	**(712.9)**	**(720.4)**	**(104.5)**	**22.4**	**(817.4)**	**(698.0)**
Net cash flow without IFRS 16	(732.9)	-	(109.0)	-	(841.9)	-

* The 2019 items refers to the change in Net Financial Position calculated by including lease obligations starting at 01.01.2019 for leasing recorded due to the application of the new standard IFRS 16 - Leases

Net cash flow before dividends, extraordinary transactions and investments, which was negative to the amount of euro 623.1 million, had improved by euro 206.6 million compared to the same period of the previous year (negative to the amount of euro 829.7 million), thanks mainly to the management of operating cash flow.

More specifically, **operating net cash flow** for the first half-year of 2019 was negative to the amount of euro 374.7 million, but had improved by euro 214.3 million compared to the same period of 2018 (negative at euro 589.0 million), and reflected:

- investments without IFRS 16 to the amount of euro 167.7 million (euro 179.2 million for the first half-year of 2018; (investments of euro 184.9 million including euro 17.2 million deriving from the application of the new standard IFRS 16). These investments were primarily aimed at increasing High Value segment capacity in Europe and North America, at the strategic conversion of Standard segment capacity into High Value in Brazil, and at the continued improvement of the quality and mix in all manufacturing plants;

- cash absorption linked to the usual seasonality of working capital and other items which amounted to euro 825.9 million. This absorption resulted lower than the figures for the first half-year of 2018 (negative at euro 997.7 million), thanks also to the recovery actions for working capital announced at the time of the publication of the 2018 financial statements which continued during the second quarter, and which recorded a positive change in working capital to the amount of euro 10.1 million, an improvement of euro 79.0 million compared to the same period of the previous year (a negative change of euro 68.9 million).

During the first half-year of 2019 the performance of working capital and other items, in fact benefitted:

- from the continued improvement of payment conditions with suppliers; and,

- from recovery actions for trade receivables through the realignment of payment terms with the main dealers in Brazil, which had temporarily been extended to the end of 2018, due to the difficult market conditions.

Inventories in particular recorded a reduction in volume of -4% compared to the end of the previous year (a -2% reduction occurred at the end of March), with:

- a decline of -16% in Standard products, consistent with the recovery plan announced at the beginning of the year; and,

- a slight in increase of +6% in High Value products to ensure a better level of service to the end customer.

This improvement in the inventory mix and in the impact of the exchange rate effect led to a slight increase in the value of inventories.

Net cash flow before dividends paid by the Parent Company was negative to the amount of euro 640.5 million (negative at euro 698 million for the first half-year of 2018) and also included the impact of extraordinary transactions, and on investments carried out during the half-year (euro -17.4 million), mainly attributable to the recapitalisation of the Indonesian Joint Venture PT Evoluzione Tyres. During the first half-year of 2018, the impact on investments and extraordinary transactions had been positive to the amount of euro 131.7 million (mainly attributable to the disposal of the investment in Mediobanca).

Total net cash flow which included the distribution of dividends by the Parent Company amounting to euro 176.9 million, was negative at euro 817.4 million (negative at euro 698.0 million for the corresponding period of 2018).

OUTLOOK FOR 2019

Euro million	**2018**	**2019**
Revenues	5,194.5	+1.5%/+2.5%
Weight of High Value on revenues	*~64%*	*~67%*
Volumes	-3.1%	-2.5%/-2%
Volumes High Value	*+11%*	*+7.5%/+8%*
Volumes Standard	*-14%*	*12%/-11.5%*
Price/Mix	+6.8%	+4.5%/+5%
Exchange rates	-5.9%	~-0.5%
Ebit margin adjusted	18.4%	18%/19%
Start-up costs	48	~40
Net financial position/Ebitda Adjusted without start-up costs	2.49X	2.33X/2.20X 2.50X/2.37X incl. IFRS16
CapEx	463	~380

The performance of the tyre market in the first half saw greater weakness in Original Equipment demand compared with expectations and competitive pressure on prices, particularly in the Standard segment and High Value products with a lower level of technological content. These dynamics resulted in a revision of the market scenario and Pirelli's estimates for 2019.

The tyre market is expected to fall by 1.2% (previous indication "flat"), with the Standard segment's performance at -2% while New Premium (rim sizes ≥18 inches) is expected to grow by 6%, more contained than the previous indication (+7%) as a consequence of the slowdown of Original Equipment demand (0%/+1% compared with the previous estimate of +2%/+3%). On the other hand, the double-digit growth (~+10%) expected in New Premium Replacement is confirmed.

On the basis of this scenario, Pirelli has revised its expectations for 2019, providing a range for each indicator, the lower level of which is to be considered the floor in case of further deterioration of the external context.

Revenues are expected to grow by between 1.5% and 2.5% (previous indication between +3% and +4%) compared with 2018, underpinned by the strengthening of High Value (~67% of revenues confirmed).

Total volumes are expected to decline by between 2.5% and 2% (previous indication -1%) in the face of more cautious expectations regarding Original Equipment demand and the Standard segment in South America. High Value volumes are expected to grow by between 7.5% and 8% (previous indication above +9%), higher than the market's rate of growth, while Standard volumes are seen falling by between 12% and 11.5% (previous indication ~-11%).

The price/mix is expected to improve by between 4.5% and 5% (previous indication +5%/+5.5%) in consideration of the above mentioned competitive pricing pressure in the Standard segment and High Value with a lower level of technological content, as well as the diverse product and geographical mix, compared with previous indications.

Exchange rates estimated at ~-0.5% (previous guidance -1%/-0.5%).

The adjusted Ebit margin is expected at between 18% and 19% of revenues (previous indication ≥19%), supported by improved internal levers (price/mix and cost efficiencies) which limit the impact of the changed external context.

High Value as a percentage of Adjusted Ebit before start-up costs is expected to be ~85% (in line with previous indications and compared with around 83% in 2018).

The ratio of the Net Financial Position and Adjusted Ebitda before start-up costs is expected to be 2.33x/2.20x (2.49 at end 2018), 2.50x/2.37 including the impact of the adoption of the new IFRS16 accounting principle.

Investments at around 380 million euro (previous indication 400 million euro), consistent with the new market scenario.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE HALF-YEAR

There were no significant events subsequent the end of the half-year.

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 from operations, excluding the impact of investments;
- **EBITDA adjusted** is an alternative measure to the EBITDA which excludes non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil, and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBITDA adjusted without start-up costs**: is equal to the EBITDA adjusted but excludes the contribution to the EBITDA (start-up costs) of the *Cyber* and *Velo Activities* and costs sustained for the digital transformation of the Group. At december 31, 2018 start up costs included also the cost for the conversion of Aeolus brand car products;
- **EBITDA adjusted without start-up costs without IFRS 16**: is equal to the EBITDA adjusted without start-up costs but excludes the impact deriving from the application of the new accounting standard IFRS 16 – Leases;
- **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 arising from investment activities;
- **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 arising from investments, operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBITDA margin adjusted without start-up costs:** this is calculated by dividing the EBITDA adjusted without start-up costs by revenues from sales and services (net sales). This is an alternative measure to the EBITDA margin adjusted which excludes start-up costs;
- **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 from operations, including the impact arising from investments;
- **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, revenues and operating costs attributable to non-recurring and restructuring expenses, the

benefit derived from tax credits in Brazil and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;

- **EBIT adjusted without start-up costs:** is equal to the EBIT adjusted but excludes the contribution to the EBIT (start-up costs) of the *Cyber* and *Velo* Activities and costs sustained for the digital transformation of the Group. At december 31, 2018 start up costs included also the cost for the conversion of Aeolus brand car products;

- **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, but excludes the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;

- **EBIT margin adjusted without start-up costs:** this is calculated by dividing the EBIT adjusted without start-up costs by revenues from sales and services (net sales).

- **Net income/(loss) related to continuing operations adjusted:** this is calculated by excluding the following items from the net income/(loss) related to continuing operations;

    - the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;

    - non-recurring costs/income recognised under financial income and expenses;

    - non-recurring costs/income recognised as a tax item, 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"* and *"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 represent non-current assets included in the net invested capital;

- **Fixed assets related to continuing operations without IFRS 16**: this measure is calculated by excluding the rights of use detected following the application of the new standard IFRS 16 - Leases, from fixed assets related to continuing operations;

- **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 consists of the operating working capital and of other receivables and payables and derivative financial instruments not included in the net financial (liquidity)/debt position. The 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 related to continuing operations, (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;

- **Average net invested capital**: this measure consists of the average between the net invested capital at the beginning and end of the period, excluding investments in Associated companies and Joint Ventures, *"Other financial assets at fair value through other Comprehensive Income", "Other non-current financial assets at fair value through the Income Statement"* and the intangible assets relative to assets recognised as a consequence of Business Combinations. This measure is used to calculate the ROI;

- **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;

- **ROI**: this is calculated as the ratio between the EBIT adjusted and the average net invested capital. ROI is used as to measure the profitability of invested capital;

- **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 the 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 total net financial (liquidity)/debt position (included in the financial statements under current assets as *"Derivative financial instruments"*);

- **Net financial (liquidity)/debt position**: this measure represents the net financial debt less *"Non-current financial receivables"* (included in the financial statements under *"Other receivables"*) and non-current derivative financial instruments included in the net financial (liquidity)/debt position (included in the financial statements under non-current assets as *"Derivative financial instruments"*). Total net financial (liquidity)/debt position is an alternative measure to net financial debt which includes non-current financial assets;

- **Net financial (liquidity)/debt position without IFRS 16**: this measure is calculated by excluding lease obligations detected following the application of the new standard IFRS 16 – Leases from the net financial (liquidity)/debt position;

- **Net financial (liquidity)/debt position without IFRS 16 / EBITDA adjusted without start-up costs without IFRS 16**: this is calculated as the ratio between the net financial (liquidity)/debt position without IFRS 16 and the EBITDA adjusted without start-up costs without IFRS 1. It is used to measure the sustainability of debt;

- **CapEx (Capital Expenditures) or Investments in property, plant & equipment and intangible assets without IFRS 16**: these are calculated as the sum of investments (increases) in intangible assets and investments (increases) in property, plant and equipment, excluding the increases relative to the rights of use;

- **Investments in property, plant & equipment IFRS 16**: this is calculated as the increases relative to the rights of use detected during the application of the new standard IFRS 16 – Leases;

- **Impact of depreciation on investments**: is calculated by dividing the 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 property, plant and equipment.

OTHER INFORMATION

ROLE OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for the strategic guidance and supervision of the overall business activity of the Company, with the power to direct its administration as a whole, and with competence to take the most important decisions from a financial/strategic point of view, or which have a structural impact on operations, or are functional decisions, as regards the exercise of 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 Deputy Chairman and Chief Executive Officer are exclusively delegated the powers for the ordinary management of the Company and the Group as well as the power to propose to the Board of Directors the Business Plan and the Budget as well as any resolution concerning any strategic industrial partnerships or joint ventures to which Pirelli is a party.

The Board has internally instituted the following Committees with advisory 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 these financial statements 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 45.52% share of the capital and 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, that contain the provisions of the Shareholders' Agreements relative, amongst other things, regarding the corporate 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 Annual Report and other additional documents and information published in the *Governance and Investor Relations* section of the Company's website (www.pirelli.com).

WAIVER OF THE PUBLICATION OF INFORMATION DOCUMENTSs

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 OUTSIDE THE EUROPEAN UNION (NON-EU COMPANIES)

Pirelli & C. S.p.A. controls, directly or indirectly, companies based in countries outside the European Union (non-EU Companies) which are of particular significance pursuant to article 15 of CONSOB Regulation 20249 of December 28, 2007 concerning the regulation of the markets (*"Markets Regulation"*).

With reference to June 30, 2019, the non-EU Companies controlled, directly or indirectly by Pirelli & C. S.p.A. 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). Also pursuant to the same aforementioned regulations, the Company has in place specific and appropriate *"Group Operating Regulations"* which ensure the immediate, constant and full compliance with the provisions contained in the aforementioned CONSOB Regulation. In particular, the competent corporate departments ensure the timely and punctual identification and publication of significant non-EU companies in accordance with the provisions of the Market Regulations, and - with the necessary and appropriate collaboration of the companies involved - guarantee the collection of data and information and the verification of the circumstances referred to in Article 15, ensuring the availability of the information and data provided by the subsidiaries in the event of a request by CONSOB. There is also the provision for the regular flow of information in order to guarantee to the Board of Statutory Auditors that the Company carries out the requisite and appropriate verifications. Finally, the above *"Group Operating Regulations"*, in accordance with the regulatory provisions governs the availability to the public of the financial statements (the Statement of Financial Position and Income Statement) of the relevant non-EU companies subject to the preparation of the consolidated Financial Statements of Pirelli & C. S.p.A. It is therefore be noted that the Company acts in full compliance with the provisions of article 15 of the aforementioned CONSOB Regulation 16191 of December 28, 2007 and the conditions required by the same.

RELATED-PARTY TRANSACTIONS

As part of the new listing process initiated and completed during 2017, the Company's Board of Directors again approved the Procedure for Related Party Transactions (*"the OPC Procedure"*). Subsequently, following the renewal of the Board of Directors and the establishment of the Committee for Related Party Transactions (*"OPC Committee"*), the OPC Procedure was adopted, without any modification, following the unanimous favourable opinion expressed by the members of the OPC Committee and also by the current Board of Directors. The OPC Procedure can be consulted, together with the other corporate governance procedures, in the section of the website at www.pirelli.com dedicated to corporate governance. For more details on the OPC Procedure, reference should be made to the section *“Directors' Interests and Related Party Transactions”* included in the Annual Report on corporate governance and ownership structure contained in the Annual Report 2018 group of documents.

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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 2019, that no transaction of significant importance as defined by article 3 paragraph 1, letter a) of the aforementioned Regulation was submitted to the Board of Directors of Pirelli & C. S.p.A. for approval. Furthermore, there were no Related Party Transactions - or changes or developments to the transactions described in the financial statements - that have had a significant impact on the financial position or results of the first half-year of 2019 of the Group. It should be noted that on February 14, 2019, the Company's Board of Directors approved the reshaping of some of the terms of the existing license agreements with the Prometeon Tyre Group S.r.l. and the Aeolus Tyre Co., Ltd. For a description of the aforementioned renegotiations and the financial effects of the same (attributable in part to the 2018 financial year) reference should be made to the relative sections of the 2018 financial statements, as well as to the disclosure documents on the aforementioned transactions published (on a prudent and voluntary basis) by the Company on February 20, 2019. The information on Related Party Transactions, as required by CONSOB Notice No. DEM/6064293 of July 28, 2006 is presented in the half-year Financial Statements and in the Note entitled *"Related Party Transactions"* in the condensed Half-Year Financial Statements at June 30, 2019. Related party transactions, carried out by the Company during the first half-year of 2019 were neither exceptional nor unusual, but were part of the ordinary course of business for companies of the Group and carried out in the interests of the individual companies. Such transactions, when not settled under standard conditions, or are dictated by specific regulatory conditions, are in any case regulated by conditions consistent with those of the market. Furthermore, their execution was carried out in compliance with the OPC Procedure.

EXCEPTIONAL AND/OR UNUSUAL OPERATIONS

Pursuant to CONSOB Notice No. 6064293 of July 28, 2006, it is specified that during the course of the first half-year of 2019, 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 1, 2019

HALF-YEAR REPORT ON CORPORATE GOVERNANCE

1. INTRODUCTION

Pirelli & C. S.p.A. ("**Pirelli**" or the "**Company**") adopts the traditional administration and control system. Pirelli's corporate governance system is based on: (i) the central role of the Board of Directors (made up of 15 Directors), which is responsible for strategic guidance and supervision of the overall business activities; (ii) the central role of the Independent Directors (who represent the majority of the Board); (iii) an effective system of internal controls; (iv) a proactive risk management system; (v) a general system of remuneration and an incentive system, in particular for managers linked to medium and long term economic objectives in order to align the interests of Management with those of the Shareholders, pursuing the priority objective of creating sustainable value in the medium to long term; (vi) solid principles of conduct for the execution of transactions with related parties. Pirelli is aware that an efficient corporate governance system aligned with international best practices is an essential element for achieving objectives related to creating sustainable value. Pirelli adheres to the Corporate Governance Code of Listed Companies[5]. The Company's governance system is formalised in the Code of Ethics, in the Articles of Association, in the Regulations for Shareholders' Meetings and in a series of principles and procedures, periodically updated according to national and international best practices.

The Company highlights the updates and additions made to its corporate governance system on a voluntary basis in the Half-year Financial Report, with respect to that contained in the Annual Financial Report.

(i) <u>Appointment of a Director and of the Chairman of the Board of Directors</u>

The ordinary shareholders' meeting held on 15 May 2019 approved, with approximately 87% of the capital represented at the meeting, the appointment of Ning Gaoning - already co-opted by the Board of Directors on 7 August 2018 pursuant to Article 2386, paragraph 1 of the Italian Civil Code - as Director and Chairman of the Board of Directors of the Company. The Chairman was also appointed by the Board as a member of the Appointments and Successions Committee, in continuity with the previous mandate.

Ning Gaoning's term will expire, together with the remaining Directors, at the Shareholders' Meeting that will be convened to approve the financial report as at 31 December 2019.

For the sake of completeness, it is reported that the current composition of the Board of Directors reflects the shareholders' agreements existing between the main Pirelli shareholders[6].

* * *

As of the date of this report, the Board of Directors of Pirelli is therefore made up of 15 Directors, the majority of whom are independent: Ning Gaoning (Chairman), Marco Tronchetti Provera (Executive Vice Chairman and Chief Executive Officer), Yang Xingqiang, Bai Xinping, Giorgio Luca Bruno, Laura Cioli (Independent Director), Domenico De Sole (Independent Director), Ze'ev Goldberg, Giovanni Lo Storto (Independent Director), Tao Haisu (Independent Director), Marisa Pappalardo

[5] Approved by the Committee for Corporate Governance established by business associations (ABI, ANIA, Assonime, Confindustria) and professional investors (Assogestioni), as well as by Borsa Italiana S.p.A. The adhesion took place with the Board of Directors' resolution adopted as part of the Company's relisting process that ended in October 2017. It should be noted that Pirelli has adhered to the Code since its first issue (October 1999) and that in the period from 26 February 2016 to 3 October 2017 the Company was not listed on the Stock Exchange.

[6] See the following link *https://corporate.pirelli.com/corporate/it-it/governance/patti*

(Independent Director), Cristina Scocchia (Independent Director), Giovanni Tronchetti Provera, Fan Xiaohua (Independent Director) and Wei Yintao (Independent Director).

(ii) Director in charge of sustainability matters

On 26 February 2019, the Board of Directors identified the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera as the director in charge of sustainability.

(iii) Remuneration Policy: consultation

At the aforementioned meeting of 15 May 2019, the Shareholders' Meeting was also called to resolve upon the Company's Remuneration Policy.

The establishment of this policy is the result of a clear and transparent process in which the Remuneration Committee and the Board of Directors of the Company play a central role. The policy, which was submitted to the Shareholders' Meeting for consultation, was drawn up on the basis of previous applicable experience and takes into account the regulatory requirements adopted by CONSOB (Italian Companies and Exchange Commission). Furthermore, the policy, based on the pay for performance principle, is defined so as to align the interests of Management with those of the Shareholders, by pursuing the priority objective of sustainable value creation in the medium to long term, via the creation of an effective and verifiable link between remuneration, on one hand, and Pirelli's performance on the other.

The Shareholders' Meeting voted in favour of the Remuneration Policy with approximately 79% of the capital represented at the Meeting.

(iv) <u>Gender diversity policies</u>

On 14 February 2019, the Board of Directors, with the approval of the Audit, Risks, Sustainability and Corporate Governance Committee and the Appointments and Successions Committee, adopted a Diversity and Independence Statement in relation to the composition of the Board itself and the Board of Statutory Auditors. This statement is available on the website: www.pirelli.com.

(v) <u>Limits on the number of offices held</u>

On 14 February 2019, the Board of Directors, with the favourable opinion of the Audit, Risks, Sustainability and Corporate Governance Committee and the Appointments and Successions Committee, resolved to reduce the maximum number of offices considered compatible with the position of director of the Company from five to four. This guidance is available on the website: www.pirelli.com.

The Board of Directors shall have the right to make a different and motivated assessment, which shall be made public in the Report and duly justified.

* * *

For further information on the Company's corporate governance system, please refer to the relevant section of the Pirelli website and the Report on corporate governance and ownership structure included in the Annual Report.

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS AT JUNE 30, 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(In thousands of euro)*

Note		06/30/2019	of which related parties (note 40)	12/31/2018	of which related parties (note 40)
6	Property, plant and equipment	3,593,594		3,092,927	
7	Intangible assets	5,725,627		5,783,338	
8	Investments in associates and J.V.	88,541		72,705	
9	Other financial assets at fair value through other comprehensive income	67,428		68,781	
10	Deferred tax assets	67,514		74,118	
12	Other receivables	403,039	*5,414*	225,707	*12,576*
13	Tax receivables	15,718		16,169	
24	Derivative financial instruments	17,630		20,134	
	Non-current assets	**9,979,091**		**9,353,879**	
14	Inventories	1,165,116		1,128,466	
11	Trade receivables	862,120	*33,530*	627,968	*15,667*
12	Other receivables	508,992	*62,366*	416,651	*55,418*
15	Other financial assets at fair value through income statement	12,792		27,196	
16	Cash and cash equivalents	741,767		1,326,900	
13	Tax receivables	46,389	-	41,393	-
24	Derivative financial instruments	59,085		98,567	
	Current assets	**3,396,261**		**3,667,141**	
36	**Assets held for sale**	**800**		**10,677**	
	Total Assets	**13,376,152**		**13,031,697**	
17.1	**Equity attributable to the owners of the Parent Company:**	**4,577,479**		**4,468,121**	
	Share capital	1,904,375		1,904,375	
	Reserves	2,375,187		2,132,140	
	Net income (loss)	297,917		431,606	
17.2	**Equity attributable to non-controlling interests:**	**86,235**		**82,806**	
	Reserves	77,161		72,040	
	Net income (loss)	9,074		10,766	
17	**Total Equity**	**4,663,714**		**4,550,927**	
20	Borrowings from banks and other financial institutions	3,999,285	*17,563*	3,929,079	-
22	Other payables	81,422		83,287	
18	Provisions for liabilities and charges	133,985		138,327	
10	Provisions for deferred tax liabilities	1,074,309		1,081,605	
19	Employee benefit obligations	219,330		224,312	
23	Tax payables	2,133		2,091	
24	Derivative financial instruments	35,556		16,039	
	Non-current liabilities	**5,546,020**		**5,474,740**	
20	Borrowings from banks and other financial institutions	1,399,308	*1,864*	800,145	-
21	Trade payables	1,200,344	*109,518*	1,604,677	*191,605*
22	Other payables	413,515	*10,592*	436,752	*7,436*
18	Provisions for liabilities and charges	30,340		33,876	
19	Employee benefit obligations	628		5,475	
23	Tax payables	81,896	-	65,503	-
24	Derivative financial instruments	40,387		59,602	
	Current liabilities	**3,166,418**		**3,006,030**	
	Total Liabilities and Equity	**13,376,152**		**13,031,697**	

CONSOLIDATED INCOME STATEMENT (In thousands of euro)

Note		01/01 - 06/30/2019	of which related parties (note 40)	01/01 - 06/30/2018	of which related parties (note 40)
26	**Revenues from sales and services**	**2,654,847**	*7,410*	**2,630,292**	*5,124*
27	Other income	281,666	*36,171*	223,769	*57,370*
	Changes in inventories of unfinished, semi-finished and finished products	50,510		59,418	
	Raw materials and consumables used (net of change in inventories)	(904,358)	*(1,719)*	(891,152)	*(11,709)*
28	Personnel expenses	(539,693)	*(6,574)*	(534,642)	*(12,290)*
29	Amortisation, depreciation and impairment	(268,211)		(195,107)	
30	Other costs	(844,270)	*(123,849)*	(909,582)	*(105,282)*
	- of which non-recurring events	-		*(1,039)*	
31	Net impairment loss on financial assets	(7,479)	-	(7,041)	
	Increase in fixed assets for internal work	1,985		1,742	
	Operating income (loss)	**424,997**		**377,697**	
32	Net income (loss) from equity investments	2,156		(4,529)	
	- share of net income (loss) of associates and j.v.	*(1,355)*	*(1,355)*	*(8,258)*	*(8,258)*
	- gains on equity investments	*1,787*		*4,007*	
	- losses on equity investments	-		*(874)*	
	- dividends	*1,724*		*596*	
33	Financial income	110,111	*260*	73,055	*2,214*
	- of which non-recurring events	-		*7,534*	
34	Financial expenses	(120,154)	*(487)*	(191,001)	*(29)*
	Net income (loss) before tax	**417,110**		**255,222**	
35	Tax	(110,119)		(73,250)	
	- of which non-recurring events	-		*(2,218)*	
	Net income (loss) from continuing operations	**306,991**		**181,972**	
36	Net income (loss) from discontinued operations	-	-	(4,742)	*(23,926)*
	Total net income (loss)	**306,991**		**177,230**	
	Attributable to:				
	Owners of the parent company	297,917		172,043	
	Non-controlling interests	9,074		5,187	
37	**Total earnings/(loss) per share (in euro per share)**	**0.298**		**0.172**	
	Earnings/(loss) per share related to continuing operations (in euro per share)	0.298		0.177	
	Earnings/(loss) per share related to discontinued operations (in euro per share)	-		(0.005)	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(In thousands of euro)*

		1/1 - 06/30/2019	1/1 - 06/30/2018
A	**Net income (loss) for the period**	**306,991**	**177,230**
Other components of comprehensive income:			
	B - Items that will not be reclassified to income statement:		
	- Net actuarial gains (losses) on employee benefits	(11,940)	57,123
	- Tax effect	621	(12,055)
	- Fair value adjustment of financial assets at fair value through other comprehensive income	(1,390)	(7,299)
	Total B	**(12,709)**	**37,769**
	C - Items reclassified / that will be reclassified to income statement:		
	Exchange differences from translation of foreign financial statements		
	- Gains / (losses) for the period	7,962	(52,742)
	- (Gains) / losses reclassified to income statement	(1,567)	-
	Fair value adjustment of derivatives designated as cash flow hedges:		
	- Gains / (losses) for the period	21,517	57,799
	- (Gains) / losses reclassified to income statement	(36,999)	(63,476)
	- Tax effect	3,917	915
	Cost of hedging		
	- Gains / (losses) for the period	(2,120)	16,332
	- (Gains) / losses reclassified to income statement	(3,371)	(3,353)
	- Tax effect	1,088	(1,136)
	Share of other comprehensive income related to associates and JVs net of tax	(1,700)	(3,150)
	Total C	**(11,273)**	**(48,811)**
D	**Total other comprehensive income (B+C)**	**(23,982)**	**(11,042)**
A+D	**Total comprehensive income (loss) for the period**	**283,009**	**166,188**
	Attributable to:		
	- Owners of the parent company	270,705	165,220
	- Non-controlling interests	12,304	968
	Attributable to owners of the parent company:		
	- Continuing operations	270,705	169,962
	- Discontinued operations	-	(4,742)
	Total attributable to owners of the parent company	**270,705**	**165,221**

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

(In thousands of euro)	Attributable to the Parent Company					Non controlling interests	Total
	Share Capital	Translation reserve	Total IAS Reserves *	Other reserves/ retained earnings	**Total attributable to the Parent Company**		
Total at 12/31/2018	**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**

(In thousands of euro)	Breakdown of IAS reserves *					
	Reserve for fair value adjustment of financial assets at fair value through other comprehensive income	Reserve for cost of hedging	Reserve for cash flow hedge	Reserve for actuarial gains/losses	Tax effect	**Total IAS reserves**
Total at 12/31/2018	**107**	**14,258**	**(25,705)**	**(30,381)**	**(24,993)**	**(66,714)**
Other components of comprehensive income	(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 CHANGES IN EQUITY AT 06/30/2018

(In thousands of euro)	Attributable to the Parent Company					Non controlling interests	Total
	Share Capital	Translation reserve	Total IAS Reserves *	Other reserves/ retained earnings	**Total attributable to the Parent Company**		
Total at 12/31/2017	**1,904,375**	**(220,624)**	**(70,265)**	**2,503,272**	**4,116,758**	**60,251**	**4,177,009**
Adoption of new accounting standard IFRS 9							
- Reclassification from available for sale financial assets to other financial assets at FV through income statement	-	-	(10,554)	10,554	-	-	-
- Change due to impairment of financial assets at amortised cost	-	-	-	(1,023)	(1,023)	-	(1,023)
Total at 01/01/2018	**1,904,375**	**(220,624)**	**(80,819)**	**2,512,803**	**4,115,735**	**60,251**	**4,175,986**
Other components of comprehensive income	-	(51,673)	44,850	-	(6,823)	(4,219)	(11,042)
Net income (loss) for the period	-	-	-	172,043	172,043	5,187	177,230
Total conprehensive income (loss)	**-**	**(51,673)**	**44,850**	**172,043**	**165,220**	**968**	**166,188**
Transactions with minorities	-	(619)	-	(35,726)	(36,345)	19,033	(17,312)
Other	-	-	(141)	(1,524)	(1,665)	42	(1,623)
Total at 06/30/2018	**1,904,375**	**(272,916)**	**(36,110)**	**2,647,596**	**4,242,945**	**80,294**	**4,323,238**

(In thousands of euro)	Breakdown of IAS reserves *						
	Reserve for fair value adjustment of available-for-sale financial assets	Reserve for fair value adjustment of financial assets at fair value through other comprehensive income	Reserve for cost of hedging	Reserve for cash flow hedge	Reserve for actuarial gains/losses	Tax effect	**Total IAS reserves**
Total at 12/31/2017	**19,410**	**-**	**-**	**(13,454)**	**(59,110)**	**(17,111)**	**(70,265)**
Adoption of new accounting standard IFRS 9	(19,410)	8,856	1,000	(1,000)	-	-	(10,554)
Total at 01/01/2018	**-**	**8,856**	**1,000**	**(14,454)**	**(59,110)**	**(17,111)**	**(80,819)**
Other components of comprehensive income	-	(7,299)	12,979	(5,677)	57,123	(12,276)	44,850
Other changes	**-**	**(109)**	**-**	**-**	**(42)**	10	(141)
Balance at 06/30/2018	**-**	**1,448**	**13,979**	**(20,131)**	**(2,029)**	**(29,377)**	**(36,110)**

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of euro)

		01/01 - 06/30/2019	of which related parties (note 40)	01/01 - 06/30/2018	of which related parties (note 40)
	Net income (loss) before taxes	417,110		255,223	
	Reversals of amortisation, depreciation, impairment losses and restatement of property, plant and equipment and intangible assets	268,211		195,107	
	Reversal of Financial expenses	120,154		191,001	
	Reversal of Financial income	(110,111)		(73,055)	
	Reversal of Dividends	(1,724)		(596)	
	Reversal of gains/(losses) on equity investments	(1,787)		(3,133)	
	Reversal of share of net income from associates and joint ventures	1,355		8,258	
	Taxes paid	(75,992)		(67,250)	
	Reversal of income on tax credits Brazil	(71,765)		-	
	Change in Inventories	(29,710)		(74,164)	
	Change in Trade receivables	(236,675)	*(17,863)*	(236,497)	*1,273*
	Change in Trade payables	(412,333)	*(82,087)*	(497,804)	*(51,583)*
	Change in Other receivables/Other payables	(88,841)	*24,185*	(169,750)	*(8,729)*
	Change in Provisions for employee benefit obligations and Other provisions	(32,601)		(7,159)	
	Other changes	(8,652)		(3,679)	
A	**Net cash flows provided by / (used in) operating activities**	**(263,361)**		**(483,498)**	
	Investments in property, plant and equipment	(164,340)		(176,747)	
	Change in payables for investments in property, plant and equipment	(33,825)		(51,431)	
	Disposal of property, plant and equipment/intangible assets	2,777		2,902	
	Investments in intangible assets	(3,379)		(2,497)	
	Disposals (Acquisition) of investments in subsidiaries	10,700		-	
	Acquisition of minorities	-		(18,492)	
	Repayment of share capital and reserves from associates	-		2,474	*2,474*
	Disposals (Acquisition) of investments in associates and JV	(8,925)	*(8,925)*	-	
	Disposals (Acquisition) of other non current financial assets at fair value through income statement - Other financial assets	-		152,808	
	Dividends received	1,724		596	
B	**Net cash flows provided by / (used in) investing activities**	**(195,268)**		**(90,387)**	
	Increase in equity	-		4,500	
	Change in Financial payables	175,776		283,182	
	Change in Financial receivables/Other current financial assets at fair value through income statement	(4,714)	*(20,815)*	(57,251)	
	Financial income / (expenses)	(52,600)		(134,270)	
	Dividends paid	(185,849)		-	
	Cash outflow for lease obligations	(53,308)	*(950)*	-	
C	**Net cash flows provided by / (used in) financing activities**	**(120,696)**		**96,161**	
D	**Net cash flows provided by (used in) discontinued operations**	**-**		**(5,342)**	*12,900*
E	**Total cash flows provided / (used) during the period (A+B+C+D)**	**(579,325)**		**(483,066)**	
F	**Cash and cash equivalents at the beginning of the financial year**	**1,303,852**		**1,109,640**	
G	**Exchange rate differences from translation of cash and cash equivalents**	4,377		(45,933)	
H	**Cash and cash equivalents at the end of the period (E+F+G) (°)**	**728,905**		**580,641**	

(°)	**of which:**			
	cash and cash equivalents	741,767		581,279
	bank overdrafts	(12,862)		(638)

EXPLANATORY NOTES

1. GENERAL INFORMATION

Pursuant to article 154 of Legislative Decree no. 58/1998, the Pirelli & C. Group has prepared the abbreviated 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 abbreviated consolidated half-year financial statements, and the annual financial statements at December 31, 2018.

These abbreviated 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 abbreviated consolidated half-year financial statements at June 30, 2019 of Pirelli & C. were approved by the Board of Directors on August 1, 2019.

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 consolidated half-year financial statements at June 30, 2019 consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Explanatory Notes, which are accompanied by the Half-Year Financial Report.

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

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

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

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

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

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

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

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

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

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

The 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, 2018, 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, 2019:

  IFRS 16 – Leases: the impacts deriving from the first application of this standard, which replaces the previous IAS 17, are described in note 3.3 Impacts deriving from the adoption of IFRS 16 – Leases.

  IFRIC 23 – uncertainty regarding the treatment of income taxes: there are no impacts on the Group financial statements due to the application of said interpretation;

  Amendments to IFRS 9 – financial instruments: *prepayment features with negative compensation* and amendments to financial liabilities: there are no impacts on the Group financial statements due to the application of said amendments;

  Amendments to IAS 28 – Investments in associates and joint ventures: Long-term interests in associates and joint ventures: there are no impacts on the Group financial statements due to the application of said amendments;

  Improvements to the 2015-2017 IFRS cycle (issued by the IASB in December 2017): there are no impacts on the Group financial statements;

  Amendments to IAS 19 Employee benefits: there are no impacts on the Group financial statements due to the application of said amendments.

- income taxes are recognised 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 Seasonality

We note seasonality factors with respect to trade receivables, which involve an increase in the values of the end of the half-year compared to the corresponding values 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.

3.3 Impacts deriving from the adoption of IFRS 16 – Leases

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

- a financial liability, equal to the present value of the future residual payments at the transition date, discounted using the incremental borrowing rate applicable at the transition date for each contract;
- a right of use equal to the value of the financial liability at the transition date, net of any accruals and deferrals relative to the lease and recognised in the Statement of Financial Position at the transition date.

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

(In millions of euro)	01/01/2019
NON CURRENT ASSET	
Property, property and equipment	
- Leased lands	16.2
- Leased buildings	376.1
- Leased plant and machinery	35.8
- Leased other assets	63.6
Total	**491.7**
CURRENT ASSET	
Other receivables	(1.0)
Total	**490.7**

(In millions of euro)	
NON CURRENT LIABILITIES	
Borrowings from banks and other financial institutions	420.7
Provision for liabilities and charges	2.5
CURRENT LIABILITIES	
Borrowings from banks and other financial institutions	73.6
Other payables	(6.1)
Total	**490.7**

The Group has chosen to apply the standard retrospectively, recording the effect deriving from the application of the standard under equity as at January 1, 2019 (modified retrospective method). The comparable data for the first half of 2018 was not subjected to restatement.

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

- the classification of contracts that expire within 12 months from the date of transition as a short-term leases. For these contracts, lease payments will be recorded in the income statement on a linear basis;

- with reference to the separation of non-lease components for cars, the Group decided not to separate them and not to account for them separately from the lease components. This component was considered together with the lease component to determine the financial liability of the lease and the related right of use;

- use of the information present at the transition date for the determination of the lease term, with particular reference to the exercise of extension and early closure options.

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

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

- the Group has decided not to apply IFRS 16 for contracts containing a lease that has an intangible asset as an underlying asset;

- the contract renewal clauses are considered for the purposes of determining the duration of the contract when the Group has the option of exercising them without the need to obtain the consent of the counterparty and when their exercise is deemed reasonably certain. In the case of clauses which provide for multiple renewals that can be exercised unilaterally by the Group, only the first extension period has been considered;

- the automatic renewal clauses in which both parties have the right to terminate the contract have not been considered for the purposes of determining the duration of the contract, as the ability to extend the duration of the same is not under the unilateral control of the Group and the penalties to which the lessor could be exposed to is not significant. However, in the event that the lessor is exposed to a significant penalty, the Group includes a renewal option in determining the duration of the contract. This assessment is also carried out considering the degree of customisation of the asset subject to leasing: if the customisation is high, the lessor may incur a significant penalty if opposing the renewal;

- early termination clauses in contracts: these clauses are not considered in determining the duration of the contract if they can only be exercised by the lessor or by both parties. If they are unilaterally exercised by the Group, specific assessments are contractually conducted (for example, the Group is already negotiating a new contract or has already given notice to the lessor).

The following table provides reconciliation between the future commitments of lease contracts, and the expected impact from the adoption of the IFRS 16 as of January 1, 2019:

(In million of euro)	
Minimum future payments due for non-cancellable operating leases 12/31/2018 (IAS 17)	**517.9**
Effects of extension option excercise	155.8
Short term contracts at 1/1/2019	(9.2)
Low value asset contracts	(12.1)
Service component	0.4
Finance lease liabilities at 31/12/2018	0.2
Discounting effects	(146.3)
Other	(12.4)
Finance liabilities for lease contracts at 1/1/2019 (IFRS 16)	**494.3**

IFRS 16 Leases – accounting policies adopted as of January 1, 2019

The changes to the accounting policies adopted by the Group compared to those applied at December 31, 2018 are shown below, as a result of the entry into force on January 1, 2019 of the new standard IFRS 16.

At the date on which the assets covered by the lease contract are available for use by the Group, lease contracts are accounted for as rights of use in non-current assets with a financial liability as a corresponding entry.

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

Rights of use and financial liabilities are initially valued at the current value of future payments.

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

- fixed payments
- variable payments based on an index or a rate
- exercise price of a redemption option, if the exercise of the option is considered reasonably certain
- payment of penalties to terminate the contract, if the exercise of the option to terminate the contract is considered reasonably certain
- optional payments after the non-cancellable period, if the extension of the contract beyond the non-cancellable period is considered reasonably certain.

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

Rights of use are valued at cost, which is composed of the following elements:

- initial amount of the financial liability
- payments made before the start of the contract net of lease incentives received
- ancillary charges directly attributable
- estimated reinstatement and dismantling costs.

The lease fees associated with the following types of lease contracts are recognised in the income statement on a linear basis for the duration of the respective contracts:

- contracts with a duration of less than 12 months for all asset classes;
- contracts for which the underlying asset is configured as a low-value asset, i.e. the unit value of the underlying assets does not exceed euro 8 thousand when new;
- contracts for which the payment of rights of use of the underlying asset varies based on changes of events and circumstances (not related to trend sales), unpredictable at the commencement date.

Low-value contracts mainly relate to the following categories of assets:

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

4. INFORMATION ON FAIR VALUE

4.1 Fair value measurement

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

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

The following table shows assets and liabilities carried at fair value at **June 30, 2019**, subdivided into the three levels as defined above:

(In thousands of euro)	**Note**	**Carrying amount at 06/30/2019**	**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	15	12,792	-	12,792	-
Current derivative financial instruments	24	25,948	-	25,948	-
Hedging derivative instruments:					
Current derivative financial instruments	24	33,137	-	33,137	-
Non current derivative financial instruments	24	17,630	-	17,630	-
Other financial assets at fair value through other comprehensive income					
Securities and shares		51,894	23,016	19,067	9,811
Investment funds		15,534	-	15,534	-
	9	67,428	23,016	34,601	9,811
TOTAL ASSETS		**156,934**	**23,016**	**124,107**	**9,811**
FINANCIAL LIABILITIES:					
Financial liabilities carried at fair value through Income Statement:					
Current derivative financial instruments	24	(40,387)	-	(40,387)	-
Hedging derivative instruments:					
Non current derivative financial instruments	24	(35,556)	-	(35,556)	-
TOTAL LIABILITIES		**(75,943)**		**(75,943)**	

The following table shows assets and liabilities carried at fair value at **December 31, 2018**, subdivided into the three levels as defined above:

(In thousands of euro)	Note	Carrying amount at 12/31/2018	Level 1	Level 2	Level 3
FINANCIAL ASSETS:					
Financial assets carried at fair value through Income Statement:					
Other current financial assets at fair value through income statement	15	27,196	-	27,196	-
Current derivative financial instruments	24	77,650	-	77,650	-
Hedging derivative instruments:					
Current derivative financial instruments	24	20,917	-	20,917	-
Non current derivative financial instruments	24	20,134	-	20,134	-
Other financial assets at fair value through other comprehensive income					
Securities and shares		53,207	28,448	15,604	9,155
Investment funds		15,574	-	15,574	-
	9	68,781	28,448	31,178	9,155
TOTAL ASSETS		**214,678**	**28,448**	**177,075**	**9,155**
FINANCIAL LIABILITIES:					
Financial liabilities carried at fair value through Income Statement:					
Current derivative financial instruments	24	(59,602)	-	(59,602)	-
Hedging derivative instruments:					
Non current derivative financial instruments	24	(16,039)	-	(16,039)	-
TOTAL LIABILITIES		**(75,641)**		**(75,641)**	

The following table shows the **changes in the financial assets that occurred in level 3 during the course of the first half of 2019**:

(In thousands of euro)	
Opening balance 01/01/2019	9,155
Translation differences	8
Fair value adjustments through other comprehensive income	619
Other changes	29
Closing balance 06/30/2019	**9,811**

These financial assets are mainly represented by equity investments in the European Institute of Oncology (euro 7,465 thousand) and Tlcom I LP (euro 192 thousand).

The **fair value adjustment in other components of the comprehensive income statement,** equal to a positive net value of euro 619 thousand, mainly refers to the adjustment of the value of the investment in Istituto Europeo di Oncologia.

In the half-year ended June 30, 2019, there were no transfers from level 1 to level 2 and vice versa, nor from level 3 to other levels and vice versa.

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

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

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

5. OPERATING SEGMENTS

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

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

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

With the aim of accelerating the implementation of the business model focused on High Value, in 2019, the Group adopted a new regional organisation consisting of five regions instead of six.

In addition to the APAC, North America (previously NAFTA) and Latam, two new macro geographical areas have been created:

- EMEA, which includes Europe, the Middle East and Africa. This area includes the Gulf countries, markets with increasing exposure to High Value;
- Russia and Nordics, markets with high similarities. The goal is to create productive and commercial synergies, particularly in the winter.

The 2018 comparative data were restated to adapt them to the new breakdown by geographical area.

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

(In thousands of euro)	**1/1 - 06/30/2019**	**1/1 - 06/30/2018**
EMEA	1,166,714	1,212,793
North America	544,030	486,971
Asia\Pacific (APAC)	461,703	438,000
South America	345,197	354,928
Russia & Nordics	137,203	137,600
TOTAL	**2,654,847**	**2,630,292**

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

(*in thousands of euro*)	**06/30/2019**		**12/31/2018**	
EMEA	5,702,807	61.19%	5,408,689	60.94%
Russia & Nordics	231,701	2.49%	172,618	1.94%
North America	460,048	4.94%	445,894	5.02%
South America	517,033	5.55%	466,441	5.25%
Asia/Pacific (APAC)	520,261	5.58%	495,761	5.59%
Non-current unallocated assets	1,887,371	20.25%	1,886,862	21.26%
Total	**9,319,221**	**100.00%**	**8,876,265**	**100.00%**

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

6. PROPERTY, PLANT AND EQUIPMENT

The composition was as follows:

(in thousands of euro)	06/30/2019	12/31/2018
Net Value	**3,593,594**	**3,092,927**
- Property, plant and equipment	3,134,674	3,092,685
- Rights of use	458,920	242

6.1 Property, plant and equipment

The composition and changes were as follows:

(in thousands of euro)	06/30/2019			12/31/2018		
	Gross Value	Accumulated Depreciation	Net Value	Gross Value	Accumulated Depreciation	Net Value
Land	190,250	-	**190,250**	189,026	-	**189,026**
Buildings	822,628	(117,109)	**705,519**	797,469	(100,222)	**697,247**
Plant and machinery	2,491,069	(561,333)	**1,929,736**	2,390,147	(484,789)	**1,905,358**
Industrial and trade equipment	477,312	(233,441)	**243,871**	436,827	(194,585)	**242,242**
Other assets	110,849	(45,551)	**65,298**	105,112	(46,300)	**58,812**
TOTAL	**4,092,108**	**(957,434)**	**3,134,674**	**3,918,581**	**(825,896)**	**3,092,685**

NET VALUE (in thousands of euro)	**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 **effect of inflation in Argentina** refers to the revaluation of the assets held by the Argentine company for the first half of 2019 as a result of the application of the accounting standard IAS 29 – Financial Reporting in Hyperinflationary Economies.

The item **increases**, totalling euro 164,340 thousand, were primarily aimed at increasing the capacity of the High Value segment in Europe and the NAFTA area, the strategic reconversion of the capacity of the Standard segment into High-Value in Brazil, and to the continuous improvement of the quality and mix in all manufacturing plants.

The ratio of investments for the first half of 2019 with amortisations was equal to 1.13, (1.34 in the same period 2018

Impairments refer to the impairment of property, plant and equipment for restructuring in Brazil and Italy in the second half.

Property, plant and equipment in progress at June 30, 2019 included in the single fixed asset categories amounted to euro 245,125 thousand (euro 227,302 thousand at December 31, 2018).

6.2 Rights of use

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

(in thousands of euro)	**06/30/2019**	**12/31/2018**
Right of use Land	15,852	-
Right of use Buildings	347,974	-
Right of use Plant and machinery	32,935	114
Right of use Other assets	62,159	128
Net value	**458,920**	**242**

The figures at December 31, 2018 relate to financial lease contracts based on IAS 17.

Increases in rights of use in the first half of 2019 amounted to euro 17,168 thousand.

At June 30, 2019, depreciation of rights of use recognised in the income statement and included in the item depreciation, amortisation and impairments (note 29) are as follows:

(In thousands of euro)	**1/1 - 06/30/2019**
Land	566
Bulding	30,522
Plant e machinery	3,814
Other	9,586
Total depreciation of rights of use	**44,488**

7. INTANGIBLE ASSETS

The composition and changes were as follows:

(In thousands of euro)	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 are broken down as follows:

- the Pirelli Brand (indefinite useful life) for an amount equal to euro 2,270,000 thousand. It should be noted that the evaluation of the useful life of brands is based on a series of factors including the competitive environment, market share, history of the brand, life cycles of the underlying product, operational plans and the macroeconomic environment of the countries in which the related products are sold. In particular, the useful life of the Pirelli Brand was assessed indefinitely on the basis of its history of over one hundred years of success (established in 1872) and the intention and ability of the Group to continue investing in order to support and maintain the brand;

- the Metzeler Brand (useful life of 20 years) equal to euro 54,158 thousand and included under the item Concessions, licenses and brands with definite useful life;

- Customer relationships (useful life of 10-20 years) equal to euro 325,718 thousand, which mainly include the value of commercial relationships both in the Original Equipment channel and in the Replacement channel;

- Technology that 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 1,080,742 thousand and euro 80,000 thousand respectively. The useful life of the product and process Technology was determined to be 20 years, while the useful life for In-Process R&D was 10 years;

- goodwill for euro 1,887,371 thousand, of which euro 1,877,363 recorded at the time of acquisition of the Group in September 2015. The residual portion refers to the goodwill provisionally determined as part of the acquisition of the company JMC Pneus Comercio Importação e Exportação Ltda., which took place during the fourth quarter of 2018.

With reference to goodwill, which for the purposes of the impairment test at December 31, 2018 was allocated to the “Consumer Activities” CGU (Cash Generating Unit), the company verified, in accordance with the provisions of IAS 36, the absence of impairment indicators at June 30, 2019.

8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

(In thousands of euro)	06/30/2019			12/31/2018		
	Associates	**JV**	**Total**	**Associates**	**JV**	**Total**
Opening balance	**8,419**	**64,286**	**72,705**	**12,529**	**4,951**	**17,480**
Increases	-	27,580	27,580	-	65,222	65,222
Distribution of dividends	(200)	-	(200)	(2,674)	-	(2,674)
Impairment	-	-	-	(874)	-	(874)
Share of net income (loss)	146	(1,501)	(1,355)	(274)	(11,286)	(11,560)
Share of other components recognised in Equity	-	(1,700)	(1,700)	-	(3,221)	(3,221)
Reclassification from provision for future risks and expenses	-	(8,620)	(8,620)	-	8,620	8,620
Other	131	-	131	(288)	-	(288)
Closing balance	**8,496**	**80,045**	**88,541**	**8,419**	**64,286**	**72,705**

8.1 Investments in associates

The item was composed as follows:

(In thousands of euro)	**12/31/2018**	**Distrib. of dividends and reserves**	**Share of net income (loss)**	**Reclass. and other**	**06/30/2019**
Eurostazioni S.p.A.	**6,395**	-	-	-	**6,395**
Joint Stock Company Kirov Tyre Plant	**1,185**	-	45	129	**1,359**
Other Group companies	**839**	(200)	101	2	**742**
Total associates	**8,419**	**(200)**	**146**	**131**	**8,496**

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

8.2 Investments in joint ventures

The item was composed as follows:

(In thousands of euro)	**12/31/2018**	**Increases**	**Share of net income (loss)**	**Share of other components recognised in Equity**	**Reclassification from provision for future risks and expenses**	**06/30/2019**
PT Evoluzione Tyres	**-**	27,580	478	(1,700)	(8,620)	**17,738**
Xushen Tyre (Shanghai) Co, Ltd	**64,286**	-	(1,979)	-	-	**62,307**
Total joint ventures	**64,286**	**27,580**	**(1,501)**	**(1,700)**	**(8,620)**	**80,045**

The Group holds:

- an investment of 63.04% (60% ownership at December 31, 2018) in PT Evoluzione Tyres, an entity which operates in Indonesia and is active in 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.

- a 49% stake 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 finalised 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 **increases** refer to the effects of the recapitalisation operation of the Indonesian JV completed in the first half of the year through the conversion, by Pirelli Tyre S.p.A., of the Group loans outstanding at December 31, 2018 for euro 18,656 thousand and a further capital contribution for euro 8,925 thousand.

The **share of net income (loss),** negative for euro 1,501 thousand mainly refers, for euro 1,979 million, to the pro-rata portion of the loss relating to the first half of 2019 of the joint venture Xushen Tyre (Shanghai) Co, Ltd.

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

9. 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 67,428 thousand and were as follows:

(In thousands of euro)	**06/30/2019**
Opening balance other financial assets at FV through other comprehensive income FVOCI (IFRS 9) at 01/01/2018	**68,781**
Translation differences	(1)
FV adjustment through other comprehensive income	(1,390)
Other	38
Closing balance 12/31/2018	**67,428**

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

(In thousands of euro)	**06/30/2019**
RCS Mediagroup S.p.A.	23,016
Total listed securities	**23,016**
Fin. Priv. S.r.l.	19,067
Fondo Anastasia	15,534
Istituto Europeo di Oncologia S.r.l.	7,465
Euroqube	10
Tlcom I LP	192
Other companies	2,144
Total unlisted securities	**44,412**
Total other financial assets at FV through other comprehensive income	**67,428**

The **fair value adjustment in other components of the comprehensive income statement,** equal to a negative net value of euro 1,390 thousand, mainly refers to RCS MediaGroup S.p.A. (negative for euro 5,433 thousand), Fin.Priv (positive for euro 3,463 thousand) and Istituto Europeo di Oncologia (positive for euro 504 thousand).

The fair value of listed securities corresponds to the stock market price at June 30, 2019. The fair value of unlisted securities was determined by making estimates on the basis of the best information available.

10. DEFERRED TAX ASSETS AND PROVISION FOR DEFERRED TAX LIABILITIES

Their composition is as follows:

(In thousands of euro)	**06/30/2019**	**12/31/2018**
Deferred tax assets	67,514	74,118
Provision for deferred tax liabilities	(1,074,309)	(1,081,605)
Total	**(1,006,795)**	**(1,007,487)**

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

The tax effect of gains and losses recognised directly in equity was positive for euro 5,626 thousand (negative for euro 12,276 thousand in the first half of 2018) 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.

11. TRADE RECEIVABLES

Trade receivables were analysed as follows:

(In thousands of euro)	**06/30/2019**			**12/31/2018**		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Trade receivables	924,565	-	924,565	685,090	-	685,090
Provision for bad debts	(62,445)	-	(62,445)	(57,122)	-	(57,122)
TOTAL	**862,120**	**-**	**862,120**	**627,968**	**-**	**627,968**

The increase compared to December 31, 2018 is due to the usual seasonal trend, which leads to an increase in values at the end of the first half compared to the corresponding values at year-end.

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

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

12. OTHER RECEIVABLES

Other receivables were analysed as follows:

(In thousands of euro)	06/30/2019			12/31/2018		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Financial receivables	159,170	119,246	39,924	156,952	124,048	32,904
Trade accruals and deferrals	48,548	9,245	39,303	32,837	8,907	23,930
Receivables from employees	17,317	981	16,336	6,625	1,059	5,566
Receivables from social security and welfare institutions	7,226	-	7,226	2,537	-	2,537
Receivables from tax authorities not related to income taxes	519,837	224,662	295,175	306,253	42,021	264,232
Other receivables	169,338	53,528	115,810	152,477	50,173	102,304
	921,436	**407,662**	**513,774**	**657,681**	**226,208**	**431,473**
Provision for bad debts	(9,405)	(4,623)	(4,782)	(15,323)	(501)	(14,822)
TOTAL	**912,031**	**403,039**	**508,992**	**642,358**	**225,707**	**416,651**

The item **non-current financial receivables** (euro 119,246 thousand) refers mainly to euro 63,569 thousand in sums deposited as guarantees for tax and legal disputes in relation to the subsidiary Pirelli Pneus Ltda (Brazil) and remunerated at market rates, to euro 18,181 thousand in sums deposited into escrow accounts in favour of the pension funds of Pirelli UK Ltd and Pirelli UK Tyres Ltd, to euro 13,768 thousand in contributions paid in cash at the time of signing an association in participation contract, to euro 5,414 thousand for the loan disbursed to the Indonesian Joint Venture PT Evoluzione Tyres.

Current financial receivables (euro 39,924 thousand) refer for euro 15,344 thousand to the short-term portion of loans granted to JV Jining Shenzhou Tyre Co, Ltd and for euro 9,725 thousand to accruals on cross currency interest swaps derivative contracts relating to the unsecured Facilities syndicated loan to Pirelli International Plc.

The **provision for the impairment of other receivables and financial receivables** (euro 9,405 thousand) mainly includes euro 9,054 thousand relating to impairments of financial receivables.

The item **receivables from tax authorities not related to income taxes** (euro 519.837 thousand) is mainly comprised of receivables for VAT (value added tax) and other indirect taxes. The increase at December 31, 2018 was mainly attributable to a receivable from the Brazilian tax authorities for a total of euro 208,012 thousand (euro 23,121 thousand at December 31, 2018), recorded following the obtainment of favorable judgments no longer subject to appeal and formally res judicata (res judicata) by the Federal Regional Courts based in Brasilia and San Paolo that recognised the right to exclude 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 social contributions PIS (Programa de Integracao Social) and COFINS (Contribucao para Financiamento de Seguridade Social) for the period 1992-2014. In more detail:

- euro 36,148 thousand (of which euro 11.569 thousand is relative to the total nominal value of the receivable and euro 24,579 thousand is relative to accrued interest) refers to the years from 1992 to 2002 for which the rulings in favour of the Group were passed for sentencing;
- euro 171,864 thousand (of which euro 93,482 thousand is relative to the total nominal value of the receivable and euro 78,382 thousand is relative to accrued interest) refers to the years from 2003 to 2014 for which the ruling in favour of the Group was passed for sentencing in April 2019.

At December 31, 2018, even though the judgement has not the force of res judicata, also on the basis of an opinion by an independent expert, the portion of this receivable for euro 18,222 thousand had been recorded in the financial statements, which at the closing of the financial year met the conditions of virtual certainty required by the accounting standards.

The item **other non-current receivables** (euro 53,528 thousand) mainly refers to amounts deposited as guarantees for legal and tax disputes involving the Brazilian business units (euro 48,032 thousand), to receivables pledged as guarantees in Pirelli's favour which may be exercised in the event of contingent liabilities for euro 2,369 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.

The item **other current receivables** (euro 115,810 thousand) mainly includes advances to suppliers amounting to euro 52,692 thousand, receivables from the disposal of real estate property not used for industrial operations in Brazil amounting to euro 2,294 thousand, and receivables from associates amounting to euro 16,818 thousand mainly refers to the sale of materials and moulds and receivables relative to the Prometeon group for the amount of euro 10,261 thousand.

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

13. TAX RECEIVABLES

The item tax receivables refers to income taxes which amounted to euro 62,107 thousand (of which euro 15,718 thousand was non-current) compared to euro 57,562 thousand at December 31, 2018 (of which euro 16,169 thousand non-current). In more details, this mainly refers to receivables for advance payments on taxes for the financial year and to corporate income tax receivables from previous financial years recorded by the Brazilian and Argentine companies.

14. INVENTORIES

Inventories were analysed as follows:

(In thousands of euro)	**06/30/2019**	**12/31/2018**
Raw and auxiliary materials and consumables	152,360	155,205
Sundry materials	7,465	6,492
Work in progress and semi-finished products	65,046	55,608
Finished products	939,653	910,447
Advances to suppliers	592	714
Total	**1,165,116**	**1,128,466**

Inventories were not subject to any guarantee pledges.

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

Other financial assets at fair value through the income statement amounted to euro 12,792 thousand at June 30, 2019 compared to euro 27,196 thousand at December 31, 2018.

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

Changes in fair values for the financial year were recognised in the Income Statement as financial expenses (note 34).

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents went from euro 1,326,900 thousand at December 31, 2018 to euro 741,767 thousand at June 30, 2019.

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

The item includes cash in restricted accounts for euro 7,030 thousand.

For the purposes of the cash flow statement, the balance of cash and cash equivalents was recorded net of passive current accounts for euro 12,862 thousand at June 30, 2019.

17. SHAREHOLDERS' EQUITY

17.1 Attributable to Parent Company

Equity attributable to parent company went from euro 4,468,121 thousand at December 31, 2018 to euro 4,577,479 thousand at June 30, 2019. The change is essentially due to the net result for the period (positive for euro 297,917 thousand), dividends approved to shareholders for euro 177,000 thousand, actuarial losses on pension funds (negative for euro 11,940 thousand), and to the effect of high inflation in Argentina (positive for euro 17,163 thousand).

The subscribed and paid-up **share capital** at June 30, 2019 amounted to euro 1,904,375 thousand and was represented by 1,000,000,000 registered ordinary shares without indication of their nominal value.

17.2 Attributable to non-controlling interests

Equity attributable to non-controlling interests went from euro 82,806 thousand at December 31, 2018 to euro 86,235 thousand at June 30, 2019. The increase was mainly due to income for the period (positive for euro 9,074 thousand), the exchange differences from the conversion (positive for euro 3,230 thousand) offset by the payment of dividends (euro 8,949 thousand).

18. PROVISIONS FOR LIABILITIES AND CHARGES

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

PROVISION FOR LIABILITIES AND CHARGES - NON-CURRENT PORTION *(In thousands of euro)*	
Opening balance	138,327
Translation differences	419
Increases	5,075
Uses	(5,204)
Reversals	(177)
Other	(4,455)
Closing balance 06/30/2019	**133,985**

The **non-current portion** mainly refers to provisions made by the subsidiaries Pirelli Pneus Ltda, with headquarters in Brazil, for tax and legal disputes (euro 20,609 thousand) and for labour lawsuits (euro 13,250 thousand), by the parent company Pirelli & C. S.p.A. for tax disputes (euro 1,141 thousand) and for commercial risks, remediation and labour disputes (euro 2,435 thousand), for occupational diseases litigation (euro 14,997 thousand), and by a provision attributable to the rationalisation at the subsidiary Pirelli Pneus Ltda relative to the Standard business launched during the course of 2018 for euro 14,118 thousand.

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

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

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

PROVISION FOR LIABILITIES AND CHARGES - CURRENT PORTION	
(In thousands of euro)	
Opening balance	33,876
Translation differences	176
Increases	2,632
Uses	(1,287)
Reversals	(2,914)
Reclassification	(2,143)
Closing balance 06/30/2019	**30,340**

The **current portion** mainly includes provisions for, product claims and warranties (euro 10,867 thousand), for the remediation of disused areas (euro 5,138 thousand), for insurance risks (euro 2,690 thousand), and work place accidents relative to the English subsidiary (euro 3,540 thousand).

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

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

Reversals of surplus provisions mainly concerned insurance risks.

19. EMPLOYEE BENEFIT OBLIGATIONS

Pension funds – non-current portion

The item is composed as follows

(In thousands of euro)	**06/30/2019**	**12/31/2018**
Pension funds:		
- funded	39,259	51,143
- unfunded	90,777	86,639
Employee leaving indemnities (TFR - Italian companies)	33,309	32,175
Healthcare plans	18,148	17,126
Other benefits	37,837	37,229
Total	**219,330**	**224,312**

Pension funds

The following table shows the **composition of pension funds at June 30, 2019:**

(In thousands of euro)			**06/30/2019**				
	Germany	**Sweden**	**Total unfunded pension funds**	**USA**	**UK**	**Other countries**	**Total funded pension funds**
Funded funds							
Present value of funded liabilities				126,058	1,132,867	29,367	1,288,292
Fair value of plan assets				(102,369)	(1,121,818)	(24,846)	(1,249,033)
Unfunded funds							
Present value of unfunded liabilities	87,445	3,332	90,777				
Net liabilities recognised	**87,445**	**3,332**	**90,777**	**23,689**	**11,049**	**4,521**	**39,259**

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

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

Changes for the first half of 2019 in the net liabilities of defined benefits (refers to funded and non-funded pension funds) were as follows:

(In thousands of euro)	Present value of gross liabilities	Fair value of plan assets	Total net liabilities
Opening balance at January 1, 2018	1,293,724	(1,155,942)	137,782
Translation difference	(3,487)	3,877	390
Movements through income statement:			
- current service cost	797	-	797
- net interest expense / (income)	18,631	(17,253)	1,378
	19,428	**(17,253)**	**2,175**
Remeasurements recognized in equity:			
- actuarial (gains) / losses from change in demographic assumptions	(11,292)	-	(11,292)
- actuarial (gains) / losses from change in financial assumptions	118,508	-	118,508
- experience adjustment (gains) losses	375	-	375
- return on plan assets, net of interest income	-	(98,855)	(98,855)
	107,591	**(98,855)**	**8,736**
Employer contributions	-	(16,823)	(16,823)
Benefits paid	(37,760)	34,969	(2,791)
Other	(427)	994	567
Closing balance at june 30, 2019	**1,379,069**	**(1,249,033)**	**130,036**

The actuarial losses deriving from changes in the financial assumptions recognised in equity at June 30, 2019 are essentially due to the decrease in discount rates compared to the values at December 31, 2018 in most countries where pension funds are present.

Both the past and current services costs are included in the item Personnel expenses (note 28), and the net interests payable are included in the item Financial expenses (note 34).

Employees' leaving indemnities (TFR)

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

(In thousands of euro)	**06/30/2019**	**12/31/2018**
Opening balance	32,175	33,083
Movements through Income Statement:		
- current service cost	436	62
- interest expense	251	536
Remeasurements recognized in equity:		
- actuarial (gains)/losses arising from changes in demographic assumptions	-	6
- actuarial (gains)/losses arising from changes in financial assumptions	1,769	291
Indemnities/advanced payments	(888)	(1,030)
Other	(434)	(773)
Closing balance	**33,309**	**32,175**

The current cost for services rendered by employees is included in the item Personnel expenses (note 28) while interest payables are included in the item Financial expenses (note 34).

Healthcare plans

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

(In thousands of euro)	**USA**
Liabilities recognised in the Financial Statements at 06/30/2019	18,148
Liabilities recognised in the Financial Statements at 12/31/2018	17,126

The following changes occurred during the period:

(In thousands of euro)	**06/30/2019**	**12/31/2018**
Opening balance	17,126	18,885
Translation differences	99	814
Movements through income statement:		
- current service cost	2	4
- interest expense	349	614
Remeasurements recognised in equity:		
- actuarial (gains) losses arising from changes in financial assumptions	1,297	(992)
- actuarial (gains) losses arising from changes in demographic assumptions	-	(183)
- experience adjustment (gains) losses	-	(957)
Benefits paid	(725)	(1,059)
Closing balance	**18,148**	**17,126**

The cost for the service is included in the item Personnel expenses (note 28), and net interests payable is included in Financial expenses (note 34).

Additional information regarding post-employment benefits

Net actuarial losses accrued during the first half of 2019 and recognised directly in equity amounted to euro 11,940 thousand.

The main actuarial assumptions used at **June 30, 2019** were as follows:

	Italy	Germany	Sweden	UK	USA	Switzerland
Discount rate	0.90%	1.00%	1.20%	2.30%	3.30%	0.50%
Inflation rate	1.50%	1.50%	1.90%	3.14%	N/A	1.00%

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

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

Other long-term benefits

The composition of other benefits is as follows:

(In thousands of euro)	06/30/2019	12/31/2018
Long-term incentive plans	-	2,018
Jubilee awards	19,152	18,433
Leaving indemnities	10,894	10,786
Other long-term benefits	7,791	5,992
Total	**37,837**	**37,229**

20. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Borrowings from banks and other financial institution were as follows:

(In thousands of euro)		06/30/2019			12/31/2018	
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Bonds	1,270,442	1,270,442	-	1,269,514	1,269,514	-
Borrowings from banks	3,615,054	2,331,207	1,283,847	3,412,940	2,654,914	758,026
Borrowings from other financial institutions	14,724	-	14,724	17,048	393	16,655
Lease payables	469,818	392,508	77,310	213	10	203
Accrued financial expenses and deferred financial income	19,975	-	19,975	21,711	28	21,683
Other financial payables	8,580	5,128	3,452	7,798	4,220	3,578
Total	**5,398,593**	**3,999,285**	**1,399,308**	**4,729,224**	**3,929,079**	**800,145**

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 maturity of 5 years, plus a second bond loans issued on March 15, 2018 for a nominal amount of euro 200 million at a floating rate, with original maturity of 2.5 years. Both loans, placed with international institutional investors, were issued as part of the EMTN (Euro Medium Term Note) program approved by the Board of Directors at the end of 2017, signed on January 10, 2018 and updated on December 19, 2018;

- the floating 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 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 for bonds was determined to be as follows:

(In thousands of euro)	**06/30/2019**	**12/31/2018**
Nominal value	1,278,000	1,278,000
Transaction costs	(7,683)	(7,683)
Bond discount	(2,988)	(2,988)
Amortisation of effective interest rate	3,113	2,185
Total	**1,270,442**	**1,269,514**

The item **borrowings from banks**, which amounted to euro 3,615,054 thousand, mainly refers to:

- use of the unsecured loan (Facilities) granted to Pirelli & C. S.p.A. for euro 2,114,676 thousand, of which euro 397,116 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 2.85 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 for the Pirelli Group to extend, at its own discretion, the expiry of the individual lines of the loan to up to 2 years with respect to their original contractual maturity of 3 and 5 years;

- euro 796,578 thousand relating to two bilateral loans disbursed in favor of Pirelli & C. S.p.A., of which nominal euro 600 million with 5-year maturity at variable rate and 200 million euro with extended maturity to June 2020 (original maturity July 2019) at fixed rate, classified under current borrowings from banks;

- euro 551,749 thousand relative to loans disbursed in Brazil by local banking institutions of which euro 5,632 thousand has been classified under non-current borrowings from banks;

- euro 55,934 thousand refers in particular to certain loans classified as current borrowings from banks granted to the Mexican subsidiaries;

- euro 29,164 thousand representing the loan granted to the subsidiary Pirelli Tyre (Jiaozuo) Co. Ltd (China), classified as current borrowings from banks;

- euro 18,319 thousand representing the loans granted to the subsidiary Pirelli Otomobil Lastikleri (Turkey), of which 10,686 classified as current borrowings from the banks;

- bank loans and use of credit facilities at local level in Russia, (euro 42,494 thousand), Japan (euro 6,525 thousand) and Sweden (euro 5,584 thousand) classified entirely as current borrowings from banks.

At June 30, 2019, the Group had a liquidity margin equal to euro 1,454.6 million composed of euro 700.0 million in the form of non-utilised committed credit facilities, and of euro 741.8 million in cash, in addition to financial assets at fair value recognised in the income statement for euro 12.8 million.

Lease payables represent the financial liabilities related to the application of IFRS 16 as of January 1, 2019.

Accrued financial expenses and deferred financial income (euro 19,975 thousand) mainly refers to the accrual of interest on loans from banks for euro 14,413 thousand (euro 12,387 thousand at December 31, 2018), and to the accrued interest matured on bonds for euro 5,463 thousand (euro 9,269 thousand at December 31, 2018).

Current and non-current financial payables backed by secured guarantees (pledges and mortgages) totalled euro 215 thousand (euro 342 thousand at December 31, 2018).

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

(In thousands of euro)	**06/30/2019**		**12/31/2018**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Bonds	1,270,442	1,273,981	1,269,514	1,252,468
Borrowings from banks	2,331,207	2,364,549	2,654,914	2,697,096
Other financial payables	397,636	397,636	4,651	4,651
Total non-current financial payables	**3,999,285**	**4,036,166**	**3,929,079**	**3,954,215**

The unrated public bond issued by Pirelli & C. S.p.A. is listed and its relative fair value measured on the basis of prices at financial year-end. It has therefore been classified in level 1 of the hierarchy, as provided for by IFRS 13 – Fair Value Measurement. The fair value of the Schuldschein loan and of current borrowings from bank was calculated by discounting each expected borrowings cash flow at the market swap rate for the currency and at the maturity date, increased by the Group's creditworthiness for debt instruments similar by nature and technical characteristics, which therefore places it at level 2 of the hierarchy as provided for by IFRS 13 – Fair Value Measurement.

At June 30, 2019, there are derivative hedging instruments for interest rates and exchange rates on floating rate debts in foreign currency.

The cost of the debt on an annual basis (last 12 months), which refers to the charges relating to the financial indebtedness of the Group before IFRS 16, settles at 2.97% in line with December 31, 2018 (2.95%); the lower exposure of the financial debt to high interest rate currencies made it possible to offset the negative effects due on one hand, to the exit from the perimeter of positive net accounting effects (repricing of the debt and make-whole connected to the early repayment of the bond issue) in the first quarter of 2018 and on the other hand, to the increase in interest rates in Romania.

With regard to the existence of financial covenants, it is noted that (i) Group's main bank credit facility (Facility) granted to Pirelli & C. S.p.A. and Pirelli International Plc (currently usable only by, and in its entirety by Pirelli & C.), (ii) the Schuldschein loan and (iii) the bilateral line of 600 million euro granted to Pirelli & C. in the first quarter of 2019 (Bilateral), require compliance with a maximum ratio (Total Net Leverage) between net indebtedness and the gross operating margin as reported in the consolidated Financial Statements of Pirelli & C. S.p.A..

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

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

It is noted that at June 30, 2019, this parameter is respected.

The Facility, the Schuldschein loan and the Bilateral also provide for Negative Pledge clauses, the terms of which are in line with market standards for each of the aforementioned types of credit facilities.

The other outstanding financial payables at June 30, 2019 did not contain financial covenants.

21. TRADE PAYABLES

Trade payables were composed as follows:

(In thousands of euro)		**06/30/2019**			**12/31/2018**	
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Trade payables	1,164,592	-	1,164,592	1,567,718	-	1,567,718
Bill and notes payable	35,752	-	35,752	36,959	-	36,959
Total	**1,200,344**	**-**	**1,200,344**	**1,604,677**	**-**	**1,604,677**

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

22. OTHER PAYABLES

Other payables were as follows:

(In thousands of euro)		**06/30/2019**			**12/31/2018**	
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Accrued expenses and deferred income	73,001	44,613	28,388	84,338	53,233	31,105
Tax payables not related to income taxes	127,052	11,542	115,510	93,200	6,171	87,029
Payables to employees	103,324	175	103,149	98,167	220	97,947
Payables to social security and welfare intitutions	61,526	23,268	38,258	68,576	21,894	46,682
Dividends payable	839	-	839	350	-	350
Contract liabilities	3,498	-	3,498	4,147	-	4,147
Other payables	125,697	1,824	123,873	171,261	1,769	169,492
Total	**494,937**	**81,422**	**413,515**	**520,039**	**83,287**	**436,752**

The item **non-current accrued expenses and deferred trade income** refers to euro 41,071 thousand in capital contributions received for investments in Romania, whose benefits are recognised in the Income Statement in proportion to the costs for which the contribution was disbursed, and to euro 3,514 thousand in costs for trade initiatives in Brazil.

The item **current accrued expenses and deferred trade income** includes euro 4,355 thousand for various trade initiatives realised in Germany and Brazil, euro 8,474 thousand in government grants and incentives received mainly in Italy and Romania, and euro 1,679 thousand for costs related to insurance coverage in some European countries.

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

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

The item **liabilities from contracts with customers** refers to advanced payments from customers for which the performance obligation has not yet been completed, in line with the provisions of IFRS 15.

The item **other current payables** (euro 123,873 thousand) mainly includes:

- euro 72,559 thousand for the purchase of property, plant and equipment (euro 106,668 thousand at December 31, 2018);
- euro 11,389 thousand in payables to representatives, agents, professionals and consultants;
- euro 9,320 thousand in payables to companies in the Prometeon group particularly in Brazil and China;
- euro 3,942 thousand in payables to Directors, Auditors and supervisory bodies;
- euro 3,011 thousand for debts relating to customs duties, import and transport costs;
- euro 2,734 thousand relative to the purchase of 34 points of sale in São Paulo by the Brazilian subsidiary Pirelli Comercial de Pneus Brasil Ltda. The amount refers to the preliminary consideration for the transaction, net of the amount already paid at June 30, 2019.

23. TAX PAYABLES

Tax payables were for the most part related to national and regional income taxes in different countries and amounted to euro 84,029 thousand (of which euro 2,133 thousand was for non-current liabilities), compared to euro 67,594 thousand at December 31, 2018 (of which euro 2,091 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.

24. DERIVATIVE FINANCIAL INSTRUMENTS

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

(In thousands of euro)	06/03/2019				12/31/2018			
	Non current assets	**Current assets**	**Non current liabilities**	**Current liabilities**	**Non current assets**	**Current assets**	**Non current liabilities**	**Current liabilities**
Without adoption of hedge accounting								
Exchange rate derivatives - commercial positions	-	4,618	-	(5,963)	-	7,321	-	(6,092)
Exchange rate derivatives - included in net financial position	-	21,330	-	(34,424)	-	70,329	-	(53,510)
Hedge accounting adopted								
- cash flow hedge:								
Interest rate derivatives	-	-	(12,330)		-	-	(4,726)	-
Other derivatives	17,630	33,138	(23,226)		20,134	20,917	(11,313)	-
	17,630	**59,085**	**(35,556)**	**(40,387)**	**20,134**	**98,567**	**(16,039)**	**(59,602)**
- Total derivatives included in net financial position	17,630	54,467	(35,556)	(34,424)	20,134	91,245	(13,738)	(53,510)

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

(In thousands of euro)	**06/30/2019**	**12/31/2018**
Current assets		
Forward foreign exchange contracts - fair value recognised in the Income Statement	25,948	77,650
Cross currency interest rate swaps - cash flow edge	33,137	20,917
Total current assets	**59,085**	**98,567**
Non current assets		
Cross currency interest rate swaps - cash flow hedge	17,630	20,134
Total non current assets	**17,630**	**20,134**
Current liabilities		
Forward foreign exchange contracts - fair value recognised in the Income Statement	(40,387)	(59,602)
Total current liabilities	**(40,387)**	**(59,602)**
Non current liabilities		
Interest rate swaps - cash flow hedge	(12,330)	(4,726)
Cross currency interest rate swaps - cash flow hedge	(23,226)	(11,313)
Total non current liabilities	**(35,556)**	**(16,039)**

Derivative financial instruments not in hedge accounting

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

Derivative financial instruments in hedge accounting

The value of **interest rate derivatives** recorded under current assets for euro 12,330 thousand refers to the fair value of 9 interest rate swaps, of which 6 forward start:

Derivative	Hedged element	Notional amount (Euro million)	Start date	Maturity	
IRS forward start	Term loan in EUR	250	June 2019	June 2022	receive floating / pay fix
IRS forward start	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		**550**			

For these derivatives, hedge accounting of the cash flow hedge type 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 floating rate liability and a CCIRS or cross-currency interest rate swap (Basis Swap);
- future interest flows on the Schuldschein loan (note 20).

The value of **other derivatives**, recognised under non-current assets for euro 17,630 thousand, between current assets for euro 33,137 thousand and among non-current liabilities for euro 23,226 thousand, refers to the fair value measurement of 11 cross currency interest rate swaps with the following characteristics:

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

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

The positive change in the fair value for the period of euro 27,002 thousand was suspended in equity (cash flow hedge reserve positive for euro 29,122 thousand and cost of hedging reserve negative for euro 2,120 thousand), while euro 10,986 thousand was reversed to the income statement under the item Valuation at fair value of foreign currency derivatives (note 34 – financial expenses) to offset the unrealised exchange rate losses recorded on the hedged liability, while euro 29,384 thousand was reversed to the item Financial expenses (note 34) thereby correcting the financial expenses recognised on the hedged liability.

The change in fair value for the period for IRS (interest rate swaps), negative at euro 7,604 thousand, has been entirely suspended in equity.

25. COMMITMENTS AND RISKS

COMMITMENTS FOR THE PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

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

COMMITMENTS FOR THE PURCHASE OF EQUITY INVESTMENTS/FUND SHARES

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

OTHER RISKS

Dispute against Prysmian before the Court of Milan.

Pending the decision of the Community proceeding pursuant to Note 18 Provision for Liabilities and Charges, in November 2014, Pirelli & C. S.p.A. (Pirelli) commenced legal action before the Court of Milan in order to obtain an assessment and the declaration by Prysmian Cavi e Sistemi S.r.l. to hold Pirelli harmless from any claim regarding the alleged anti-competitive agreement for the energy cables sector, including the penalty imposed by the European Commission and confirmed by the decision of the General Court of the European Union on July 12, 2018, referred to in Note 18 – against which, on September 21, 2018, Pirelli filed an appeal before the Court of Justice of the European Union.

Prysmian appeared in the aforementioned judgment, requesting the rejection of Pirelli's claims, and to be held harmless 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.

Other disputes in relation to the European Commission Decision

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

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

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

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

In consequence of the above, the risk assessment related to the disputes described above is such as not to have to request the allocation of any specific provision in the abbreviated consolidated half-year financial statements at June 30, 2019, also considering their initial status.

Tax disputes in Brazil

The subsidiary Pirelli Pneus is involved in tax disputes and litigations described as follows.

Disputes concerning the ICMS tax receivables assigned by the State of Santa Catarina

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

This assessment was based on the orientation in favour of the tax payer whose legal position is strengthening, in particular, as with another case under consideration by the Brazilian Supreme Court, who will have to express its legal position through a sentence which will set a binding precedence, on the impossibility for a Federal State to penalise the tax payer for the use of credits granted by law by another Federal State, even if that law did not observe constitutional rules. According to a previous case before the Supreme Court, this dispute should be managed by the Federal States, and without unduly penalising the tax payer.

In addition to the aforesaid, a legislative provision (Complementary Law No. 160) came into force on August 8, 2017, which should put an end to this dispute between the various states in Brazil. This legislation establishes that the aforementioned States may, on a voluntary basis, sign an agreement (convênio) which given certain conditions is able to validate the incentives which up to now have been considered illegitimate, and therefore also extinguish the related sanctions imposed by the Brazilian tax authorities. To date, there are still some implementation aspects that need to be defined before this new provision can be applied to the case in question. However, there is a clear indication of the commitment by the Brazilian States to put an end to these forms of contestation and to prevent new ones in the future.

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

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

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

Pirelli Pneus is involved in a tax disputes with the Brazilian tax authorities concerning the IPI tax rate (Imposto sobre Produtos Industrializados or tax on industrialised products) with particular reference to the tax rate applicable to the production and importation of tyres for the Sport Utility Vehicle (SUV), vans and other industrial transportation vehicles (such as, for example, trucks).

According to statements by the Brazilian tax authorities in the tax assessment notices issued during the course of 2015 and 2017, the aforementioned tyres should have been subjected to the IPI tax rate for the production and importation of tyres for cars – an applicable rate of 15% – instead of the 2% rate applied by Pirelli Pneus, as is provided for the production and import of tyres for heavy industrial use vehicles.

To date, the dispute is pending before the competent administrative and tax commissions However, the Group maintains that it has a good chance of winning also considering the recent developments that saw Pirelli Pneus win before the second-degree administrative court in July of this year with reference to one of the main notices of assessment.

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 37 million, inclusive of tax, interests and penalties.

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

Disputes concerning transfer pricing with respect to certain intra-group transactions

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

Based on the assessment notices sent to the company during 2013, 2015 and 2016, the Brazilian tax authorities are mainly contesting the incorrect application by the company of the methodology provided for by the administrative practice in force at that time (IN - Instrução Normativa 243 or Instructions for Regulation) for the evaluation of transfer prices applied to the importation of goods from related parties.

To date, the claim motioned by the company is pending before the competent administrative-tax tribunals. The Group maintains that it has a good chance of winning having assessed the intra-group transactions in question pursuant to the provisions of the legislation in force for the time being, which should prevail over the aforementioned administrative practice (IN 243) of the Brazilian tax authorities. In this regard, Pirelli Pneus obtained in July of this year a favourable sentence from the administrative court that recognised the company's reasons reducing the amount originally disputed by the Brazilian tax authorities.

In light of the above, compared to the previous estimate of approximately euro 18 million, including taxes, penalties and interests, the risk can now be estimated at approximately 2 million euro.

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

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

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

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

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

Other Pirelli Pneus disputes

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

(i) dispute referred to as Desenvolve and related to a tax incentive recognised 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 – around Euro 10 million including taxes, penalties and interest;

(iii) dispute referred to as Operação Vulcano (the federal investigation into fraud in Brazilian foreign trade) with regard to the exportation of goods to Paraguay in which case, according to the Brazilian tax authorities, Pirelli Pneus should not benefit from the provision for tax exemption. It is noted that compared to the previous estimate of approximately euro 9 million in taxes, penalties and interest, the risk can now be estimated at around euro 3 million due to a favourable ruling obtained in 2019.

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

26. REVENUES FROM SALES AND SERVICES

Revenues from sales and services were as follows:

(In thousands of euro)	**1/1 - 06/30/2019**	**1/1 - 06/30/2018**
Revenues from sales of goods	2,577,185	2,555,943
Revenues from services	77,662	74,349
Total revenues from sales and services	**2,654,847**	**2,630,292**

These revenues refer to contracts with customers.

27. OTHER INCOME

The item is composed as follows:

(In thousands of euro)	**1/1 - 06/30/2019**	**1/1 - 06/30/2018**
Other income from Prometeon Group	32,228	41,612
Sales of Industrial products	78,790	90,457
Gains on disposal of property, plant and equipment	450	1,920
Rent income	1,350	2,264
Income from sublease of rights of use assets	782	-
Recoveries and reimbursements	115,539	43,788
Government grants	9,483	3,913
Other income	43,044	39,815
Total other income	**281,666**	**223,769**

The item **other income from the Prometeon Group** mainly includes sales of semi-finished products and finished products for euro 9,857 thousand, royalties recorded from the trademark license agreement for euro 8,419 thousand, royalties recorded from the know-how license contract for euro 5,019 thousand, and services rendered for the amount of euro 7,931 thousand. The decrease recorded compared to the first half of the previous financial year was mainly attributable to the fact that raw materials are no longer supplied to the Prometeon Group by the British subsidiary Pirelli International Plc. Refer also to Note 40 – Transactions with related parties.

The item **sales of industrial products** 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

- reimbursements of taxes and duties totalling euro 88,418 thousand, of which euro 87,698 thousand received in Brazil, and euro 75,163 thousand attributable to the benefit recorded following the attainment of favourable ruling by the Federal Regional Court of Brasilia that recognised 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. Reference should be made to Note 12 Other receivables for further details.

- tax refunds totalling euro 7,035 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 2,066 thousand.

The item **other** includes income from sporting activities amounting to euro 15,377 thousand.

28. PERSONNEL EXPENSES

The item is composed as follows:

(In thousands of euro)	**1/1 - 06/30/2019**	**1/1 - 06/30/2018**
Wages and salaries	408,473	401,031
Social security and welfare contributions	87,170	89,741
Costs for employee leaving indemnities and similar	10,068	8,156
Costs for defined contribution pension funds	12,036	10,830
Costs for defined benefit pension funds	444	692
Costs for jubilee awards	3,867	1,060
Costs for defined contribution healthcare plans	2,629	2,649
Other costs	15,006	20,483
Total	**539,693**	**534,642**

The item other costs includes this includes the portion, for euro 3,171 thousand, of the retention plan that was approved by the Board of Directors on February 26, 2018 and intended for Managers with strategic responsibilities and a selected number of senior Managers and Executives whose contribution to the implementation of the Strategic Plan is considered particularly significant.

29. DEPRECIATION, AMORTISATION AND IMPAIRMENTS

The item is composed as follows:

(In thousands of euro)	**1/1 - 06/30/2019**	**1/1 - 06/30/2018**
Amortisation	62,763	63,485
Depreciation (excl. Depreciation of rights of use)	145,630	131,622
Depreciation of rights of use	44,488	-
Impairment of property, plant and equipment and intangible assets	15,330	-
Total	**268,211**	**195,107**

The item impairments mainly refers to restructuring in South America for euro 4,941 thousand and Europe for euro 10,070 thousand .

For the composition of the depreciation of the rights of use, see note 6.2.

30. OTHER COSTS

The item is subdivided as follows:

(In thousands of euro)	**1/1 - 06/30/2019**	**1/1 - 06/30/2018**
Selling costs	160,316	149,552
Purchases of goods for resale	226,010	236,131
Fluids and energy	89,938	78,240
Advertising	90,586	109,496
Consultants	23,475	22,195
Maintenance	25,317	26,226
Warehouse operating costs	38,657	35,882
Short term lease contracts (*)	11,987	-
Low value asset lease contracts (*)	2,940	-
Lease contracts with variable payments (*)	2,906	-
Lease, rental and lease installments	-	60,918
Outsourcing	18,286	18,700
Travel expenses	20,042	26,274
IT expenses	17,294	17,940
Key managers compensations	3,728	5,684
Other provisions	7,707	13,615
Duty stamps, duties and local taxes	15,418	17,896
Canteen	8,166	8,427
Insurance	16,418	20,028
Cleaning expenses	7,722	7,337
Waste disposal	3,567	4,459
Security expenses	4,896	4,527
Telephone expenses	4,833	5,411
Other	44,061	40,644
Total	**844,270**	**909,582**

(*) 1H19 figures include IFRS 16 impact.

31. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

The item, negative for euro 7,479 thousand compared to 7,041 thousand in the first half of 2018, mainly includes the net impairment of trade receivables for euro 7,455 thousand (euro 4,778 thousand in the first half of 2018).

32. NET INCOME (LOSS) FROM EQUITY INVESTMENTS

32.1 Share of the net income (loss) from equity investments in 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 1,355 thousand (negative for 8,258 in the first half of 2018) and refers mainly to investments in the joint venture PT Evoluzione Tyres in Indonesia.

32.2 Gains on equity investments

The item mainly refers to the positive impact of euro 1,682 thousand relating to the sale of the subsidiary Center of New Technologies & Materials ATOM – Russia.

32.3 Losses on equity investments

For the first half of 2018, the item amounted to euro 874 thousand, and mainly referred to the impairment of the investment in Focus Investments S.p.A., classified under investments in associated companies.

32.4 Dividends

They amount to euro 1,724 thousand and mainly include dividends received from RCS MediaGroup S.p.A. for euro 1,482 thousand.

33. FINANCIAL INCOME

The item is composed as follows:

(In thousands of euro)	**1/1 - 06/30/2019**	**1/1 - 06/30/2018**
Interest	5,347	4,416
Net interest income on brazilian tax credits	99,826	-
Other financial income	3,146	2,131
Net gains on exchange rates	1,614	-
Fair value measurement of currency derivatives	-	66,482
Fair value measurement of other derivatives	178	26
Total	**110,111**	**73,055**

Interest mainly includes euro 1,600 thousand in interest on fixed-income securities and euro 1,733 thousand in interest income from financial institutions.

The item **net interest income on Brazilian tax credits** refers to financial income recognised on receivables from the Brazilian tax authorities following the obtainment of favorable judgments no longer subject to appeal and formally res judicata (res judicata) by the Federal Regional Courts based in Brasilia and San Paolo that recognised the right to exclude 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 social contributions PIS (Programa de Integracao Social) and COFINS (Contribucao para Financiamento de Seguridade Social). Reference should be mad to note 12 – Other receivables.

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 item **net gains on exchange rates** which amounted to euro 1,614 thousand (gains amounted to euro 855,273 thousand and losses amounted to euro 853,659 thousand) refers to the adjustment at period-end exchange rates to items expressed in currencies other than the functional currency and still outstanding at the reporting date of the consolidated financial statements, and to the net losses realised on items closed during the course of the period.

In the first half of 2018, the item included **non-recurring events** for euro 7,534 thousand (10.3% of the total) and referred to the positive impact of euro 29,781 thousand relating to the repricing of the unsecured bank line (Facilities) as opposed to the expenses for the early repayment of the Pirelli International Plc bond loan and financial expenses consequent to the exercise of the make-whole option for a total of 22,247 thousand euro.

34. FINANCIAL EXPENSES

The item is composed as follows:

(in thousands of euro)	**1/1 - 06/30/2019**	**1/1 - 06/30/2018**
Interests	56,435	52,771
Commissions	8,982	9,618
High inflation effect	8,711	-
Other financial expenses	6,247	3,114
Interest expenses on lease liabilities	11,965	
Net losses on exchange rates	-	122,781
Net interest costs on employee benefit obligations	2,288	2,717
Fair value measurement of exchange rate derivatives	25,526	-
Total	**120,154**	**191,001**

The item **Interest** for a total amount of 56,435 thousand euro includes:

- euro 50,635 thousand for the unsecured financing line granted to Pirelli & C. S.p.A. and Pirelli International Plc (as of November 29, 2018, all held by the Parent Company) entered into on June 27, 2017;

- euro 7,692 thousand in financial expenses relative to bonds, of which euro 4,910 thousand refers to unrated bonds and euro 2,782 thousand refers to the Schuldschein loan, both issued by Pirelli & C. S.p.A.;

- euro 29,384 thousand euro for net interest income on Cross Currency Interest Rate Swaps to offset he flow of financial expenses, of the part subscribed to in US Dollars, of the bank credit facility referred to in the previous point. For more details, refer to details in Note 24 Derivative financial instruments.

The item **commissions** includes in particular euro 2,404 thousand in costs relative to transactions for the assignment of receivables using the no recourse (pro-soluto) clause mainly in LatAm, Italy and Germany, and euro 2,740 thousand relative to expenses for guarantees and other bank commissions.

The item **effects of high inflation** refers to the effect on monetary items deriving from the application of IAS 29 – Hyperinflation by the subsidiary company in Argentina Pirelli Neumaticos SAIC as of July 1, 2018. Reference should be made to Note 39 for further details.

The item **valuation at fair value of exchange rate derivatives** refers to the purchase/sale of the forward exchange rate hedge contracts to cover commercial and financial transactions in accordance with the exchange rate risk management policy of the Group. For transactions still open at the end of the financial year, the fair value was determined using the forward exchange rate at the reporting date of the consolidated financial statements. The valuation at fair value is composed of two elements: the interest component which is tied to the interest rate spread between the currencies which are subject to the individual hedges, equal to a net cost of euro 24,758 thousand, and the exchange rate component at a net cost of euro 768 thousand. In comparing the net gains on exchange rates of euro 1,614 thousand recorded on receivables and payables in the currencies of the individual companies that are different from the functional currency, included in financial income (note 33) with valuation at fair value of the exchange rate component of the derivatives used for hedging exchange rates, which amounted to a net cost of euro 768 thousand, there results a positive imbalance of euro 846 thousand. Therefore, exchange rate risk management is substantially in equilibrium.

35. TAXES

Taxes were composed as follows:

(In thousands of euro)	**1/1 - 06/30/2019**	**1/1 - 06/30/2018**
Current taxes	104,498	67,287
Deferred taxes	5,621	5,963
Total	**110,119**	**73,250**

Tax expenses for the first half of 2019 amounted to euro 110,119 thousand against pre-tax earnings of euro 417,110 thousand with a tax rate which attested itself at 26.4%.

36. ASSETS AND LIABILITIES AVAILABLE FOR SALE AND DISCONTINUED OPERATIONS

The item in the first half of 2018 included the economic values relating to some residual Industrial activities in China and Argentina, the separation of which was completed at the end of 2018.

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.

(In thousands of euro)	**06/30/2019**	**06/30/2018**
Net income attributable to the Parent Company related to **continuing operations**	297,917	176,785
Weighted average number of ordinary shares outstanding (in thousands)	1,000,000	1,000,000
Earnings/(loss) per share related to continuing operations (in euro per share)	**0.298**	**0.177**
Net income attributable to the Parent Company related to **discontinued operations**	-	(4,742)
Weighted average number of ordinary shares outstanding (in thousands)	1,000,000	1,000,000
Earnings/(loss) per share related to discontinued operations (in euro per share)	**-**	**(0.005)**

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

38. DIVIDENDS PER SHARE

In the first half of 2019, Pirelli & C. S.p.A. paid to its shareholders based on 2018 earnings, dividends equal to euro 0.177 per each of the 1,000,000,000 ordinary shares for a total of euro 177,000 thousand.

39. HYPERINFLATION

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

For the financial statements at June 30, 2019, the official inflation index was used estimated at 56%.

The losses on the net monetary position were recognised in the Income Statement as Financial expenses (note 34) for an amount of euro 8,711 thousand.

40. TRANSACTIONS WITH RELATED PARTIES

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

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

STATEMENT OF FINANCIAL POSITION *(In millions of euro)*	**Total reported at 06/30/2019**	**of which related parties**	**% incidence**	**Total reported at 12/31/2018**	**of which related parties**	**% incidence**
Non current assets						
Other receivables	**403.0**	5.4	1.3%	**225.7**	12.6	5.6%
Current assets						
Trade receivables	**862.1**	33.5	3.9%	**628.0**	15.7	2.5%
Other receivables	**509.0**	62.4	12.3%	**416.7**	55.4	13.3%
Non-current liabilities						
Borrowings from banks and other financial institutions	**3,999.3**	17.6	0.4%	**3,929.1**	-	0.0%
Current liabilities						
Borrowings from banks and other financial institutions	**1,399.3**	1.9	0.1%	**800.1**	-	0.0%
Trade payables	**1,200.3**	109.5	9.1%	**1,604.7**	191.6	11.9%
Other payables	**413.5**	10.6	2.6%	436.8	7.4	1.7%

INCOME STATEMENT *(in millions of euro)*	**1H 2019**	**of which related parties**	**% incidence**	**1H 2018**	**of which related parties**	**% incidence**
Revenue from sales and services	**2,654.8**	7.4	0.3%	**2,630.3**	5.1	0.2%
Other income	**281.7**	36.2	12.8%	**223.8**	57.4	25.6%
Raw materials and consumables used	**(904.4)**	(1.7)	0.2%	**(891.2)**	(11.7)	1.3%
Personnel expenses	**(539.7)**	(6.6)	1.2%	**(534.6)**	(12.3)	2.3%
Other costs	**(844.3)**	(123.8)	14.7%	**(909.6)**	(105.3)	11.6%
Financial income	**110.1**	0.3	0.2%	**73.1**	2.2	3.0%
Financial expenses	**(120.2)**	(0.5)	0.4%	**(191.0)**	(0.0)	0.0%
Net income (loss) from equity investments	**2.2**	(1.4)	n.a.	**(4.5)**	(8.3)	n.a.
Net income (loss) from discontinued operations	**-**	-	n.a.	**(4.7)**	(23.9)	n.a.

CASH FLOW (in millions of euro)	**1H 2019**	**of which related parties**	**% incidence**	**1H 2018**	**of which related parties**	**% incidence**
Net cash flows operating activities:						
Trade receivables	**(236.7)**	(17.9)	n.a.	**(236.5)**	1.3	n.a.
Trade payables	**(412.3)**	(82.1)	n.a.	**(497.8)**	(51.6)	n.a.
Other receivables/payables	**(88.8)**	24.2	n.a.	**(169.7)**	(8.7)	n.a.
Net cash flows investing activities:						
Dividends received from associates	**-**	-	n.a.	**2.5**	2.5	n.a.
Disposals (Acquisition) of investments in associates and JV	**(8.9)**	(8.9)	n.a.	**-**	-	n.a.
Net cash flows financing activities:						
Change in Financial receivables	**(4.7)**	(20.8)	n.a.	**(57.3)**	-	n.a.
Cash outflow for lease obligations	**(53.3)**	(0.9)	n.a.	**-**	-	n.a.
Net cash flows provided by (used in) discontinued operations	**-**	**-**	n.a.	**(5.3)**	12.9	n.a.

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

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

STATEMENT OF FINANCIAL POSITION		
(in millions of euro)	**06/30/2019**	**12/31/2018**
Other non current receivables	5.4	12.6
Trade receivables	7.7	3.6
Other current receivables	43.3	32.2
Borrowings from banks and other financial institutions non-current	16.2	-
Borrowings from banks and other financial institutions current	1.6	-
Trade payables	23.9	23.1
Other current payables	0.0	0.1

INCOME STATEMENT		
(in millions of euro)	**1H 2019**	**1H 2018**
Revenues from sales and services	7.3	3.3
Other income	0.4	0.4
Other costs	28.0	20.0
Financial income	0.2	0.6
Financial expenses	0.3	-

CASH FLOW		
(in millions of euro)	**1H 2019**	**1H 2018**
Change in trade receivables	(4.0)	-
Change in trade payables	0.8	-
Change in Other receivables/Other payables	16.8	-
Cash outflow for lease obligations	(0.8)	-
Change in Financial receivables	(20.8)	
Net cash flows provided by / (used in) financing activities	(8.9)	2.5

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 other, receivables for services rendered to PT Evoluzione Tyres for euro 2.9 million and to the Chinese JV Jining Shenzhou Tyre Co. for euro 2.3 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 7.6 million;
- receivables for sales of materials and moulds to the Joint Stock Company Kirov Tyre Plant for euro 8.1 million and to Jining Shenzhou Tyre Co. for euro 9.1 million;
- receivables for recovery of costs of Pirelli Tyre S.p.A. from PT Evoluzione Tyres for euro 2.1 million;

- a loan granted by Pirelli Tyre Co. to Jining Shenzhou Tyre Co. for euro 15.3 million.

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

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

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

Transactions – Income statement

The item **revenues from sales and services** mainly refers to sales of materials and services to Jining Shenzhou Tyre Co. for euro 2.8 million and to Joint Stock Company, the Kirov Tyre Plant for euro 1.7 million.

The item **other costs** mainly refers to acquisition costs for the purchase of energy and machine hire from Industriekraftwerk Breuberg GmbH for euro 11.2 million, and costs for the acquisition of products from PT Evoluzione Tyres for euro 13.7 million.

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

The item **financial expenses** refers to the interest related to the rental of machinery between the German company Pirelli Deutschland GMBH and Industriekraftwerk Breuberg GmbH.

TRANSACTIONS WITH OTHER RELATED PARTIES

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

STATEMENT OF FINANCIAL POSITION		
(in millions of euro)	**06/30/2019**	**12/31/2018**
Trade receivables	25.9	12.0
Other current receivables	19.0	23.2
Borrowings from banks and other financial institutions non-current	1.4	-
Borrowings from banks and other financial institutions current	0.2	-
Trade payables	85.6	168.5
Other current payables	10.6	7.4

INCOME STATEMENT		
(in millions of euro)	**1H 2019**	**1H 2018**
Revenues from sales and services	0.1	1.8
Other income	35.8	56.9
Raw materials and consumables used	1.7	11.7
Other costs	92.1	79.6
Financial income	0.1	1.6
Financial expenses	0.2	-
Other income from discontinued operations	-	2.7
Other costs from discontinued operations	-	26.6

CASH FLOW		
(in millions di euro)	**1H 2019**	**1H 2018**
Change in trade receivables	(13.8)	1.3
Change in trade payables	(82.9)	(51.6)
Change in Other receivables/Other payables	7.4	(8.7)
Cgange in Borrowings from banks and other financial institutions	1.6	-
Cash outflow for lease obligations	(0.2)	-
Net cash flows provided by (used in) discontinued operations	-	12.9

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 10.3 million and receivables for royalties from Aeolus Tyre Co. Ltd. for euro 7.8 million.

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

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

The item **trade payables** refers almost exclusively to payables to Prometeon Group companies for euro 83.7 million.

The item **other current payables** mainly refers to other current payables to companies of the Prometeon Group for euro 10.1 million.

Transactions – Income statement

The decrease in **revenues from sales and services** is attributable to the termination of the sales relationship between Pirelli Pneus Ltda to Pirelli de Venezuela C.A., which took place up to September 7, 2018, the date on which the sale of the Venezuelan company was completed.

The item **other income** includes royalties paid to Aeolus Tyre Co. Ltd. in respect of the license contract stipulated in 2016, some terms of which were reformulated in February 2019, for euro 7 million per year. The item also includes income from companies of the Prometeon Group mainly relative to:

- royalties recorded in respect the license contract for the use of the Pirelli trademark for euro 8.4 million;
- Sale of raw materials, finished and semi-finished products for a total of euro 10.6 million of which euro 8.3 million made by Pirelli Pneus Ltda;
- the Long Term Service Agreement for euro 4.2 million, of which euro 2.1 million to Pirelli Sistemi Informativi S.r.l., euro 0.6 million to Pirelli Pneus Ltda;
- logistic services for a total amount of euro 1.5 million of which euro 0.7 million carried out by the Brazilian company Total Logistic Management Serviços del Logistica Ltda;
- the licence agreement for know-how charged by Pirelli Tyre S.p.A. for the amount of euro 5 million.

The decrease in other financial income compared to the corresponding period of the previous financial year was mainly attributable to the reformulation of the licence contract with Aeolus Tyre Co. Ltd. and to the fact that raw materials are no longer supplied to the Prometeon Group by the British subsidiary Pirelli International Plc.

The item **raw and consumable materials** used mainly refers to costs payable to companies of the Prometeon Group for the purchase of direct materials/consumables/compounds for a total amount of euro 1.7 million of which euro 1.1 million carried out by the Turkish company Pirelli Otomobil Lastikleri A.S.

The decrease in this item compared to the same period of the previous year is mainly attributable to a reorganisation in the purchasing process.

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:

- the purchase of truck products for a total amount of euro 50 million, of which euro 42.6 million by the Brazilian company Comercial e Importadora de Pneus Ltda. for the Brazilian sales network, of which euro 2.7 million by the German company Driver Reifen und KFZ-Technik GmbH;

- the purchase of Car/Motorcycle and semi-finished products for a total amount of euro 27.4 million, of which euro 25.8 million carried out by the Turkish company Pirelli Otomobil Lastikleri A.S. in respect of the Off-Take contract, and euro 1.7 million on the part of Pirelli Pneus Ltda for the purchase of inner tubes for tyres;

- costs for euro 5.8 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 machine hire between Pirelli Otomobil Lastikleri A.S. and the Prometeon Group.

BENEFITS FOR KEY MANAGERS OF THE COMPANY

The remuneration payable to key managers totalled euro 10,302 thousand at June 30, 2019 (euro 17,974 thousand in the first half of 2018). The portion relating to employee benefits was recognised in the income statement as personnel expense for euro 6,574 thousand (euro 12,290 thousand in the first half of 2018) and euro 3,728 thousand as other costs (euro 5,864 thousand in the first half of 2018).

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

It is noted that there were no significant events subsequent to the end of the half-year.

42. OTHER INFORMATION

Research and development expenses

Research and development expenses for the first half of 2019 amounted to euro 124.1 million and accounted for 4.7% of sales (euro 116.8 million in the first half of 2018 that accounted for 4.4% of sales).

Unusual and/or exceptional transactions

Pursuant to CONSOB Notice No. 6064293 of July 28, 2006, it is hereby specified that during the course of the first half of 2019, no exceptional and/or unusual transactions as defined in the aforementioned Notice were carried out by the Company.

Exchange rates

The main exchange rates used for consolidation were as follows:

(local currency vs euro)	**Period-end exchanges rates**		**Change in %**	**Average exchange rates 1H**		**Change in %**
	06/30/2019	**12/31/2018**		**2019**	**2018**	
Swedish Krona	**10,54300**	10.2548	2.81%	**10,51412**	10.1534	3.55%
Australian Dollar	**1,62440**	1.6220	0.15%	**1,60030**	1.5689	2.00%
Canadian Dollar	**1,48930**	1.5605	(4.56%)	**1,50688**	1.5458	(2.52%)
Singaporean Dollar	**1,53950**	1.5591	(1.26%)	**1,53560**	1.6052	(4.34%)
U.S. Dollar	**1,13800**	1.1450	(0.61%)	**1,12978**	1.2103	(6.65%)
Taiwan Dollar	**35,26548**	34.9786	0.82%	**34,99578**	35.7477	(2.10%)
Swiss Franc	**1,11050**	1.1269	(1.46%)	**1,12946**	1.1698	(3.45%)
Egyptian Pound	**19,08460**	20.5806	(7.27%)	**19,63381**	21.5177	(8.76%)
Turkish Lira (new)	**6,55070**	6.0280	8.67%	**6,34610**	4.9444	28.35%
New Romanian Leu	**4,73510**	4.6639	1.53%	**4,74151**	4.6537	1.89%
Argentinian Peso	**48,32289**	43.1665	11.95%	**48,32289**	26.1797	84.58%
Mexican Peso	**21,78610**	22.5170	(3.25%)	**21,65647**	23.0553	(6.07%)
South African Rand	**16,12180**	16.4594	(2.05%)	**16,04343**	14.8908	7.74%
Brazilian Real	**4,35870**	4.4390	(1.81%)	**4,34493**	4.1443	4.84%
Chinese Renminbi	**7,82341**	7.8584	(0.44%)	**7,66081**	7.7117	(0.66%)
Russian Ruble	**71,81790**	79.6581	(9.84%)	**73,63625**	71.8316	2.51%
British Pound	**0,89655**	0.8945	0.23%	**0,87363**	0.8798	(0.70%)
Japanese Yen	**122,60000**	125.8500	(2.58%)	**124,28360**	131.5608	(5.53%)

NET FINANCIAL POSITION

(alternative performance indicator not provided for by the accounting standards)

(In thousands of euro)	**06/30/2019**	**of which related parties (note 40)**	**12/31/2018**	**of which related parties (note 40)**
Current borrowings from banks and other financial institutions without IFRS 16	1,322,119	-	800,145	-
Current derivative financial instruments (liabilities)	34,424	-	53,510	-
Non-current borrowings from banks and other financial institutions without IFRS 16	3,606,778	-	3,929,079	-
Non current derivative financial instruments (liabilities)	35,556	-	13,738	-
Lease obligations IFRS 16	469,818	*19,426*	-	-
Total gross debt	**5,468,695**	-	**4,796,472**	-
Cash and cash equivalents	(741,767)	-	(1,326,900)	-
Other financial assets at fair value through income statement	(12,792)	-	(27,196)	-
Current financial receivables and other assets**	(35,614)	*(15,401)*	(27,320)	*(6,154)*
Current derivative financial instruments (assets)	(54,467)	-	(91,245)	-
Net financial debt *	**4,624,055**	-	**3,323,811**	-
Non-current derivative financial instruments (assets)	(17,630)	-	(20,134)	-
Non-current financial receivables and other assets**	(114,623)	*(5,414)*	(123,547)	*(12,576)*
Total net financial (liquidity)/debt position	**4,491,801**	-	**3,180,130**	-
Lease obligations IFRS 16	(469,818)	*19,426*	**-**	-
Total net financial (liquidity)/debt position without IFRS 16	**4,021,983**		**3,180,130**	

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

** The amount for "financial receivables and other assets" is reported net of the relative provision for impairment amounting to euro 9,054 thousand as at June 30, 2019 and euro 6.085 thousand as at Dcember 31, 2018.

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SCOPE OF CONSOLIDATION

Companies consolidated line-by-line						
Company	**Business**	**Headquarter**	**Currency**	**Share Capital**	**% holding**	**Held by**
Europe						
Austria						
Pirelli GmbH	Tyre	Wien	Euro	726,728	100.00%	Pirelli Tyre (Suisse) SA
Belgium						
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700,000	100.00%	Pirelli Tyre (Suisse) SA
France						
Pneus Pirelli S.A.S.	Tyre	Villepinte	Euro	1,515,858	100.00%	Pirelli Tyre S.p.A.
Germany						
Deutsche Pirelli Reifen Holding GmbH	Tyre	Breuberg / Odenwald	Euro	7,694,943	100.00%	Pirelli Tyre S.p.A.
Driver Handelssysteme GmbH	Tyre	Breuberg / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Deutschland GmbH	Tyre	Breuberg / Odenwald	Euro	23,959,100	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Personal Service GmbH	Tyre	Breuberg / Odenwald	Euro	25,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
PK Grundstuecksverwaltungs GmbH	Tyre	Hoechst / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Driver Reifen und KFZ-Technik GmbH (ex Pneumobil Reifen und KFZ-	Tyre	Breuberg / Odenwald	Euro	259,225	100.00%	Deutsche Pirelli Reifen Holding GmbH
Greece						
Elastika Pirelli C.S.A.	Tyre	Elliniko-Argyroupoli	Euro	11,630,000	99.90%	Pirelli Tyre S.p.A.
					0.10%	Pirelli Tyre (Suisse) SA
Pirelli Hellas S.A. (in liquidation)	Tyre	Athens	US $	22,050,000	79.86%	Pirelli Tyre S.p.A.
The Experts in Wheels - Driver Hellas C. S.A.	Tyre	Elliniko-Argyroupoli	Euro	100,000	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	Euro	50,000	100.00%	Pirelli & C. S.p.A.
Pirelli Industrie Pneumatici S.r.l.	Tyre	Settimo Torinese (To)	Euro	40,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli International Treasury S.p.A.	Tyre	Milano	Euro	125,000,000	70.00%	Pirelli Tyre S.p.A.
					30.00%	Pirelli & C. S.p.A.
Pirelli Servizi Amministrazione e Tesoreria S.p.A.	Services	Milan	Euro	2,047,000	100.00%	Pirelli & C. S.p.A.
Pirelli Sistemi Informativi S.r.l.	Information Systems	Milan	Euro	1,010,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre S.p.A.	Tyre	Milan	Euro	558,154,000	100.00%	Pirelli & C. S.p.A.
Poliambulatorio Bicocca S.r.l.	Services	Milan	Euro	10,000	100.00%	Pirelli Tyre S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104,000	90.35%	Pirelli & C. S.p.A.
					2.95%	Pirelli Tyre S.p.A.
					0.95%	Poliambulatorio Bicocca S.r.l.
					0.98%	Pirelli International Treasury S.p.A.
					0.95%	Driver Italia S.p.A.
					0.98%	Pirelli Industrie Pneumatici S.r.l.
					0.95%	Pirelli Servizi Amministrazione e Tesoreria S.p.A.
					0.95%	Pirelli Sistemi Informativi S.r.l.
					0.95%	HB Servizi S.r.l.
The Netherlands						
E-VOLUTION Tyre B.V.	Tyre	Rotterdam	Euro	170,140,000	100.00%	Pirelli Tyre S.p.A.
Pirelli China Tyre N.V.	Tyre	Rotterdam	Euro	38,045,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Rotterdam	Euro	18,152	100.00%	Pirelli Tyre (Suisse) SA
Poland						
Driver Polska Sp. z o.o.	Tyre	Warsaw	Pol. Zloty	100,000	64.50%	Pirelli Polska Sp. z o.o.
Pirelli Polska Sp. z o.o.	Tyre	Warsaw	Pol. Zloty	625,771	100.00%	Pirelli Tyre S.p.A.

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
United Kingdom						
CTC 2008 Ltd	Tyre	Burton on Trent	British Pound	100,000	100.00%	Pirelli UK Tyres Ltd
Pirelli Cif Trustees Ltd	Financial	Burton on Trent	British Pound	4	25.00%	Pirelli General Executive Pension Trustees LTD
					25.00%	Pirelli General & Overseas Pension Trustees LTD
					25.00%	Pirelli Tyres Executive Pension Trustees LTD
					25.00%	Pirelli Tyres Pension Trustees LTD
Pirelli International plc	Financial	Burton on Trent	Euro	250,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Motorsport Services Ltd	Tyre	Burton on Trent	British Pound	1	100.00%	Pirelli 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	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Romania S.r.l.	Tyre	Slatina	Rom. Leu	853,912,300	100.00%	Pirelli Tyre S.p.A.
Russia						
Closed Joint Stock Company "Voronezh Tyre Plant"	Tyre	Voronezh	Russian Rouble	1,520,000,000	100.00%	Limited Liability Company Pirelli Tyre Russia
Joint Stock Company "Scientific institute of medical polymers"	Tyre	Moscow	Russian Rouble	7,392,000	100.00%	Limited Liability Company Pirelli Tyre Russia
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
					0.31%	Omnia Motor S.A. - Sociedad Unipersonal
Omnia Motor S.A. - Sociedad Unipersonal	Tyre	Valencia	Euro	1,502,530	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Pirelli Neumaticos S.A. - Sociedad Unipersonal	Tyre	Valencia	Euro	25,075,907	100.00%	Pirelli Tyre S.p.A.
Tyre & Fleet S.L. - Sociedad Unipersonal	Tyre	Valencia	Euro	20,000	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Sweden						
Dackia Aktiebolag	Tyre	Taby	Swed. Krona	31,000,000	100.00%	Pirelli Tyre S.p.A.
Inter Wheel Sweden Aktiebolag	Tyre	Karlstad	Swed. Krona	1,000,000	100.00%	Dackia Aktiebolag
Pirelli Tyre Nordic Aktiebolag	Tyre	Bromma	Swed. Krona	950,000	100.00%	Pirelli Tyre S.p.A.
Switzerland						
Pirelli Group Reinsurance Company SA	Reinsurance	Basel	Swiss Franc	3,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre (Suisse) SA	Tyre	Basel	Swiss Franc	1,000,000	100.00%	Pirelli Tyre S.p.A.
Turkey						
Pirelli Lastikleri Dis Ticaret A.S.	Tyre	Istanbul	Turkey Lira	50,000,000	100.00%	Pirelli Otomobil Lastikleri A.S.
Pirelli Otomobil Lastikleri A.S.	Tyre	Istanbul	Turkey Lira	85,000,000	100.00%	Pirelli Tyre S.p.A.
Hungary						
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint	3,000,000	100.00%	Pirelli Tyre S.p.A.
North America						
Canada						
Pirelli Tire Inc.	Tyre	St-Laurent (Quebec)	Can. $	6,000,000	100.00%	Pirelli Tyre (Suisse) SA
U.S.A.						
Pirelli North America Inc.	Tyre	New York (New York)	US $	10	100.00%	Pirelli Tyre S.p.A.
Pirelli Tire LLC	Tyre	Rome (Georgia)	US $	1	100.00%	Pirelli North America Inc.
Prestige Stores LLC	Tyre	Wilmington (Delaware)	US $	10	100.00%	Pirelli Tire LLC

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	120,380,203	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	509,328,303	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda
Pirelli Latam Participaçoes Ltda.	Tyre	Sao Paulo	Bra. Real	247,519,052	100.00%	Pirelli Tyre S.p.A.
Pirelli Ltda.	Financial	Santo Andrè	Bra. Real	14,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Pneus Ltda.	Tyre	Santo Andrè	Bra. Real	1,132,178,494	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda
Comércio e Importação Multimarcas de Pneus Ltda.	Tyre	Sao Paulo	Bra. Real	3,691,500	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda
C.P.Complexo Automotivo de Testes, Eventos e Entretenimento Ltda.	Tyre	Elias Fausto (Sao Paulo)	Bra. Real	6,812,000	100.00%	Pirelli Pneus Ltda
TLM - Total Logistic Management Serviços de Logistica Ltda.	Tyre	Santo Andrè	Bra. Real	3,074,417	99.99%	Pirelli Pneus Ltda
					0.01%	Pirelli Ltda
Chile						
Pirelli Neumaticos Chile Ltda	Tyre	Santiago	Chile Peso/000	1,918,450,809	85.25%	Pirelli Comercial de Pneus Brasil Ltda
					14.73%	Pirelli Latam Participaçoes Ltda
					0.02%	Pirelli Ltda
Colombia						
Pirelli Tyre Colombia S.A.S.	Tyre	Santa Fe De Bogota	Col. Peso/000	222,522,000	85.00%	Pirelli Comercial de Pneus Brasil Ltda
					15.00%	Pirelli Latam Participaçoes Ltda
Mexico						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Silao	Mex. Peso	35,098,400	99.98%	Pirelli Tyre S.p.A.
					0.02%	Pirelli Ltda
Pirelli Neumaticos S.A. de C.V.	Tyre	Silao	Mex. Peso	8,080,816,500	99.76%	Pirelli Tyre S.p.A.
					0.24%	Pirelli Latam Participaçoes Ltda
Pirelli Servicios S.A. de C.V.	Tyre	Silao	Mex. Peso	50,000	99.00%	Pirelli Tyre S.p.A.
					1.00%	Pirelli North America Inc.

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

Investments accounted for by the equity method

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Europe						
Germany						
Industriekraftwerk Breuberg GmbH	Cogeneration	Hoechst / Odenwald	Euro	1,533,876	26.00%	Pirelli Deutschland GmbH
Greece						
Eco Elastika S.A.	Tyre	Athens	Euro	60,000	20.00%	Elastika Pirelli C.S.A.
Italy						
Consorzio per la Ricerca di Materiali Avanzati (CORIMAV)	Financial	Milan	Euro	103,500	100.00%	Pirelli & C. S.p.A.
Eurostazioni S.p.A.	Financial	Rome	Euro	160,000,000	32.71%	Pirelli & C. S.p.A.
Focus Investments S.p.A.	Financial	Milan	Euro	183,333	8.33%	Pirelli & C. S.p.A. (25% of the voting share capital)
Slovakia						
ELT Management Company Slovakia S.R.O.	Tyre	Bratislava	Euro	132,000.00	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, 2019 – June 30, 2019.

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, 2019 – June 30, 2019, 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 1, 2019

The Executive Vice Chairman and Chief Executive Officer	The Corporate Financial Reporting Manager
______________________________	______________________________
(Marco Tronchetti Provera)	(Francesco Tanzi)

PIRELLI & C. SPA

REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

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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 2019 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 2019 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, 1 August 2019

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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