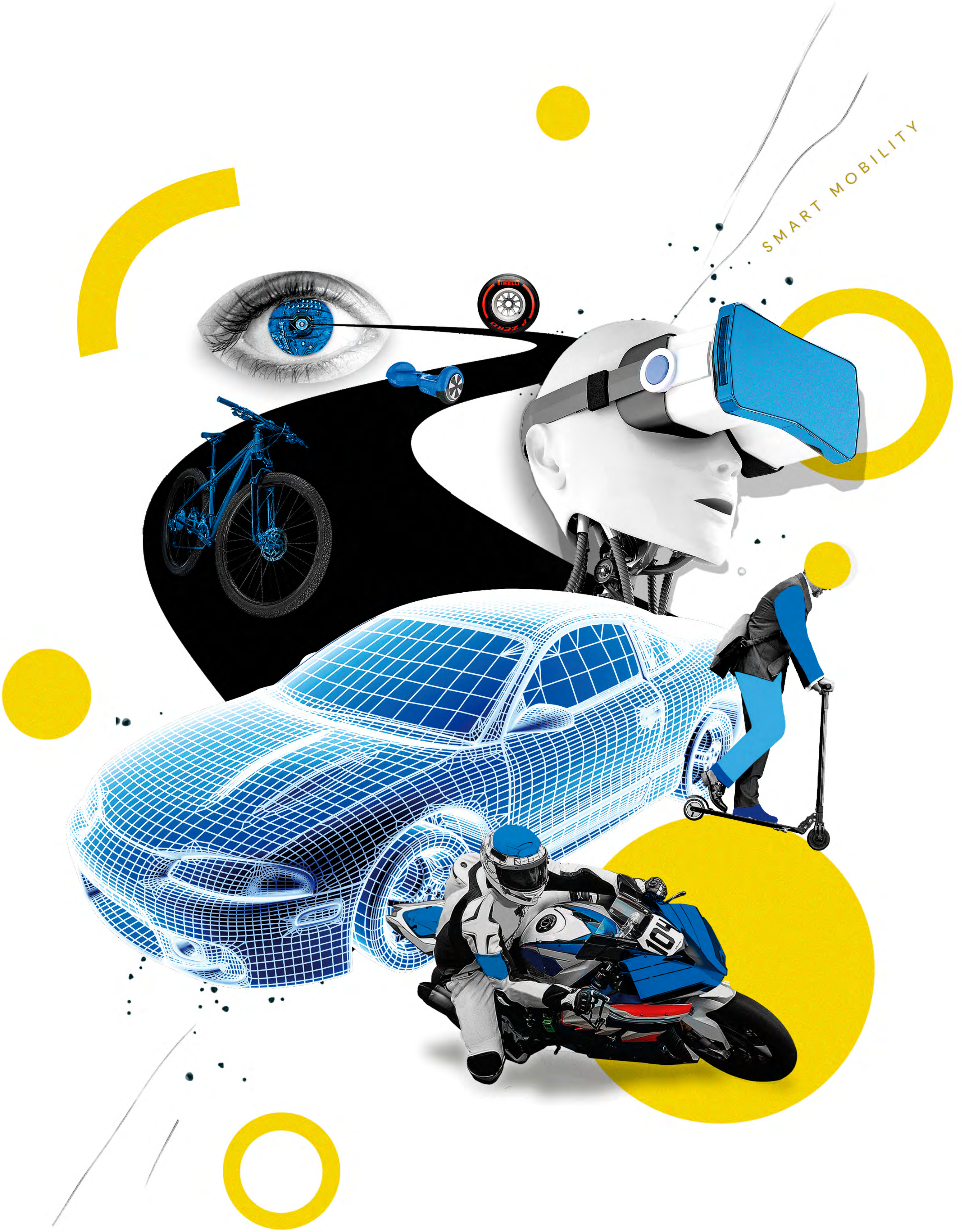
SMART MOBILITY

Directors' report on operations at December 31, 2019

MACROECONOMIC AND MARKET SCENARIO

For 2019, global growth in GDP growth averaged approximately +2.9%, having slowed compared to +3.6% for 2018, also due to the effect of trade tensions between the US and China, which were lessened in part as a result of the preliminary agreement on customs duties reached between the two countries at the end of the year.

In Europe, in particular, economic activity was held back by weakness in the manufacturing sector, especially in Germany, and by political uncertainty in the United Kingdom, which lessened only at the end of the year with the elections, and the agreement to define the country's exit from the EU.

GDP growth in the US equalled +2.3% (+2.9% for 2018), buoyed by the positive performance of the labour market, and the US Government's fiscal stimulus package.

ECONOMIC OVERVIEW

ECONOMIC GROWTH, PERCENTAGE CHANGE IN GDP

	2017	2018	2019
UE 28	2.7	2.0	1.4
USA	2.4	2.9	2.3
China	6.8	6.6	6.1
Brazil	1.3	1.3	1.1
Russia	1.7	2.2	1.1
World	3.9	3.6	2.9

Note: Change in year-on-year percentages. Global growth based on purchasing power parities.
Source: IHS Markit, January 2020.

In China, economic activity was affected by the aforementioned trade tensions with the US, while the use of any fiscal or monetary stimulus was limited by high levels of private sector debt. Growth also slowed in Brazil, weighed down by political uncertainty which impacted reforms, and by weak foreign demand. Russia also suffered a slowdown in private consumption due to a VAT increase in 2019, and weak oil prices.

EXCHANGE RATES

During the course of the year, the euro/US dollar exchange rate averaged 1.12, down by -5.2% compared to 2018. This change reflected the strengthening of the US dollar against the euro and the main currencies of emerging countries, supported by expectations of falling European interest rates, the strength of the US economy, and above all, by the search for a safe haven currency by investors amid trade tensions.

The Chinese yuan went from an average of 6.62 against the US dollar in 2018, to 6.90 for 2019, with a depreciation of approximately -4% linked to worsening trade tensions with the US. The Brazilian real and the Russian rouble also suffered compared to the US dollar during 2019. The real depreciated by -7.3% against the US dollar, while during the same period the rouble depreciated by -3.2% against the US dollar.

KEY EXCHANGE RATES	FOURTH QUARTER		FULL YEAR AVERAGE	
	2019	2018	2019	2018
US$ per euro	1.11	1.15	1.12	1.18
Yuan cinese per US$	7.03	6.91	6.90	6.62
Real brasiliano per US$	4.12	3.80	3.95	3.66
Rublo russo per US$	63.70	66.37	64.66	62.60

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

RAW MATERIALS' PRICES

The slowdown in global demand led to a general drop in the prices of the main energy raw materials during 2019. The average price of Brent stood at US$ 64.2 per barrel, down by -10.3% compared to 2018, when prices were sustained by the announcement of American sanctions against Iran. In 2019, instead, the increase in supply by non-OPEC countries compensated for both the reduction in production in Iran, and the limits imposed by OPEC countries on their production, to contain the surplus of oil on the market.

The trend for Butadiene followed a trend similar to that of oil, with an average price of euro 824 per tonne for 2019, down by -18.5% compared to 2018.

The price of natural rubber instead, remained relatively stable, with a recovery of +3% compared to the average price for 2018. On a monthly basis, the prices wavered between euro 1290 and euro 1515 per tonne, below the peak of over euro 2100 per tonne touched on at the beginning of 2017.

RAW MATERIAL PRICES	FOURTH QUARTER			FULL YEAR AVERAGE		
	2019	2018	% change	2019	2018	% change
Brent (US$ / barrel)	62.5	68.1	-8.2%	64.2	71.5	-10.3%
Butadiene (€ / tonne)	740	1,058	-30.1%	824	1,011	-18.5%
Natural rubber TSR20 (US$ / tonne)	1,371	1,266	8.3%	1,406	1,365	3.0%

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

TREND IN CAR TYRE MARKETS

For 2019 global tyre sales for 2019 fell by -1.4% particularly for the Original Equipment channel (-5.9%), due to macroeconomic uncertainties and a slowdown in global vehicle production (-5.9%), which was particularly accentuated in China at -8.5%, in Europe at -4.2% and North America (-4.0%). The performance of the Replacement channel was more stable with a growth of +0.4% for the year.

The New Premium segment (tyres with rim diameter ≥18 inches) was the segment with the highest growth, with +5.9% at global level for 2019, thanks to a good performance by the Replacement channel (+9.9% for 2019), and the resilience of the Original Equipment market (+0.8% for 2019).

Standard segment sales (tyres with rim diameter ≤17 inches) fell by -2.7%, with Original Equipment down by -8.0%, particularly in EMEA (-9.1%), APAC (-8.0%), and North America (-9.4%), with the Replacement channel at -0.9%, with negative results in Russia (-5.4%), South America (-3.3%) and EMEA (-2.6%).

TRENDS IN CAR TYRE MARKETS

% YEAR-ON-YEAR	1 Q	2 Q	3 Q	4 Q	TOTAL YEAR 2019
Total Car Tyre Market					
Total	**-1.6**	**-2.0**	**-0.1**	**-1.9**	**-1.4**
Original equipment	-6.0	-8.4	-3.9	-5.1	-5.9
Replacement	0.4	0.7	1.2	-0.6	0.4
New Premium Market ≥ 18”					
Total	**5.4**	**4.6**	**8.4**	**5.3**	**5.9**
Original equipment	-0.4	-1.1	4.4	0.7	0.8
Replacement	10.4	9.3	11.2	8.9	9.9
Standard Market ≤ 17”					
Total	**-2.8**	**-3.2**	**-1.6**	**-3.2**	**-2.7**
Original equipment	-7.7	-10.6	-6.5	-6.9	-8.0
Replacement	-0.9	-0.5	-0.1	-1.9	-0.9

Source: Pirelli estimates.

SIGNIFICANT EVENTS OF 2019

On **April 8, 2019**, final judgement (*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 (Imposto Sobre Operações Relativas à Circulação or state Value Added Tax, for the circulation of goods and the provision of interstate and inter-municipal transport and communication services) from the base calculation of PIS and COFINS social security contributions for the 2003-2014 period. 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 that 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 for the modernisation and conversion of production facilities from Standard to High Value, plus the continuous improvement of the mix and product quality in the Campinas (Sào Paolo) and Feira de Santana (Bahia) manufacturing plants. 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 was expected at the time, are destined for the further focusing on High Value production, and to the more rapid reduction of the Standard segment.

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. The appointment of Ning Gaoning, who does not possess the requisites to qualify as an independent or non-executive Director, 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 figures as provided for by the International Financial Reporting Standards (IFRS), alternative performance indicators derived from the IFRS were used in order to allow for a better assessment of the of the Group's operating and financial performance.

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

* * *

This Interim Financial Report at December 31, 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 December 31, 2019 equalled euro 483.1 million;
- rights 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. Rights of use at December 31, 2019 amounted to euro 462.6 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 December 31, 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.

* * *

The tyre sector during 2019, was characterised by weak demand (-1.4% compared to 2018), particularly for the Original Equipment channel (the market at -5.9%), consistent with the drop in global car production. In order to guarantee an adequate level of saturation in the manufacturing plants, and contain 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 more resilient (growth in the Car tyre market ≥18" was +5.9%), and less exposed to competitive pressure, and as such consolidating its leadership position, and strengthening its presence on the market for products which are characterised by a high technological content. For the Standard Segment, where demand remained weak (the market at -2.7% for 2019), Pirelli continued with the reduction of exposure to less profitable products, at the same time reducing inventory levels (-23% in terms of Standard Car inventory volumes), which had increased by the end of 2018 due to the crisis in the Brazilian economy. The company closed 2019 with an impact of inventories on revenues equal to 20.5%, compared to 21.7% at the end of 2018.

Pirelli's results for 2019 were characterised by:

- **revenues equal to euro 5,323.1 million (a target of ≥5.3 billion)**, a growth of +2.5% compared to 2018 (an organic change of +2.2%), thanks to the further strengthening of the High Value segment, which represented 66.5% of consolidated revenues, (+2.8 percentage points compared to 63.7% for 2018);
- **profitability (EBIT margin adjusted) at 17.2%, consistent with the target (>17% ÷ 17.5%).** EBIT adjusted amounted to euro 917.3 million. The contribution of internal levers (price/mix, efficiencies and cost containment measures) limited the impact of the worsening external scenario (increase in the cost of production factors, weakness in market demand and pressure on prices);
- **total net income** equal to euro 457.7 million, a growth of +3.5% compared to euro 442.4 million for 2018;
- **solid cash flow generation**, with net cash flow before dividends without IFRS 16 equal to euro 332.9 million, **consistent with the target of euro 330-350 million**, thanks to the efficient management of investments and working capital. For the **fourth quarter**, net cash flow before dividends without IFRS 16 amounted to euro 978.2 million, an improvement of euro 120 million compared to euro 858.2 million for the fourth quarter of 2018;
- **reduction in the level of debt.** For 2019 the Net Financial Position was equal to euro 3,024.1 million (euro 3,507.2 million including euro 483.1 million derived from the accounting standard IFRS 16), a reduction compared to euro 3,180.1 million at December 31, 2018. The ratio between the Net Financial Position and the EBITDA adjusted without start-up costs stood at 2.42x (2.49x at the end of 2018), consistent with the target (2.42x/2.36x), or 2.59x including the impact of the accounting standard IFRS16 (a target of 2.59x/2.53x).

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

(In millions of euro)

	2019	2018
Net sales	**5,323.1**	**5,194.5**
EBITDA adjusted without start-up costs*	**1,350.7**	**1,279.1**
% of net sales	25.4%	24.6%
EBITDA adjusted**	**1,310.0**	**1,234.7**
% of net sales	24.6%	23.8%
EBITDA***	**1,250.0**	**1,097.4**
% of net sales	23.5%	21.1%
EBIT adjusted without start-up costs*	**958.6**	**1,002.7**
% of net sales	18.0%	19.3%
EBIT adjusted	**917.3**	**955.0**
% of net sales	17.2%	18.4%
Adjustments: - amortisation of intangible assets included in PPA	(114.6)	(114.6)
- non-recurring, restructuring expenses and other	(131.0)	(137.3)
- income from Brazilian tax credits	71.0	-
EBIT	**742.7**	**703.1**
% of net sales	14.0%	13.5%
Net income/(loss) from equity investments	(11.0)	(5.0)
Financial income/(expenses)***	(109.4)	(196.3)
- of which financial income from Brazilian tax credits	*107.3*	-
Net income/(loss) before tax	**622.3**	**501.8**
Tax expenses	(164.6)	(53.0)
Tax rate %	26.5%	10.6%
Net income/(loss) related to continuing operations	**457.7**	**448.8**
Eanings/(loss) per share related to continuing operations (in euro per share)	0.44	0.44
Net income/(loss) related to continuing operations adjusted	514.3	576.3
Net income/(loss) related to discontinued operations	-	(6.4)
Total net income/(loss)	**457.7**	**442.4**
Net income attributable to owners of the Parent Company	438.1	431.6

* Start-up costs refers to contribution to EBITDA and EBIT (amounting to euro 40.7 million (euro 44.4 million in 2018) and euro 41.3 million (euro 47.7 million in 2018)) respectively of the Cyber and Velo activities and costs sustained for the digital transformation of the Group.
** Adjustments refer to restructuring expenses amounting to euro 97 million (euro 67.5 million in 2018), the benefit derived from tax credits in Brazil amounting to euro 71 million, expenses relative to the retention plan amounting to euro 6.9 million (euro 13.3 million in 2018) and costs (i) relative to renegotiation of commercial agreements amounting to euro 13.1 million (euro 14.2 million in 2018) and (ii) not pertinent to normal business operations amounting to euro 14 million (euro 18.3 million in 2018). In 2018 adjustments also included non recurring expenses amounting to euro 24 million.
*** The item includes for 2019, the impacts deriving from the application of the new accounting standard IFRS 16 - Leases to the amount of euro 104.3 million on EBITDA and euro -24 million on financial expenses.

(In millions of euro)

	12/31/2019	12/31/2018
Fixed assets related to continuing operations without IFRS 16	9,007.2	9,017.8
Rights of use IFRS 16	462.6	n/a
Fixed assets related to continuing operations	**9,469.8**	**9,017.8**
Inventories	1,093.8	1,128.5
Trade receivables	649.4	628.0
Trade payables	(1,611.5)	(1,604.7)
Operating working capital related to continuing operations	**131.7**	**151.8**
% of net sales	2.5%	2.9%
Other receivables/other payables	81.0	(39.8)
Net working capital related to continuing operations	**212.7**	**112.0**
% of net sales	4.0%	2.2%
Net invested capital held for sale	-	10.7
Net invested capital	**9,682.5**	**9,140.5**
Equity	**4,826.6**	**4,550.9**
Provisions	1,348.7	1,409.5
Net financial (liquidity)/debt position without IFRS 16	**3,024.1**	**3,180.1**
Lease obligations IFRS 16	483.1	n/a
Net financial (liquidity)/debt position	**3,507.2**	**3,180.1**
Equity attributable to owners of the Parent Company	4,724.4	4,468.1
Investments in property, plant and equipment and intangible assets without IFRS16 (Capex)	390.5	463.4
Increases in Rights of use IFRS16	51.2	n/a
Research and development expenses	232.5	219.0
% of net sales	4.4%	4.2%
Research and development expenses - High Value	215.7	202.9
% on sales High Value	6.1%	6.1%
Employees (headcount at end of period)	31,575	31,489
Industrial sites (number)	19	19

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		3 Q		4 Q		TOTAL YEAR	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Net sales	**1,313.8**	1,310.3	**1,341.0**	1,320.0	**1,381.6**	1,294.9	**1,286.7**	1,269.3	**5,323.1**	5,194.5
yoy	0.3%		1.6%		6.7%		1.4%		2.5%	
*organic yoy **	1.2%		1.6%		4.1%		2.0%		2.2%	
EBITDA adjusted without start-up costs	327.0	298.0	330.5	310.3	350.1	328.0	343.1	342.8	1,350.7	1,279.1
% of net sales	24.9%	22.7%	24.6%	23.5%	25.3%	25.3%	26.7%	27.0%	25.4%	24.6%
EBITDA adjusted	**315.6**	288.1	**320.5**	299.8	**342.4**	319.8	**331.5**	327.0	**1,310.0**	1,234.7
% of net sales	24.0%	22.0%	23.9%	22.7%	24.8%	24.7%	25.8%	25.8%	24.6%	23.8%
EBITDA	**308.2**	282.4	**369.7**	290.4	**299.5**	312.2	**272.6**	212.4	**1,250.0**	1,097.4
% of net sales	23.5%	21.6%	27.6%	22.0%	21.7%	24.1%	21.2%	16.7%	23.5%	21.1%
EBIT adjusted and without start-up costs	230.7	229.4	231.7	243.9	252.0	258.8	244.2	270.6	958.6	1,002.7
% of net sales	17.6%	17.5%	17.3%	18.5%	18.2%	20.0%	19.0%	21.3%	18.0%	19.3%
EBIT adjusted	**219.2**	218.4	**221.3**	231.7	**244.5**	250.0	**232.3**	254.9	**917.3**	955.0
% of net sales	16.7%	16.7%	16.5%	17.6%	17.7%	19.3%	18.1%	20.1%	17.2%	18.4%
Adjustments: - amortisation of intangible assets included in PPA	(28.7)	(28.7)	(28.6)	(28.6)	(28.7)	(28.7)	(28.6)	(28.6)	(114.6)	(114.6)
- non-recurring, restructuring expenses and other	(7.4)	(5.7)	(22.6)	(9.4)	(42.9)	(7.6)	(58.1)	(114.6)	(131.0)	(137.3)
- income from Brazilian tax credits	-	-	71.8	-	-	-	(0.8)	-	71.0	-
EBIT	**183.1**	184.0	**241.9**	193.7	**172.9**	213.7	**144.8**	111.7	**742.7**	703.1
% of net sales	13.9%	14.0%	18.0%	14.7%	12.5%	16.5%	11.3%	8.8%	14.0%	13.5%

* before exchange rate effect and high inflation accounting in Argentina

Net sales amounted to euro 5,323.1 million and recorded an organic growth of +2.2% compared to the previous year, or +2.5% including the combined impact of the exchange rate effect and the adoption of hyper-inflation accounting in Argentina (totalling +0.3%).

High Value revenues amounted to euro 3,539.9 million, and recorded a growth of +6.9% compared to the corresponding period of 2018 (an organic growth of +5.2% excluding the positive exchange rate effect of +1.7 percentage points), which accounted for a 66.5% share of the total turnover which had increased compared to 63.7% for 2018.

(In millions of euro)

	2019	% of total	2018	% of total	Change YoY	Organic change YoY
High Value	3,539.9	66.5%	3,309.9	63.7%	6.9%	5.2%
Standard	1,783.2	33.5%	1,884.6	36.3%	-5.4%	-3.2%
Total net sales	**5,323.1**	**100.0%**	**5,194.5**	**100.0%**	**2.5%**	**2.2%**

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

	1 Q	2 Q	3 Q	4 Q	TOTAL YEAR 2019
Volume	-6.5%	-3.5%	0.6%	1.5%	-2.0%
of which:					
- High Value	*4.5%*	*3.4%*	*10.2%*	*7.8%*	*6.4%*
- Standard	*-16.6%*	*-11.0%*	*-8.8%*	*-0.7%*	*-9.7%*
Price/mix	7.7%	5.1%	3.5%	0.5%	4.2%
Change on a like-for-like basis	**1.2%**	**1.6%**	**4.1%**	**2.0%**	**2.2%**
Translation effect/High inflation Argentina	-0.9%	-	2.6%	-0.6%	0.3%
Total change	**0.3%**	**1.6%**	**6.7%**	**1.4%**	**2.5%**

The trend in sales **volumes** (-2% for 2019, and +1.5% for the fourth quarter), on the one hand reflected the increase in High Value volumes (+6.4%), and on the other, the drop in Standard volumes (-9.7%). During the fourth quarter, overall volumes grew by +1.5% due to a +7.8% growth in High Value segment sales, and a -0.7% drop in Standard segment sales.

High Value segment volumes increased by +6.4% (+7.8% for the fourth quarter) while **Car New Premium (≥18 inches)** volumes increased by +8.0% (market performance at +5.9%), and by +8.7% for the fourth quarter (market at +5.3%), with an improvement in market share in the main geographic regions.

For the fourth quarter of 2019 Pirelli recorded a growth in volume of +15.3% for Car tyres ≥18 inches on the Original Equipment channel due to new supplies in Europe of High Value, high technological content products which are compliant with the new regulations for the reduction of CO_2 emissions, as well as new contracts in North America and APAC. There was more contained growth for the Replacement channel (+3.5%), which reflected the unfavourable basis of comparison (+15.6% growth for the fourth quarter of 2018), and the trend for *Winter* products which was impacted by mild winter temperatures. The difference, compared to the 2019 target, was the growth of the High Value segment by ≥+7.5%, attributable to the weakening demand for *Specialties* ≤17 inches mainly on the Original Equipment channel, which was consistent with the fall in Car tyre production, and the more contained growth for *Winter* products.

There was a positive price/mix performance (+4.2%) supported by the growing turnover share of the High Value segment, and by the improvement of the product mix both for the High Value and Standard segment. The price/mix performance for 2019 reflected the different trends for the individual components during the year. During the first half-year, price/mix performance (+6.4%) benefited from higher sales for the Replacement channel (+13.1% for Replacement Car tyres ≥18 inches compared to -3.4% for the Original Equipment channel), and from the sharp reduction in Standard volumes (-13.9%). Improvement in the price/mix was however more contained during the second half-year (+2%) and particularly in the fourth quarter (+0.5%) due to, higher Original Equipment channel sales (+15.3% in volumes for Car tyres ≥18 inches for the fourth quarter compared to +3.5% for the Replacement channel), and to the more contained reduction of the Standard segment (-0.7% for the fourth quarter of 2019), which reflected the unfavourable basis of comparison (-22.6% for the fourth quarter of 2018).

Given the weak market scenario, the competitive pressure on prices persisted particularly for the Original Equipment channel. The trend in prices for the Replacement channel improved during the fourth quarter compared to the previous quarter, thanks to price increases in Europe, the US and Brazil.

The exchange rate effect was slightly positive: during the fourth quarter the impact had been negative by -0.6%, mainly due to the volatility of emerging market currencies against the euro.

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

	2019				2018**
	euro\mln	%	yoy	Organic Yoy*	%
EMEA	2,288.7	43.0%	-1.7%	-1.5%	44.9%
North America	1,101.9	20.7%	9.7%	4.2%	19.3%
APAC	975.1	18.3%	7.9%	6.3%	17.4%
South America	682.0	12.8%	-1.4%	6.1%	13.3%
Russia and Nordics	275.4	5.2%	3.7%	3.5%	5.1%
Total	**5,323.1**	**100.0%**	**2.5%**	**2.2%**	**100.0%**

* before exchange rate effect and high inflation accounting in Argentina
** the comparative data for 2018 have been restated in accordance with the new repartitions by geographic regions

EMEA (43% of sales) closed 2019 with a fall in revenues of -1.7%, impacted by the strong drop in sales for the Standard Segment, consistent with the Company's strategy to reduce exposure to this segment. Profitability was positioned in the mid-teens range, and had declined compared to 2018, impacted by the previously mentioned decline in Standard sales volumes, and the increased pressure on prices for Standard segment products and for High Value products with lower technological content.

North America (20.7% of sales) recorded a revenue growth of +9.7% driven by the High Value segment where Pirelli recorded an increase in market share for the Original Equipment channel thanks to new contracts. Profitability (EBIT margin adjusted) stood in the twenties range.

APAC (18.3% of sales) which recorded a revenue growth of +7.9% was the geographic region with the highest profitability (an EBIT margin adjusted in the twenties range).

South America (12.8% of sales) recorded a decline in revenues of -1.4%, of +6.1% net of the exchange rate effect, with a drop in volumes of -7.4%, as a result of:

- the weakness of the market (-3.3% for the total car market);
- the continued focus on the mix, with the reduction of sales of less profitable Standard segment products with lower rim diameters;
- the destination of a part of production for export to North America in consideration of the growing demand for High Value Pirelli products, and the continued growth of the mix recorded by the Brazilian factories.

The price/mix saw a marked improvement (+13.4% for 2019 compared to the corresponding period of 2018), thanks to the price increases implemented in Brazil which occurred during the fourth quarter of 2018, and to the strong improvement in the product mix.

Profitability (EBIT margin adjusted) in the low-teens range had improved compared to 2018, due to the improvement and conversion of the mix. Efficiency measures helped reduce the impact of costs arising from the under-utilisation of factories.

Russia and Nordics (5.2% of sales) recorded a change in revenues of +3.7% thanks to the strengthening of the High Value segment and the increased focus on the most profitable segments. Profitability was at mid-teens level.

EBITDA adjusted without start-up costs for 2019 was equal to euro 1,350.7 million, a growth of +5.6% compared to euro 1,279.1 million for 2018. It included a benefit of euro 104.3 million derived from the application - as of January 1, 2019 - of the new accounting standard IFRS 16 which established a new method of accounting for lease contracts.

EBIT adjusted without start-up costs equalled euro 958.6 million (euro 1,002.7 million for 2018). The EBIT margin adjusted without start-up costs stood at 18% (19.3% for 2018), impacted by High Value volumes which accounted for an 84% share of total turnover, which had increased compared to 83% for 2018.

EBIT adjusted equalled euro 917.3 million (euro 955 million for 2018) with a margin of 17.2% (18.4% for 2018). Internal levers (price/mix, efficiencies and the costs reduction program) contributed in containing the impacts of the external scenario (an 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 +122.9 million) offset the rise in the price of raw materials (euro -66.7 million) and the previously mentioned fall in volumes (euro -44.8 million);
- efficiencies (euro +70 million, 1.3% of revenues) offset cost inflation (euro -76.6 million);
- the cost reduction plan (euro 50 million) contributed in limiting the impact of higher amortisation and depreciation (euro 25 million), of expenses linked to the development of the High Value segment (euro 56 million), and costs (approximately euro 20 million) linked to the temporary increase in the under-utilisation of the Standard capacity in order to reduce inventories.

(In millions of euro)

	1 Q	2 Q	3 Q	4 Q	TOTAL YEAR
2018 EBIT Adjusted	**218.4**	**231.7**	**250.0**	**254.9**	**955.0**
- Internal levers:					
Volumes	(37.7)	(19.2)	3.0	9.1	(44.8)
Price/mix	62.7	37.9	20.0	2.3	122.9
Amortisation, depreciation and other	3.4	5.3	(25.5)	(27.4)	(44.2)
Efficiencies	16.4	19.7	20.0	13.9	70.0
- External levers:					
Cost of production factors (commodities)	(27.0)	(31.5)	(9.1)	0.9	(66.7)
Cost of production factors (labour/energy/others)	(14.9)	(20.0)	(20.0)	(21.7)	(76.6)
Difference from foreign currency translation	(2.1)	(2.6)	6.1	0.3	1.7
Total change	**0.8**	**(10.4)**	**(5.5)**	**(22.6)**	**(37.7)**
2019 EBIT adjusted	**219.2**	**221.3**	**244.5**	**232.3**	**917.3**

EBIT equalled euro 742.7 million (euro 703.1 million for 2018) and included:

- the amortisation of intangible assets identified during the Purchase Price Allocation (PPA) of euro 114.6 million (consistent with 2018);
- restructuring expenses to the amount of euro 97.0 million relative to the impairment of property, plant and equipment and other costs for restructuring mainly in Brazil and Italy;
- other expenses to the amount of euro 34 million, of which euro 6.9 million were relative to the retention plan, euro 14.0 million relative to costs not pertinent to operations management and euro 13.1 euro million relative to the renegotiation of commercial agreements with customers;
- income of euro 71.0 million due to the recognition of tax credits in Brazil, net of the associated legal expenses.

Income/(loss) from equity investments was negative to the amount of euro 11.0 million compared to the negative amount of euro 5.0 million for 2018, and includes the pro-rata share of the loss attributable to the Chinese joint venture Xushen Tyre (Shanghai) Co., Ltd. (euro 7.2 million), the pro-rata share of the loss attributable to the Indonesian joint venture PT Evoluzione Tyres (euro 2.8 million).

Net financial expenses amounted to euro 109.4 million (euro 196.3 million for 2018) which mainly reflected:

- the positive effect to the amount of euro 107.3 million deriving from the recognition of tax credits in Brazil;
- the negative impact of euro 23.5 million in lease expenses deriving from the application of the new accounting standard IFRS 16 - Leases.

On a like-for-like basis with respect to 2018, net financial expenses which amounted to euro 193.2 million were substantially consistent with the previous year (euro 196.3 million).

The cost of debt year-on-year stood at 2.83% compared to 2.95% for 2018.

The reduction in the cost of debt during the course of 2019 mainly reflected:

- a reduction in the cost of the central credit facilities thanks to the partial replacement of existing debt with new debt at a lower cost, and to the reduction of the interest margin on the main bank credit facilities following an improvement in the Group's leverage to which these margins are indexed;
- reduced exposure for the Group to countries with high interest rates, which at December 31, 2019 represented less than 19% of the Group's gross debt (20.3% at December 2018).

Tax expenses for 2019 amounted to euro 164.6 million against net income before tax of euro 622.3 million, with a tax rate which stood at 26.5%, consistent with the expected tax rate for the 2019 financial year. For 2018 the tax rate had equalled 10.6% in that it had included the benefit of the subsidised Patent Box tax relief scheme for the 2015 – 2018 financial years, due to the agreement signed on October 15, 2018 with the Italian Tax Office.

Net income related to continuing operations amounted to euro 457.7 million compared to gains of euro 448.8 million for 2018. The results for 2019 also benefited from tax credits in Brazil, while the results for the previous financial year had benefitted from the contribution derived from the subsidised Patent Box tax relief scheme for the 2015 – 2018 financial years.

Net income related to continuing operations adjusted amounted to euro 514.3 million, compared to euro 576.3 million for 2018.

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

(In millions of euro)

	2019	2018
Net income/(loss) related to continuing operations	**457.7**	**448.8**
Amortisation of intangible assets included in PPA	114.6	114.6
Non-recurring expenses	-	24.0
Restructuring expenses	97.0	67.5
Costs relative to renegotiation of commercial agreements with customers	13.1	14.2
Costs not pertinent to normal business operations	14.0	18.3
Income from Brazilian tax credits	(71.0)	-
Retention plan	6.9	13.3
Financial income from Brazilian tax credits	(107.3)	-
Other net financial income	-	2.1
Tax	(10.7)	(126.5)
Net income/(loss) related to continuing operations adjusted	**514.3**	**576.3**

Net income related to discontinued operations for 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 the 2018.

Net income attributable to owners of the Parent Company amounted to euro 438.1 million compared to the positive result of euro 431.6 million for 2018.

Equity went from euro 4,550.9 million at December 31, 2018 to euro 4,826.6 million at December 31, 2019.

Equity attributable to the owners of the Parent Company at December 31, 2019 equalled euro 4,724.4 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	(10.2)	4.3	(5.9)
Net income/(loss)	438.1	19.6	457.7
Actuarial gains/(losses) on employee benefits	(13.1)	-	(13.1)
Dividends approved	(177.0)	(9.0)	(186.0)
High inflation accounting Argentina	27.5	-	27.5
Other	(9.0)	4.5	(4.5)
Total changes	**256.3**	**19.4**	**275.7**
Equity at 12/31/2019	**4,724.4**	**102.2**	**4,826.6**

The reconciliation statement for equity attributable to the Parent Company and consolidated equity attributable to the Shareholders of the Parent Company is shown below:

(In millions of euro)

	Share Capital	Treasury reserves	Net income/(loss)	TOTAL
Equity of Pirelli & C. S.p.A. at 12/31/2019	**1,904.4**	**2,402.8**	**273.2**	**4,580.4**
Net income/(loss) of consolidated companies (before consolidation adjustments)	-	-	420.5	420.5
Share capital and reserves of consolidated companies (before consolidation adjustments)	-	4,364.2	-	4,364.2
Consolidation adjustments:				
- carrying amount of equity investments in consolidated companies	-	(4,647.8)	-	(4,647.8)
- intragroup dividends	-	263.8	(263.8)	-
- others	-	(1.1)	8.2	7.1
Consolidated equity of Group at 12/31/2019	**1,904.4**	**2,381.9**	**438.1**	**4,724.4**

The **net financial position** was negative to the amount of euro 3,024.1 million (euro 3,507.2 million excluding lease obligations pursuant to IFRS 16 equal to euro 483.1 million), compared to euro 3,180.1 million at December 31, 2018. It was composed as follows:

(In millions of euro)

	12/31/2019	12/31/2018
Current borrowings from banks and other financial institutions without IFRS 16	1,341.6	800.1
Current derivative financial instruments	31.7	53.5
Non-Current borrowings from banks and other financial institutions without IFRS 16	3,544.5	3,929.1
Non-Current derivative financial instruments	10.3	13.8
Lease obligations IFRS 16	483.1	-
Total gross debt	**5,411.2**	**4,796.5**
Cash and cash equivalents	(1,609.8)	(1,326.9)
Other financial assets at fair value through Income Statement	(38.1)	(27.2)
Current financial receivables and other assets**	(35.5)	(27.4)
Current derivative financial instruments	(32.1)	(91.2)
Net financial debt *	**3,695.7**	**3,323.8**
Non-Current derivative financial instruments	(52.5)	(20.1)
Non-current financial receivables and other assets**	(136.0)	(123.6)
Total net financial (liquidity) / debt position	**3,507.2**	**3,180.1**
Lease obligations IFRS 16	(483.1)	-
Net financial (liquidity) / debt position without IFRS 16	**3,024.1**	**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 8.7 million as at December 31, 2019 and euro 6.1 million as at December 31, 2018.

The **structure of gross debt** which amounted to euro 5,411.2 million, was as follows:

in thousand of euro

	12/31/2019	MATURITY DATE					
		within 1 year	between 1 and 2 years	between 2 and 3 years	between 3 and 4 years	between 4 and 5 years	more than 5 years
Use of unsecured financing ("Facilities")	1,994.8	252.1	-	1,742.7	-	-	-
Bond EURIBOR +0,70% - 2018/2020	199.9	199.9	-	-	-	-	-
Bond 1,375% - 2018/2023	547.8	-	-	-	547.8	-	-
Schuldschein	523.7	-	81.8	-	421.9	-	20.0
Bilateral long term borrowings	722.4	-	-	-	124.6	597.8	-
ISP short term borrowing	200.0	200.0	-	-	-	-	-
Other loans	739.5	720.8	2.6	12.4	3.0	0.7	-
Lease obligations IFRS 16	483.1	77.8	65.9	56.0	47.7	40.8	194.9
Total gross debt	**5,411.2**	**1,450.6**	**150.3**	**1,811.1**	**1,145.0**	**639.3**	**214.9**
		26.8%	*2.8%*	*33.5%*	*21.1%*	*11.8%*	*4.0%*

At December 31, 2019 the Group had a liquidity margin equal to euro 2,347.9 million composed of euro 700.0 million in the form of non-utilised committed credit facilities, and euro 1,609.8 million in cash and cash equivalents, in addition to financial assets at fair value through the Income Statement to the amount of euro 38.1 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 December 31, 2019 which includes these effects:

(In millions of euro)

Net financial (liquidity) / debt position 12/31/2018	**3,180.1**
Net cash flow without IFRS 16	(156.0)
Net financial (liquidity) / debt position 12/31/2019 without IFRS 16	**3,024.1**
Lease obligations IFRS 16 at transition date (01/01/2019)	494.3
Change in NFP from lease obligations IFRS 16	(11.2)
Net financial (liquidity) / debt position 12/31/2019	**3,507.2**

Net cash flow in terms of change in the Net Financial Position was positive to the amount of euro 167.2 million (positive at euro 156.0 million without IFRS 16) and is summarised as follows:

(In millions of euro)

	1 Q		2 Q		3 Q		4 Q		TOTAL	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
EBIT adjusted	219.2	218.4	221.3	231.7	244.5	250.0	232.3	254.9	917.3	955.0
Amortisation and depreciation (excluding PPA amortisation)	96.5	69.7	99.1	68.1	98.0	69.8	99.1	72.1	392.7	279.7
Investments in property, plant and equipment and intangible assets (Capex)	(78.0)	(85.3)	(89.7)	(93.9)	(74.6)	(117.5)	(148.2)	(166.7)	(390.5)	(463.4)
Increases in Rights of use IFRS16	(3.2)	n/a	(14.0)	n/a	(8.5)	n/a	(25.5)	n/a	(51.2)	n/a
Change in working capital / other	(836.0)	(928.8)	10.1	(68.9)	(136.8)	(247.4)	901.9	856.9	(60.8)	(388.2)
Operating net cash flow	**(601.5)**	**(726.0)**	**226.8**	**137.0**	**122.6**	**(45.1)**	**1,059.6**	**1,017.2**	**807.5**	**383.1**
Financial income / (expenses)	(48.1)	(55.2)	38.1	(62.8)	(65.2)	(20.8)	(34.2)	(57.5)	(109.4)	(196.3)
Reversal of financial income from tax credits in Brazil	-	-	(99.8)	-	(0.8)	-	(6.7)	-	(107.3)	-
Taxes paid	(30.1)	(31.1)	(45.9)	(36.2)	(37.4)	(33.8)	(28.6)	(17.9)	(142.0)	(119.0)
Cash Out for non-recurring and restructuring expenses / other	(16.0)	(38.2)	(17.9)	(11.9)	(7.4)	(4.6)	(10.9)	(17.3)	(52.2)	(72.0)
Other dividends paid	-	-	(8.9)	-	-	(8.4)	-	-	(8.9)	(8.4)
Differences from foreign currency translation / other	-	(11.7)	(19.8)	6.4	(0.2)	(18.7)	(6.2)	14.8	(26.2)	(9.2)
Net cash flow before dividends, extraordinary transactions and investments	**(695.7)**	**(862.2)**	**72.6**	**32.5**	**11.6**	**(131.4)**	**973.0**	**939.3**	**361.5**	**(21.8)**
Industrial reorganisation	-	5.3	-	(10.3)	-	9.6	-	(14.5)	-	(9.9)
Disposals/(Acquisition) of investments	(17.2)	136.5	(0.2)	0.2	-	-	-	(66.6)	(17.4)	70.1
Net cash flow before dividends paid by Parent Company	**(712.9)**	**(720.4)**	**72.4**	**22.4**	**11.6**	**(121.8)**	**973.0**	**858.2**	**344.1**	**38.4**
Net cash flow before dividends paid by Parent Company w/o IFRS 16	*(732.9)*	*(720.4)*	*67.9*	*22.4*	*19.7*	*(121.8)*	*978.2*	*858.2*	*332.9*	*38.4*
Dividends paid by Parent Company	-	-	(176.9)	-	-	-	-	-	(176.9)	-
Net cash flow (*)	**(712.9)**	**(720.4)**	**(104.5)**	**22.4**	**11.6**	**(121.8)**	**973.0**	**858.2**	**167.2**	**38.4**
Net cash flow without IFRS 16	*(732.9)*	*(720.4)*	*(109.0)*	*22.4*	*19.7*	*(121.8)*	*978.2*	*858.2*	*156.0*	*38.4*

* The item for the year 2019 refers to the change in the Net FinancialPosition calculated by including, as of 01/01/2019, lease obligations recorded due to the application of the new accounting standard IFRS 16 – Leases.

Net cash flow before dividends, extraordinary transactions and investments which was positive to the amount of euro 361.5 million, had improved by euro 383.3 million compared to 2018 (negative at euro 21.8 million), thanks mainly to the improvement in the management of operating cash flow.

More specifically, **operating net cash flow** for 2019 was positive to the amount of euro 807.5 million, and had improved by euro 424.4 million compared to 2018 (positive at euro 383.1 million), and reflected:

- investments in property, plant & equipment and intangible assets (CapEx) to the amount of euro 390.5 million (euro 463.4 million for 2018). These investments were primarily aimed at High Value activities, and at the constant improvement of the quality and mix in all manufacturing plants;
- increases in the rights of use IFRS 16 to the amount of euro 51.2 million which derived from the application of the new accounting standard IFRS 16, and were relative to the new lease contracts signed during the course of 2019;
- effective working capital management with cash absorption equal to a negative euro 60.8 million (negative at euro 388.2 million for 2018), which was an improvement compared to the previous year, thanks mostly to the normalisation of inventory levels.

In fact, in addition to the recovery measures implemented 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, measures for the normalisation of inventories were carried out, which at the end of December 2019 had recorded a -7% reduction in volumes compared to the end of the previous year, with:

- a decline of -23% in Standard products, consistent with the recovery plan announced at the beginning of the year; and,
- a slight in increase of +5% in High Value products, also in order to ensure a better level of service to the end customer.

Thanks to the measures taken for the containment of inventories for finished products, and to further measures also taken to reduce inventories for raw materials, by the end of December 2019 inventories levels had reached a percentage share of sales equal to 20.5%, consistent with the year-end target of 20.5% - 21% of revenues, compared to 21.7% at the end of 2018.

Net cash flow before dividends paid by the Parent Company before the application of the IFRS 16 accounting standard, was positive to the amount of euro 332.9 million (positive at euro 38.4 million for 2018), and positive to the amount of euro 344.1 million including the impact of IFRS 16. Net cash flow also included the impact of extraordinary transactions and investments (euro -17.4 million), mainly attributable to the recapitalisation of the Indonesian joint venture PT Evoluzione Tyres. During 2018, the impact of investments and extraordinary transactions had been positive to the amount of euro 60.2 million, and was mainly attributable to the disposal of the investment in Mediobanca (euro +152.8 million), to the acquisition of a 49% stake in the new joint venture in China (euro -65.2 million), and to the completion of the strengthening of the distribution chain in Brazil (euro -19.9 million).

Net cash flow which included the distribution of dividends by the Parent Company amounting to euro 176.9 million, was positive at euro 167.2 million compared to euro 38.4 million for 2018.

RESEARCH AND DEVELOPMENT ACTIVITIES

The research and development activities carried out by Pirelli constitute a central phase for the development of new products. The Research and Development department - which dedicates strong attention to technological innovations - counts over 2,100 personnel (equal to approximately 6.7% of the Group's human resources) between its Milan headquarters and the 12 technology centres located in various geographical regions, which allow for a direct relationship with major car manufacturers. Pirelli's model for research and development, implemented in accordance with the *"Open Innovation"* model, is carried out through a series of collaborations with partners who are external to the Group - such as suppliers, universities and vehicle manufacturers - for the purposes of pre-empting technological innovations for the sector, and to direct research and development activities towards meeting the needs of the end consumer.

Research and Development expenses for 2019 totalled euro 232.5 million, (4.4% of sales) of which euro 215.7 million was destined for High Value activities (6.1% of High Value revenues).

Pirelli also continued to develop their CYBER™ technologies which, thanks to the sensor technology inside the tyre, contributes in rendering information available, in order to periodically improve the safety or performance of vehicles. Pirelli was the first company in the world from the tyre sector, to share information on the 5G network regarding road surfaces as detected by intelligent tyres. A demonstration took place during the *The 5G Path of Vehicle-to-Everything Communication* event organised by the 5GAA - Automotive Association, of which Pirelli is a member. Thanks to the cooperation between Pirelli, Ericsson, Audi, Tim, Italdesign and KTH, on the test track on the roof of the Lingotto building, it was demonstrated as to how a vehicle equipped with Pirelli *Cyber* sensorised tyres and connected to the 5G network, was able to transmit the aquaplaning risk detected by the tyres, to another oncoming vehicle, through the use of ultra-wide broadband and the low latency of 5G. In 2019 Pirelli also presented *Track Adrenaline* in Italy, a product for track day enthusiasts, which includes a range of *P Zero Trofeo R* sensorised tyres. *Track Adrenaline* features true virtual track engineering which monitors tyre pressure and temperatures in real time, and combines this information with telemetric data, in order to provide the driver with indications and suggestions on how to best improve performance on the track.

PRODUCT INNOVATION

In order to develop new products specifically designed to meet the needs and technical specifications of its customers, Pirelli has established long-lasting relationships with major Prestige and Premium car manufacturers. The development of products in partnership with these car manufacturers, is geared towards producing tyres that match the dynamic characteristics and electronics of the vehicles (the so-called *Perfect Fit*). Pirelli is the absolute leader in the Prestige segment with a market share that exceeds 50% for the Original Equipment channel. Pirelli is also the leading supplier to brands such as Aston Martin, Bentley, Ferrari, Porsche, and Maserati, and is the sole supplier to Lamborghini, McLaren and Pagani Automobili. For the Premium sector there was further proof of the special relationship with companies such as Alfa Romeo, Audi, BMW, Mercedes, Jaguar and Land Rover.

In 2019 Pirelli was also given an award by the Ford Motor Company, after being chosen from amongst its best suppliers for its commitment to sustainability, the *Brand Pillar of Sustainability World Excellence Award*, which recognises companies that exceed expectations and attain the highest levels of excellence.

Pirelli's strong market presence is proven by a portfolio of approximately 3,400 homologations, of which 2,800 are High Value (82%) and more than 900 are *Specialties*. Pirelli can count on a portfolio of over 600 homologations for *Run Flat* products, a technology which allows you to drive with a perforated tyre for long enough to reach the nearest tyre supplier for a replacement. Amongst the brands that have chosen to homologate their vehicles with Pirelli *Run Flat* are Alpha Romeo, BMW, Cadillac, Dodge, Jeep, Mercedes and Mini. Pirelli's *Run Flat* technology is available in *P Zero, Cinturato, Scorpion* and *Scorpion Winter, Winter Sottozero 3* and *Winter Sottozero Series II* tyres: a range which is able to satisfy 97% of rim diameters from 18" and upwards. For rim sizes of 18" and upwards, Pirelli has also established itself as the market leader in the winter segment, where it has the largest number of marked tyres, which represent 69% of the total market. The complete range now includes 900 homologated winter tyres. A fundamental part of this strategy are the two new Pirelli proving grounds. These are located at the Passo del Tonale (Tonale Pass) in Italy, which is the closest to Pirelli's R&D Headquarters in Milan, and at Flurheden in Sweden, which offer more than 20 kilometres of icy and snow covered tracks, and where each season over 100 days of testing can be carried out, taking in more than 25,000 kilometres using more than 30,000 tyres.

The new studded *Ice Zero 2* tyre was introduced on Pirelli's proving ground in Sweden for high end vehicles in extreme winter conditions. Compared to its previous generation, traction and braking have improved, while at the same time Pirelli's engineers have also managed to reduce rolling noise, thanks to a new stud arrangement. Dry weather performance has improved as well, thanks to a reduction in the depth of the tread and of the 3D grooves on the shoulder. The *P ZERO WINTER*, the first winter tyre with the driving feel of a summer tyre, was presented at the 2019 Geneva International Motor Show. It draws both safety and performance on cold asphalt from Pirelli's vast experience with winter tyres, while the driving experience which remains unaltered, is drawn directly from the *P Zero.* Requests from car manufacturers highlighted the necessity in providing tyres for high performance cars that can cope with the prodigious power and torque that these vehicles are capable of generating, even in low grip conditions. The evolution of the *P Zero* also takes aim at the growing market for electric sports cars. The *Elect* marking which identifies tyres created for electric cars or plug-in hybrids, was presented at Geneva. Pirelli tyres distinguished by the *Elect* marking offer multiple advantages for eco-friendly cars, thanks to a specific package of technical solutions. First and foremost is the low rolling resistance which allows for maximised autonomy for these vehicles. Then there is the reduction of rolling noise, resulting in quieter car interiors, particularly for electric cars, where the engine is no longer the primary source of noise, which means that combating the frequencies produced by the tyres maximises one of the main advantages of the electric drive: silence. Finally, Pirelli tyres marked *Elect* offer immediate grip in response to the stresses from the transmission. Electric motors in fact, deliver maximum available torque from minimum rpm, and therefore need tyres capable of capable of efficiently gripping the asphalt. Every tyre marked Pirelli *Elect* is customised for the vehicle for which it is intended in accordance with the *Perfect Fit* strategy.

For the Motorcycle sector, Pirelli presented the *ANGEL™ GT II*, the new tyre that rewrites the standards for the Sport Touring sector in terms of mileage, wet performance and sportiness combined with safety. The innovative variable density carcass and the high silica content compounds, combined with the new tread design which derives from the intermediate racing solutions developed for the FIM Superbike World Championship, allows for benchmark performances and maximises the effect of the electronic guidance systems. The *Pirelli ANGEL™ GT* II won the comparative test for Sport Touring tyres carried out by the Italian magazine *Motociclismo*, obtaining the highest possible points attainable in all instrumented tests carried out both on dry and wet surfaces, and being judged as the tyre with the lowest wear after 7,000 kilometres.

Also in 2019, Pirelli was confirmed as the first and natural choice of the many motorcycle manufacturers which have chosen Pirelli tyres, including the most powerful naked tyres on the market, as Original Equipment for their new models arriving in 2020. Seven tyres were chosen to equip thirty-four new motorcycle models from nine different motorcycle manufacturers: Ducati, MV Agusta, Aprilia, Kawasaki, Triumph, Indian Motorcycle and the electric Energica Motor Company, Zero Motorcycles and Tacita.

In the *Velo* world, after the launch of the *P Zero Velo Cinturato*, and the *Cycl-e* tyres, in 2019 Pirelli entered the MTB (mountain bike) market with its dedicated range, the *Scorpion MTB* which shifts the focus from the bike to the ground, offering tyres suitable for any type of road surface, guaranteeing road holding, handling, speed and grip, independent of climate and weather conditions. The innovative *SmartGRIP Compound*, the technological core of the new tyres, was produced in the same location where the F1 tyre compounds were engineered, guaranteeing rolling resistance as well as grip in both wet and dry surfaces. Still in 2019, Pirelli expanded the range of the *Cinturato™ Velo* with a new line of gravel and cyclo-cross tyres, featuring diversified treads, a new compound and development dedicated to each tyre size. Designed to handle the most demanding off-road Cross and Gravel bike use, regardless of weather conditions, thanks to the properties of the new Pirelli *SpeedGRIP* compound, specially designed for the new line. These tyres were developed, starting from the formulation applied to *Scorpion™ MTB* tyres – the *SmartGRIP*. The new *SpeedGRIP* maintains the same polymer matrix with improved rolling efficiency.

NEW MATERIALS

The Group is active in the development of new polymers in order to improve the characteristics of the tyres in terms of rolling resistance, low temperature performance, mileage and road grip. In addition, the Group's business focuses on the development of other non-polymeric materials, such as; high dispersion silica for grip on the wet, rolling resistance and mileage; bio-materials such as lignin and plasticisers/ resins of vegetable origin; nano-fillers for more stable compounds, lighter structures and linings with elevated waterproof qualities; new silica surfactants to ensure performance stability and processability and; vulcanisers and stabilisers that allow for the development of tyres with a low environmental impact and high performance. The Group has entered into cooperation agreements with various international and national institutions and universities. These agreements – which include numerous research projects with the University of Milano-Bicocca, as part of the Consortium for Advanced Materials Research (CORIMAV), and through the Silvio Tronchetti Provera Foundation – allow for the development of innovative materials and solutions which are fundamental to the development of tyres with reduced environmental impact and high performance. The Joint Labs agreement between Pirelli, and the Politecnico di Milano, established in 2011 for research and training in the tyre sector, is aimed at the development of innovative materials and technologies for sustainable and increasingly safe mobility. The most recent phase of the agreement, with three year duration (2017-2020), focuses on two macro-strands of research: an area of design for innovative materials and an area for product development and Cyber development.

PROCESS AND PRODUCTIVITY INNOVATION

In order to allow for the effective management of the diverse ranges of products in the manufacturing plants, the Group has launched the *"Smart Manufacturing"* program based on "Big Data Analytics" techniques, which flank the consolidated Lean Manufacturing programs, in order to improve production and maintenance processes, machine productivity and product quality, also from a predictive perspective, despite a significant reduction in the size of production lots.

COMMITTENT TO MOTORSPORTS

In 2019 Pirelli was chosen by the FIA - International Automobile Federation - as the sole supplier of tyres for the Mondo Rally Championship for the 2021 to 2024 seasons. Of note, is that Pirelli will supply all the 4x4 cars that will take part in the qualifying WRC (World Rally Car) championship races, that is, contenders from the WRC Plus which compete for the ultimate title, to the R5 which are the protagonists of the WRC2, but also cars competing in various regional and national championships around the world. For the WRC, Pirelli will supply its range of tyres already used in the various world rally championships for which it is a supplier. For asphalt surfaces, there is the *P Zero RA* with its asymmetrical design, and with different compounds available accordingly to suit the terrain and climatic conditions. For snow there is the *Sottozero Snow* with or without studs. For ice there is the *Sottozero Ice J1* expressly designed for the Swedish rally, and for dirt roads there is the *Scorpion K* with its reinforced structure and different available compounds which can be chosen to suit conditions. The FIA's choice confirms Pirelli's leading position in competitions which draws on over 110 years of accumulated racing experience. This new investment in the queen of speciality road racing, flanks an identical role that Pirelli has played since 2011, as Global Tyre Partner for the most prestigious of Motorsports on the circuit, Formula 1,where Pirelli has extended its involvement until 2023. The new agreement foresees the introduction of new 18 inch rim diameter tyres in 2021. Pirelli's involvement in the Formula 1® World Championship has allowed it to develop new simulation models which allow for a further reduction in the time it takes to launch a product onto the market, and an improvement in the quality of road products, rendering them better performing and compliant with the highest of requirements. Pirelli is currently involved in over 350 championships across all five continents.

The different programs range from open competitions, in some cases with over 20 manufacturers represented, to the single-brand trophies of global brands such as the Ferrari Challenge and the Lamborghini Super Trofeo. In order to understand Pirelli's enormous commitment to Motorsport, it bears considering that all these events translate into 1,170 races per year all over the world, and which employ approximately 1,000 people including engineers, track technicians and other personnel dedicated to Research and Development.

In the European two wheel Championships, where the participation of several tyre producers is expected, Pirelli on average fits 70% of the motorcycles deployed on the paddock, which confirms the appreciation demonstrated by motorbike riders around the world for the Pirelli brand. Pirelli has been chosen by the Dorna WorldSBK Organisation, in agreement with FIM (the International Motorcycle Federation), for the role of Official Tyre Supplier for all classes of the MOTUL FIM Superbike World Championship, up to and including the 2023 season. In the cycling field, Pirelli made its entrance in 2018, signing a partnership with one of the most important teams on the professional road circuit, the Mitchelton-SCOTT team which in the same year, with Simon Yates, achieved top ranking in the World Tour. Pirelli's partnership with the Australian team went ahead for 2019 and led to four stage wins in the Tour de France.

PARENT COMPANY HIGHLIGHTS

The table below shows a summary of the main **Income Statement** and **Statement of Financial Position figures**:

(In millions of euro)

	12/31/2019	12/31/2018
Operating Income	15.8	5.6
Net Financial income/(expenses)	(23.7)	(32.8)
Income from equity investments	268.9	284.9
Taxes	12.2	4.7
Net income	**273.2**	**262.4**
Financial assets	4,711.2	4,641.7
Net Equity	**4580.4**	**4,492.7**
Net financial position	1,897.4	1,913.8

Operating income was positive to the amount of euro 15.8 million, compared to the positive amount of euro 5.6 million for 2018. The improvement was mainly attributable to the reduction of costs, and to the higher fees charged to the subsidiaries by Pirelli & C. S.p.A. for services rendered by its central functions, following the acquisition by the subsidiary Pirelli Tyre S.p.A. of the company branch, including all staff and business support functions.

The reduction in **net financial expenses** was mainly attributable to the increase in interest receivables from loans to Group companies, which resulted as being only partially offset by an increase in interest payables on the credit facilties granted by third parties. This latter phenomenon was attributable to the fact that as of November 29, 2019, the entire unsecured credit facility (*"Facilities"*) was in the hands of the Parent Company.

Income from equity investments mainly included dividends from Pirelli Tyre S.p.A. which amounted to euro 250 million (euro 270 million in 2018), and dividends from the Pirelli Group Reinsurance Company S.A., which amounted to euro 13.3 million (euro 5 million for 2018).

Taxes for 2019 were positive to the amount of euro 12.2 million compared to the positive amount of euro 4.7 million for 2018.

The following is a summary of the values of the main **financial assets**:

(In millions of euro)

	12/31/2019	12/31/2018
Investments in subsidiaries		
- Pirelli Tyre S.p.A.	4,528.2	4,523.8
- Pirelli Ltda	9.7	9.7
- Pirelli Uk Ltd.	21.9	21.9
- Pirelli Group Reinsurance Company S.A.	6.3	6.3
- Pirelli Servizi Amministrazione e Tesoreria S.p.A.	3.2	3.2
- Pirelli International Treasury S.p.A.	75.0	-
- Other companies	3.3	3.4
Total equity investments in subsidiaries	**4,647.6**	**4,568.3**
Investments in associates and other financial assets at fair value through other comprehensive income		
- Eurostazioni S.p.A. - Roma	6.3	6.3
- RCS Mediagroup S.p.A. - Milano	24.9	28.4
- Fin. Priv S.r.l.	20.6	15.6
- Fondo Comune di Investimento Immobiliare Anastasia	3.9	15.6
- Istituto Europeo di Oncologia S.r.l.	7.5	7.0
- Other	0.4	0.5
Total investments in associates and other financial assets at fair value through other comprehensive income	**63.6**	**73.4**
Total financial assets	**4,711.2**	**4,641.7**

Equity went from euro 4,492.7 million at December 31, 2018 to euro 4,580.4 million at December 31, 2019, as detailed in the following table:

(In millions of euro)

Equity at 12/31/2018	**4,492.7**
Net income for the financial year	273.2
Dividends approved	(177.0)
Other components of comprehensive income	(8.5)
Equity at 12/31/2019	**4,580.4**

The table below shows the **composition of equity**:

(In millions of euro)

	12/31/2019	12/31/2018
Share capital	1,904.4	1,904.4
Legal reserve	380.9	380.9
Share premium reserve	630.4	630.4
Concentration reserve	12.5	12.4
Other reserves	92.5	92.5
IAS Reserve	(3.2)	5.3
Retained earnings	266.8	181.5
Merger Reserves	1,022.9	1,022.9
Net income for the financial year	273.2	262.4
Total Equity	**4,580.4**	**4,492.7**

RISK FACTORS AND UNCERTAINTY

The volatility of the macroeconomic environment, the instability of the financial markets, the complexity of management processes and continuous legislative and regulatory changes, demands the capacity to protect and maximise the tangible and intangible sources of value which characterise the Company's business model. Pirelli has adopted a proactive risk governance model, which through the systematic identification, analysis and assessment of risk areas, is able to provide the Board of Directors and Management with the instruments needed, to anticipate and manage the effects of these risks. The Pirelli Risk Model systematically assesses three categories of risk:

1. **External risks**
   These are risks which occur outside the sphere of influence of the company. This category includes risks related to macroeconomic trends, to the evolution of demand, to competitor strategies, to technological innovation, to the introduction of new regulations, and to country-specific risks (financial, security related, political and environmental risks) as well as the impacts linked to climate change.
2. **Strategic Risks**
   These are risks which are typical for a specific business sector of which the proper management is a source of competitive advantage, or on the contrary, the cause for the failure to achieve financial objectives. This category includes risks linked to markets, to product innovation and development, to human resources, to raw material costs, to production processes, and to financial risks and risks connected to merger and acquisition operations.
3. **Operational Risks**
   These are risks generated by the organisation and by corporate processes, whose occurrence do not result in any competitive advantage. These types of risks include Information Technology, Business Interruption, Legal & Compliance, Health, Safety & Environment, and Security related risks.

Transversal to the aforementioned risks are **corporate social responsibility risks, environmental and business ethics risks.**

These are risks associated with the non-compliance with local and international regulations, best practices and corporate policies regarding the respect for human and labour rights, and environmental and business ethics, and can be generated by the organisation either as part of the relative value chain or as part of the supply chain. These risks in turn can lead to reputational risks. Reputational risks are linked to actions or events that could cause a negative perception of the Company on the part of its major stakeholders. The main areas of risk in this category are, in addition to the aforementioned risks related to corporate social-environmental responsibility and business ethics, also those risks inherent to leadership, and the quality and level of product innovation.

EXTERNAL RISKS

RISKS ASSOCIATED WITH GENERAL ECONOMIC CONDITIONS AND CHANGING DEMAND IN THE MEDIUM TERM

Pirelli expects growth in the world economy to be substantially consistent with what was recorded in 2019. The uncertainty that characterised the macroeconomic outlook over the past year should decrease - at least in the short term - thanks, among other things, to a relaxation in the trade disputes between the United States and China, to the ratification by the US Congress of the new trade agreement between the United States, Canada and Mexico (USMCA), and the results of the elections in the United Kingdom that have brought greater clarity - at least until the end of 2020 - regarding Brexit. The highly accommodative monetary policies of the main central banks should continue to support global demand thanks also to the very contained growth in consumer prices. These forecasts however are not without risk. The easing of the trade war between the United States and China could prove to be short-lived as tensions between the two economies is of a systemic nature. More generally, current monetary easing alone will not be able to sustain demand in the medium to long term, also due to the structural problems that weigh on the slowdown in global productivity growth. Further elements of risk could derive from the intensification of Middle Eastern tensions with possible repercussions on commodity prices.

COUNTRY RISK

Where appropriate, Pirelli has adopted a local-for-local strategy, creating a productive presence in rapidly developing countries in order to respond to the local demand with competitive industrial and logistical costs. This strategy is aimed at increasing the competitiveness of the Group, as well as allowing the Group to overcome potential protectionist measures (customs barriers or other measures such as technical prerequisites, product certification, and administrative costs related to import procedures, etc.). In context of this strategy, Pirelli operates in countries (Argentina, Brazil, Mexico and Russia) where the general economic and political situation and tax regimes may prove unstable in the future. Elements of uncertainty persisted with the growing tensions between China and the United States and, more generally, on the medium-long term equilibrium of current international trade agreements, which could lead to an alteration of the normal market dynamics and, more generally, of business operating conditions. The Group constantly monitors the evolution of risks (political, economic/financial and security related) relative to the countries in which it operates in order to continue to adopt timely (and if possible advance) measures to mitigate the potential impacts of any changes arising at local level. Moreover, in situations of under-utilisation of the capacity of some factories, the reallocation of production between Group plants is possible.

BREXIT RISKS

The Group is pro-actively monitoring potential critical issues (and related mitigation plans) in the event of the failure by the UK and the EU to reach a commercial agreement at the end of the transitional period (currently established as 31.12.20). These risks are both macroeconomic (amongst other volatilities such as FX and duties), and operational (mainly linked to possible delays in the supply of raw materials and/or finished products). Although the most likely scenario continues to suggest the achievement of a commercial agreement that is acceptable to both parties by 2020, the fact that the Conservative British Government has inserted a legal clause in the withdrawal agreement, to not extend the transitional period beyond the end of 2020, has certainly increased feelings of uncertainty regarding the final outcome of negotiations.

CORONAVIRUS RISK (COVID -19)

Pirelli sells its products on a world wide basis in over 160 countries and owns industrial sites located in different countries, some of which are also significantly affected by the Covid-19 (SARS-CoV-2) outbreak.

Sensitivity assumptions have been formulated regarding the effects of the spread of Covid-19, and elaborated on the basis of first estimates. By their nature, these hypotheses contain elements of uncertainty and are subject to changes, even significant ones, due to the continuous changes in the scenario and in the context for reference, which could lead to a significant alteration to the normal dynamics of the market and, more generally, to business operating conditions.

The negative impact currently expected at the level of the EBIT adjusted for the first quarter of 2020, is expected to be reabsorbed during the course of the year. However should the crisis continue, Pirelli will take steps to implement further mitigation measures.

Pirelli is following developments in the spread of the Coronavirus with constant contact with national and international organisations. The Company immediately adopted control and preventative measures for all their employees across the world, with particular attention to China, where all expatriate workers returned to their countries of origin with their families.

RISKS RELATED TO CHANGES IN DEMAND IN THE LONG-TERM

Over the last few decades, certain social and technological trends have emerged that might potentially have a material impact in the medium-long term on the automotive sector, and indirectly on the tyre market. On the one hand, these are represented by the growing phenomena of urbanisation (according to the latest United Nation estimates, approximately 70% of the global population will live in urban areas by 2050) and on the other hand, by changes in the values and behaviours of younger generations (increase in the average age when a driver's license is obtained, loss of importance of owning a car, the use of various types of car sharing). Added to these factors is the increasing spread of information technologies which increasingly encourages the use of e-commerce and/or telecommuting along with frequent regulatory interventions, both in mature as well as emerging economies, aimed at limiting the presence of polluting vehicles within and near metropolitan areas. These dynamics may give rise to a change in automotive sector demand (from changes to vehicle dimensions/engines which take different types of fuel/power supply, to the possible resizing of the car in accordance with the transportation preferences of citizens), with a potential impact on the dynamics of the tyre sector. Pirelli constantly monitors the evolutionary trends in automotive sector demand both by participating in national and international conferences on the topic, and by working on specific projects together with other major players in the world of mobility such as the Transforming Urban Mobility project, sponsored by the World Business Council for Sustainable Development (WBCSD), which has been active since 2019. The principal aim of such projects is in fact to study the possible long-term evolution of urban mobility and to promote solutions that might improve the social, environmental and financial well-being of the urban population.

RISKS RELATED TO CLIMATE CHANGE

With the adherence to the Task force on Climate-related Financial Disclosures (TCFD) issued in September 2018, Pirelli is committed, on a voluntary basis, to the dissemination of transparent reporting on the risks and opportunities related to climate change. To this end, Pirelli monitors these elements of uncertainty through sensitivity analyses and risk assessments in order to assess and quantify the financial impacts (risks and opportunities) associated with Climate Change, with respect to IPCC (Intergovernmental Panel on Climate Change) climatic scenarios and IEA (International Energy Agency) transitions in energy. In accordance with what emerged from the last Climate Change Risk Assessment of the Group, there are no significant risks in relative to the production processes Pirelli utilises or the markets where Pirelli operates over the short to medium-term period. On the other hand, as regards a medium-long term scenario, the tyre sector could be subject to a number of risks both of a physical nature (extreme weather events), as well as of a regulatory nature. Opportunities related to climate change were highlighted in terms of growth in the sales of Pirelli Green Performance products, which feature tyres with a lower environmental impact during their life cycle.

RISKS RELATED TO PRICE TRENDS AND THE AVAILABILITY OF RAW MATERIALS

Natural rubber, synthetic rubber and raw materials related to oil (in particular chemicals and carbon black) will continue to be a factor of uncertainty within the Group's cost structure, given the strong volatility recorded in recent years and their impact on the cost of the finished product.

For the main raw materials purchased by the Group, possible price scenarios are constantly simulated in relation to the historical volatility and/or the best information available on the market (e.g. forward prices). On the basis of the different scenarios, any increases in sales prices and/or the different internal actions, for the recovery of cost efficiencies (use of alternative raw materials, reduction of the weight of the product, improvement of the processing quality and reduction of the levels of waste), which are necessary to guarantee the expected levels of profitability are identified.

RISKS LINKED TO THE COMPETITIVE POSITIONING OF THE GROUP AND TO THE COMPETITIVE DYNAMICS OF THE SECTOR

The market in which the Group operates is characterised by the presence of numerous operators, some of which have significant financial and industrial resources, and brands that enjoy a significant level of international or local notoriety. To date, Pirelli is the only player in the tyre industry entirely focused on the Consumer market on a global scale, with its single brand positioned in the segment which interests manufacturers and users of Prestige and Premium vehicles. The intensification of the level of competition in the sector in which the Group operates could, in the medium-long term, impact on its income, equity and financial situation. The high barriers to entry - both technological and productive - provide structural mitigation to the potential tightening of the competitive arena in the Group's segment of reference. To this is also be added the uniqueness of the Pirelli's strategy which rests - amongst other things - on a wide homologation-based parc focused on the Prestige and Premium segments and an ever increasing capacity focused on the High Value segment.

STRATEGIC RISKS

EXCHANGE RATE RISK

The diverse geographical distribution of Pirelli's productive and commercial activities entails the exposure to exchange rate risks such as transaction risk and translation risk.

Transaction risk is generated by transactions of a commercial and financial nature carried out by individual companies in currencies other than the functional currency, due to fluctuations in exchange rates between the time when the commercial/financial relationship originates and the time when the transaction is settled (collection/payment).

The Group's policy is to minimise the impact of transaction risk linked to volatility, and for this reason the Group's procedures provide that the Operating Units are responsible for collecting all the relevant information pertaining to positions subject to transaction risk (mainly represented by receivables and payables in foreign currency). Coverage is then provided in the form of forward contracts which are entered into where possible with the Group's Treasury.
The managed positions subject to exchange rate risk are mainly represented by receivables and payables in foreign currency. The Group's Treasury is responsible for hedging the resulting net position for each currency and, in accordance with the established guidelines and restrictions, it in turn provides for the closure of all risk positions by trading derivative hedging contracts on the market, typically forward contracts.

Furthermore, as part of the one year and three year planning process, the Group formulates exchange rate forecasts on the basis of the best available information on the market. Any fluctuation in an exchange rate between the time of planning and the time when a commercial or financial transaction originates, results in a translation risk on future transactions. From time to time the Group assesses the opportunity to engage in currency hedging on future transactions for which it typically makes use of either forward buy or sell operations, or optional operations such as risk reversal (for example, zero cost collars).

Pirelli owns controlling interests in companies that prepare their Financial Statements in currencies other than the euro which is the currency used to prepare the consolidated Financial Statements. This exposes the Group to currency translation risk, due to the conversion into euro of the assets and liabilities of subsidiaries operating in currencies other than the euro. The main exposures to currency translation risk are constantly monitored and at present it has been decided not to adopt specific hedging policies for these exposures.

LIQUIDITY RISK

The principal instruments used by the Group to manage the risk of insufficient available financial resources to meet the financial and commercial obligations within the terms and deadlines established, are constituted by one year and three year financial plans and treasury plans, in order to allow for the complete and correct detection and measurement of incoming and outgoing cash flows. The differences between the plans and the final data are subjected to constant analysis.

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

The prudent management of the aforementioned risk requires the maintenance of an adequate level of cash or cash equivalents and/or highly liquid short-term securities, plus the availability of funds obtainable through an adequate amount of committed credit facilities and/or the recourse to the capital market.

In addition to the available portion of the committed credit facility (*Revolving Credit Facility*) for a total euro 700 million which at December 31, 2019 resulted as being completely unused, the Pirelli Group does use the capital market to diversify both products and maturities in order to seize the best opportunities available from time to time.

INTEREST RATE RISK

Interest rate risk is represented by exposure to the variability of the fair value or of the future cash flows of financial assets or liabilities due to changes in market interest rates.
The Group assesses, on the basis of market circumstances, whether to enter into derivative contracts, typically interest rate swaps and cross currency interest rate swaps, for hedging purposes for which hedge accounting is activated when the conditions as provided for by IFRS 9 are met.

PRICE RISK ASSOCIATED WITH FINANCIAL ASSETS

The Group is exposed to price risk only regarding the volatility of financial assets such as listed and unlisted stock securities and bonds, which represent 0.7% of the total assets of the Group. Derivatives are not normally set up to limit the volatility of these assets.

CREDIT RISK

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

Other instruments used for commercial credit risk management is the taking out of insurance policies. As of January 2012, the company signed a master agreement which expired in December 2018, with a leading insurance company for worldwide coverage for credit risk mainly related to sales on the Replacement channel (with an approximate 71% acceptance rate at December 2019). Insurance coverage has been extended to also cover the two year 2019-2020 period. At December 31, 2019, the amount of trade receivables remained essentially consistent with the amount at closing of the previous year. The Group operates only with highly rated financial counterparties for the management of its temporary cash surpluses or for trading in derivative instruments. Pirelli does not hold public debt instruments from any European country, and constantly monitors its net credit exposure to the banking system, and does not show significant concentrations of credit risk.

RISKS ASSOCIATED WITH HUMAN RESOURCES

The Group is exposed to the risk of loss of resources in key positions or in possession of critical know how. To address this risk, the Group adopts remuneration policies that are periodically updated also due to changes in the general macroeconomic scenario, as well as on the basis of salary benchmarks. Also planned are long-term incentive plans and specific non-competition agreements (which also have a retention effect) designed amongst other things, to fit the risk profiles of the activities of the business. Finally, specific management policies have been adopted to motivate and retain talent.

OPERATIONAL RISKS

RISKS RELATED TO ENVIRONMENTAL ISSUES

The activities and products of the Pirelli Group are subject to numerous environmental laws that vary between the countries where the Group operates. These regulations have in common their tendency to evolve in an ever more restrictive manner, also due to the growing concern of the international community over the issue of environmental sustainability. Pirelli expects the gradual introduction of ever stricter laws in relation to the various environmental aspects on which companies may impact (atmospheric emissions, waste generation, impacts on soil and water use, etc.), by virtue of which the Group expects to have to continue to make investments and/or incur costs that may be significant.

EMPLOYEE HEALTH AND SAFETY RISKS

In carrying out its activities the Pirelli Group incurs expenses and costs for the measures necessary to ensure full compliance with the obligations pursuant to regulations regarding health and safety in the workplace. Particularly in Italy the law relating to health and safety in the workplace (Legislative Decree No. 81/08) and subsequent amendments, (Legislative Decree No. 106/09) have introduced new obligations that have impacted on the management of activities at Pirelli sites, and on the models for allocating liabilities. Failure to comply with the health and safety regulations in force entails criminal and/or civil penalties at the expense of those responsible, and in some cases, the penalties for the violation of regulations are borne by the Companies in accordance with a European model of the absolute liability of the Company, which has also been implemented in Italy (Legislative Decree No. 231/01).

DEFECTIVE PRODUCT RISK

As with all manufacturers of goods for sale to the public, Pirelli is subject to potential liability claims related to any alleged defects of the materials sold or may be required to launch recall campaigns for products. Although in recent years there have been no significant cases and such events are however covered from an insurance point of view, any occurrence could have a negative impact on the reputation of the Pirelli brand. For this reason, the tyres manufactured by Pirelli are subjected to careful quality analysis before being placed on the market. The entire production process is subject to specific quality assurance procedures aimed at safety, as well as at constantly elevated performance.

LITIGATION RISKS

In carrying out its activities, Pirelli may become involved in legal, fiscal, commercial, trade or labour law disputes. The Group adopts the necessary measures to prevent and mitigate any consequences that may result from such proceedings.

PERSONAL DATA PROCESSING RISKS

In the normal course of Pirelli's business activities, personal data relating to employees, customers and suppliers are processed. The processing of the personal data collected by Group's companies is subject to the laws and regulations applicable in the countries in which these companies are. The Group has therefore put in place measures to achieve full compliance with all data protection regulations in force (and, in particular, with Regulation (EU) 2016/679 (the *GDPR* or *General Data Protection Regulation*) which came into force in May 2018, in this manner mitigating the risk of being subjected to sanctions. However, changes to applicable legislation, the launch of new products on the market and, in general, any new initiatives involving the processing of personal data (or changes to the processing of personal data already carried out) could involve the need to incur significant costs or oblige the Group to change its modus operandi.

RISKS RELATED TO INFORMATION SYSTEMS AND NETWORK INFRASTRUCTURE

The supporting role of ICT (Information and Communication Technology) systems for business processes, their evolution and development, and for the Group's operating activities was also confirmed during the course of 2019 as being fundamental to the achievement of results. Pirelli has mainly worked towards the prevention and mitigation of risks connected to possible system malfunctions through high reliability solutions for the protection of the Company's information assets, through the enhancement of the security systems against unauthorised access, and of the Company's data management solutions. The work continued to bring the Server and Client environments into compliance through the constant and progressive updating of the operating systems in order to reduce their vulnerabilities. Particular attention has been paid to the renewal of the infrastructural components subject to technological obsolescence, which could entail a greater risk for breakdowns and incidents which could impact on the Group's activities. The 2019 initiatives in particular, which directly or indirectly led to the mitigation of security risks, were as follows:

- Move the Bicocca Data Centre

  The project has made it possible to identify a new generation and best-in-its-class new data-centre, which will take the place of the Bicocca data centre (moving to be completed by the end of 2020), and therefore to move the applications hosted in it, thereby improving:

  - Redundancy and Uptime, now guaranteed according to the TIER IV/ RATING 4 FAULT TOLLERANT standards of the new data centre;
  - active protection and security, through 24/7 access and monitoring control systems managed by the provider;
  - Control Room and technical and security staff which are present 24/7;
  - The guarantee of service, through defined SLAs (Service Level Agreements) and service management procedures.

  In further taking advantage of the move, Pirelli was able to perform a technological refresh of its TLC (telecommunication) equipment and its hardware infrastructures (intended as storage and servers), increasing the level of reliability of the infrastructure, and the guarantee of support and maintenance by the vendor.

- Cloud Governance Project

  The project made it possible to define a governance model which could be adopted in public and private cloud environments, with the aim of guaranteeing its correct management both in terms of security, compliance and costs. Especially as regards the safety aspects, the project has allowed Pirelli to define:

  - The new account structure, with the segregation of production and development accounts in order to improve access control, user authorisations and data security;
  - The implementation of a single sign-on solution in order to prevent unwanted access;

- The implementation of automated procedures to be used during the creation of new environments, reducing the probability of human errors that may also result in security problems.

- Software-Defined data centre Project
This project began with the main objective being that of transforming traditional factory data centres into modern data centres based on hyper-convergent and software based architectures, leading to an increase in the availability of critical factory business systems, allowing for a more flexible and dynamic management of the system's capacities and the peaks of use.
- Software-Defined WAN & Voice Encryption Projects
All the wide area network connectivity between the offices located in the EMEA and APAC regions and all the internal calls to the group belonging to the EMEA region are now encrypted.
- Pirelli/Prometeon Split API Infrastructure Project
The launch of the project for the physical segregation of the Pirelli /Prometeon API (Application Programming Interfaces) infrastructure, (basic infrastructure and end-user services such as e-mail, identity management, software distribution, etc.), with the objective of making the two environments completely separate also from a physical point of view.
- Email protection

  - The activation of an advanced cloud-based threat protection service that protects corporate emails from phishing, ransom ware and fraud attacks (for example, BEC - Business Email Compromise);
  - Staff training (in classrooms and/or through on-line courses) on, how to recognise malicious emails, on the risks they represent, on the active Company counter-measures, and instructions on the actions to be taken in case of receiving fraudulent emails, and to increase staff awareness regarding these issues.

- CERT-P (CERT Pirelli)

  - Activation of a Computer Emergency Response Team (CERT). The objective is to improve the Company's cyber-readiness, or the ability to prevent cyber threats in a proactive manner, and avoiding, as far as is possible, any attacks having any significant impact on employees, assets, services and, in general, on the competitiveness and reputation of the Company. Among the important aspects of CERT's mission, the following (though not exhaustive) can most certainly be listed:
  - to monitor the occurrences of cyber incidents by contributing to the process of the continuous improvement of IT security controls and countermeasures;
  - to analyse any incidents in order to both mitigate their impact and to reduce and limit future occurrences;
  - to coordinate the response to cyber incidents by involving both the relevant internal staff of the Company as well as external counterparties (for example, national CERTs);
  - to produce reports for corporate functions and internal management;
  - to increase internal culture know-how in the management of security incidents through simulations and exercises.

BUSINESS INTERRUPTION RISKS

The territorial fragmentation of the operating activities of the Group and their interconnection, expose it to risk scenarios that could cause the interruption of business operations for periods which could be more or less prolonged, with the consequent impact on the operational capabilities and results of the Group itself. Risk scenarios related to natural or accidental events (fires, floods, earthquakes, etc.), to wilful misconduct (vandalism, sabotage, etc.), to breakdowns of the auxiliary plants or to interruptions in the supply of utilities can, in fact, cause significant property damage, and the reduction and/or interruption of production, particularly if the event concerns high volume or specific product (high-end) production sites. Pirelli monitors their vulnerability to catastrophic natural events (in particular flood, hurricane and earthquake) and estimates any potential damage (based on the given probability of occurrence) for all the Group's production sites. The analyses confirm the adequate monitoring of business interruption risks, thanks to a complex series of security measures, systems for the prevention of harmful events and for the mitigation of potential impacts on the business, also in light of the current business-continuity plans, as well as the insurance policies in place to cover property damage and any business interruptions which the Group's production facilities might suffer (the Group's insurance coverage may however not be sufficient in compensating all potential losses and liabilities in case of catastrophic events). Even Pirelli's supply chain is subject to regular assessment concerning the potential risk of business interruption during the qualification phase of new Tier-1 raw materials suppliers.

RISKS RELATIVE TO THE FINANCIAL REPORTING PROCESS

Pirelli has also implemented a specific and articulated system of risk management and internal control, supported by a dedicated Information Technology application, with regard to the process of preparing the half-year, annual, separate and consolidated Financial Statements, in order to safeguard the Company's assets, compliance with laws and regulations, the efficiency and effectiveness of corporate operations, as well as the reliability, accuracy and timeliness of financial reporting.

In particular, the process of preparing financial reports takes place through the appropriate administrative and accounting procedures that have been drawn up in accordance with criteria established by the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organisations of the Tradeway Commission.

The administrative/accounting procedures for the preparation of Financial Statements and all other financial reports are prepared under the responsibility of the Chief Financial Officer, who periodically attests to (in any case, regarding the Financial Statements/consolidated Financial Statements) their adequacy and effective application.

In order to enable the attestation by the Chief Financial Officer, the companies and the relevant processes that feed and generate the data for the Income Statement, the Statement of Financial Position or the Financial Statements have been mapped out. The identification of the companies that belong to the Group and the relevant processes is carried out annually on the basis of quantitative and qualitative criteria. Quantitative criteria consists of the identification of the companies of the Group which, in accordance to the selected processes, represent an aggregate value which exceeds a certain threshold of materiality. Qualitative criteria consists of the examination of processes and the companies which, in the opinion of the Chief Executive Officer may present potential areas of risk despite not falling within the aforesaid quantitative parameters.

For each selected process, the risk/control objectives associated with the preparation of the Financial Statements and any related disclosures, as well as to the effectiveness/efficiency of the internal control system in general, have been identified.

For each control objective, specific verification procedures have been implemented and specific responsibilities have been assigned.

A supervisory system has been implemented on the controls carried out by way of a mechanism of chain attestations. Any problems that emerge within the evaluation process are subject to action plans whose implementation is then verified in subsequent closings.

There is even the half-yearly issue of a declaration by the Chief Executive Officer and the Chief Financial Officer of each subsidiary on the reliability and accuracy of the data supplied for the purposes of preparing the Group's consolidated Financial Statements. In the lead up to the dates of the Board of Directors' Meetings which approve the consolidated data at June 30 and December 31st, the results of the verification procedures are discussed with the Chief Financial Officer of the Group.

The Internal Audit Department performs regular audits aimed at verifying the adequacy of the design and operability of the controls carried out on subsidiaries, as well as the sampling procedures, selected on the basis of materiality criteria.

REPUTATIONAL RISK AND CORPORATE SOCIAL-ENVIRONMENTAL RESPONSIBILITY

REPUTATIONAL RISKS

Pirelli has developed an ad-hoc digital tool for the identification, measurement and management of reputational risk, which is measured in terms of the probability of occurrence and its impact on reputation. Reputational risk is understood as a current or prospective risk that might result in a loss in gains, and affect the propensity to buy due to a negative perception of the Company by one or more stakeholders. While on the one hand, reputational risk is construed as a possible consequence of the occurrence of an adverse event related to one of the three aforementioned macro-families, on the other hand it is managed as an independent event precisely because its scope depends on the expectations of the stakeholders concerned, as well as the impact of the negative event. This chosen methodology has led to the identification of a specific set of reputational risks. This mapping derives from an analysis of a series of internal and external drivers including: negative events with an impact on reputation which have occurred in the sector worldwide over the last ten years; interviews with external Key Opinion Leaders on sector trends, on aspects of mobility and sustainability; interviews with internal Key Opinion Leaders with particular reference to the analysis of the probability of the occurrence of the risks identified.

The risk events identified were then subjected to the qualitative-quantitative assessments of a sample representative of the general public in the three key Pirelli countries, which led to the definition of the governance and management structures as well as to the preparation of mitigation and/or crisis management plans. This tool is checked and updated regarding both its content and the quantification of its impacts on a periodic basis.

RISKS RELATIVE TO CORPORATE SOCIAL AND ENVIRONMENTAL RESPONSIBILITY, BUSINESS ETHICS, AND THIRD-PARTY AUDITS

Risk management at Pirelli is enterprise-wide and includes the identification, analysis and monitoring of environmental, social, economic/financial and business ethics risks that are directly or indirectly attributable to the company, through Pirelli affiliates or from within business relations with them, such as the sustainability of the supply chain.

Before entering a specific market, ad-hoc assessments are carried out in order to assess any political, financial, environmental and social risks, including those connected with human and labour rights.

Together with the ongoing monitoring of the application of Pirelli's internal regulations regarding financial, social (particularly regarding human and labour rights), environmental and business ethics on Group sites, which occurs through periodic audits performed by the Internal Audit Function, Pirelli has adopted an ESG (Environmental and Social Governance) risk mitigation strategy also with regard to its own supply chain, which is periodically audited by specialised third party companies. In both cases, if instances of non-compliances are found, it is envisaged that a re-compliance plan is defined and whose implementation is promptly monitored by the auditing body.

OUTLOOK FOR THE 2020 - 2022 THREE-YEAR PERIOD

Targets 2020-2022 (euro billions)

	2019	2020E	2022E	
Revenues	5.3	~5.4	~5.8	
Ebit adjusted	*0.9*	*~Stable y/y*		
Ebit margin adjusted	17.2%		18% ÷ 19%	
Investments (CapEx)	0.39	~0.3	tot, '20-'22 ~0.9	vs tot, '17-'19 ~1.3
Net cash flow before dividends	0.33	~0.4	tot, '20-'22 ~1.5	Of which ~0.5 in '21 ~0.6 in '22
Net financial position* (including IFRS 16)	3.5	~3.3	~2.5	

* assuming a dividend policy with a payout equal to 40% of consolidated net earnings.

Revenues are expected to grow to approximately euro 5.4 billion in 2020, and approximately euro 5.8 billion for 2022, with an average annual growth rate of approximately +3%. High Value revenues will account for approximately 73% of total revenues at the end of the plan, compared to the 69% expected for 2020 (approximately 67% for 2019).

Forecasts for total volumes are for an average annual growth over the time-frame of the plan of between +1.5% and +2%. For total High Value volumes, an acceleration is expected with an average annual growth rate of +8%, while the reduction in Standard volumes will continue, for which a -5% decrease is expected per year.

The price/mix is expected to improve by an average of approximately +3% per year due to:

- a slight decrease in the price component;
- a positive contribution from the mix.

The negative exchange rate impact is estimated at approximately -2% per year, due to the expected strengthening of the euro against the US dollar, and the increasing volatility of currencies in emerging economies.

EBIT adjusted for 2020 is expected to be almost stable compared to 2019. The effect of internal levers (price / mix, volumes and efficiencies) will offset the impact of the external scenario (inflation of production costs, raw materials and pressures on prices).

EBIT margin adjusted is estimated to grow to 18-19% for 2022 compared to 17.2% for 2019.

The already high technological levels and adjusted capacities of the manufacturing plants are the basis of the **investment** plan, which is more contained compared to the previous three years - equal to euro 900 million between 2020 and 2022 following euro 1.3 billion for 2017 - 2019, thus contributing in sustaining high cash generation together with the forecast improvement in operating income, with more contained financial and tax expenses, and the effective management of working capital.

For the plan time-frame **net cash flow before dividends** of totalling euro 1.5 billion is forecast, of which approximately euro 400 million is for 2020, approximately euro 500 million is for 2021, and approximately euro 600 million is for 2022.

The policy for dividends provides for a confirmed pay out of 40% of consolidated net earnings.

By the end of the plan, the **net financial position** of the Group, including the impact of the IFRS 16 accounting standard, is expected to decline from euro 3.5 billion for 2019, to approximately euro 3.3 billion for 2020, to approximately euro 2.5 billion for 2022.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

In **January 2020** Pirelli received three important ESG awards. On **January 20**, the company was recognised as the global leader in the fight against climate change, which put Pirelli on the Climate A-List drawn up by the CDP (the former Carbon Disclosure Project), an international non-profit organisation that deals with collecting, disseminating and promoting information on environmental issues. On **January 31**, however, Pirelli won the highest recognition in the SAM Sustainability Yearbook 2020 published by S&P Global, achieving recognition as the ESG sector Leader in the FTSE4Good Index Series, which sees Pirelli now ranked at the top of the Tyre and Consumer Goods sector.

On **February 19, 2020** Pirelli presented the 2020 - 2022 Industrial Plan/Vision 2025 to the financial community. For further details, reference should be made to the section *"Outlook for the 2020 – 2022 Three-Year Period"*. On the same date, the Board of Directors approved the adoption of a new monetary incentive plan - the Long Term Incentive (LTI) plan - aimed at all areas of Group Management (currently approximately 270 participants) correlated to the objectives of the plan. The New LTI Plan, is as in the past, totally self-financed, in that the relative expenses are included in the financial data of the Industrial Plan. The New LTI Plan provides for the following objectives:

- Total Shareholder Return (TSR) for the Group relative to the Tier 1 panel of peers, with an overall target of 40% of the LTI monetary incentive;
- cash flow for the Group (before dividends) with a target of 40% of the LTI monetary incentive;
- the positioning of Pirelli in selected global sustainability indicators, with an overall target of 20% of the LTI monetary incentive.

At the same time, the Board of Directors - with effect as of December 31, 2019 - resolved to close early, and without any disbursements not even pro-rata, the previous plan adopted in 2018 relative to the objectives of the 2018-2020 period.

Participants of the New LTI (Long Term Incentive) Plan, amongst others, include the Executive Vice Chairman and Chief Executive Officer of Pirelli, Marco Tronchetti Provera, the General Manager of Operations, Andrea Casaluci, and the ESR executives identified through the express decision of the Board of Directors as *"executives with strategic responsibility".* The new LTI Plan is also aimed at Senior Managers, (including the Director Giovanni Tronchetti Provera, as Senior Manager), and to the Group's Executives (managers of Italian companies or employees of foreign Group companies with a position or role equivalent to that of Executive in Italy).

ALTERNATIVE PERFORMANCE INDICATORS

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

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

- **EBITDA:** is equal to the EBIT but which excludes the depreciation and amortisation of property, plant and equipment and intangible assets. The EBITDA is used to measure the ability to generate earnings, excluding the 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, costs not pertinent to normal business operations, costs relative to the renegotiation of commercial agreements, 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 this measure also included costs 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 investments;
- **EBITDA margin adjusted:** this is calculated by dividing the EBITDA adjusted by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency, excluding the impacts arising from investments, operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil, costs not pertinent to normal business operations, costs relative to the renegotiation of commercial agreements, 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, 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, operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil, costs not pertinent to normal business operations, costs relative to the renegotiation of commercial agreements, 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 this measure also included costs 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 excluding 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, costs not pertinent to normal business operations, costs relative to the renegotiation of commercial agreements, 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, costs unrelated to the normal operating management of business, costs relative to the renegotiation of commercial agreements, 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 financial 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", "Other financial assets at fair value through other Comprehensive Income"* and *"Other financial assets at fair value through the Income Statement".* Fixed assets related to continuing operations represents non-current assets included in the net invested capital;
- **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 is constituted by the operating working capital, and other receivables and payables, and the derivative financial instruments not included in the net financial (liquidity)/debt position. This measure represents short-term assets and liabilities included in the net invested capital, and is used to measure short-term financial stability;
- **Net invested capital assets held for sale:** this measure is constituted by the difference between *"Assets held for sale"* and *"Liabilities held for sale"*;
- **Net invested capital:** this measure is constituted by the sum of (i) fixed assets 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 Associates 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. The 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, borrowings from banks and other financial institutions net of cash and cash equivalents, other financial assets at fair value through the Income Statement, current financial receivables (included in the financial statements under *"Other receivables"*) and, current derivative financial instruments included in the net financial (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 the *"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 16. This is used to measure the sustainability of the debt;
- **Operating net cash flow:** is calculated as the change in the net financial position relative to operations management;
- **Net cash flow before dividends and extraordinary transactions/investments:** is calculated by adding the change in the net financial position due to financial and tax management, to the operating net cash flow;
- **Net cash flow before dividends paid by Parent company:** is calculated by adding the change in the net financial position due to extraordinary transactions and the management of investments, to net cash flow before dividends and extraordinary transactions/investments;
- **Net cash flow before dividends without IFRS 16:** is calculated by adding the change in the net financial position due to the implementation of the new accounting standard IFRS 16 - Leases, to net cash flow before dividends paid by Parent company;
- **Net cash flow** is calculated by adding the change in the net financial position due to the payment of dividends by Parent company, to the net cash flow before dividends paid by Parent company;
- **Net cash flow without IFRS 16:** is calculated by adding the change in the net financial position due to the implementation of the new accounting standard IFRS 16 - Leases, to net cash flow.
- **Capital Expenditures or Investments in property, plant & equipment and intangible assets (CapEx):** this is calculated as the sum of investments (increases) in intangible assets, and investments (increases) in property, plant and equipment excluding any increases relative to the rights of use;
- **Increases in the Rights of Use 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;
- **Ratio of investments to depreciation:** 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 activities, with the power to address the administration in its entirety, with the competence for undertaking of the most important financial/strategic decisions, or decisions which have a structural impact on operations or are functional decisions, as well as to exercise the control and direction of Pirelli.

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

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

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

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

INFORMATION ON THE SHARE CAPITAL AND OWNERSHIP STRUCTURE

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

The shareholder Marco Polo International Italy S.r.l. - pursuant to Article 93 of Legislative Decree 58/1998 - controls the Company with a 45.52% share of the capital, but does not exercise management and coordination activities.

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

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

WAIVER OF THE PUBLICATION OF INFORMATION DOCUMENTS

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

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

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

With reference to data at December 31, 2019, the Extra-EU Companies controlled, directly or indirectly, by Pirelli & C. S.p.A. which are of relevance pursuant to Article 15 of the Market Regulations are:

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

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

RELATED-PARTY TRANSACTIONS

The Company's Board of Directors again approved the procedure for Related Party Transactions (*"OPC Procedure"*) as part of the new listing process initiated and completed in 2017. Subsequently, following the renewal of the administrative body and the constitution of the Committee for Related Party Transactions (*"OPC Committee"*), the OPC Procedure was approved, without any modification, and following the unanimous favourable opinion expressed by the members of the OPC Committee, also by the Board of Directors currently in office. The OPC Procedure can be consulted, together with other corporate governance procedures, in the section of the website www.pirelli.com dedicated to Corporate Governance. For more details on the OPC Procedure, reference should be made to the section *"Directors' Interests and Related Party Transactions"* included in the Annual Report on the *Corporate Governance and Ownership Structure* contained in the Financial Statements group of documents.

Pursuant to Article 5, paragraph 8 of CONSOB Regulation No. 17221 of March 12, 2010 on Related Party Transactions, and the subsequent CONSOB Resolution No. 17389 of June 23, 2010, it should be noted that during the 2019 financial year, 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.

For the purposes of providing complete information, it is to 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 reshaping and financial effects of the same (attributable in part to the 2019 financial year) reference should be made to the sections of the 2019 Financial Statements indicated below, as well as to the Disclosure Documents on transactions published (on a prudent and voluntary basis) by the Company on February 20, 2019.

The information on Related Party Transactions as required, pursuant to CONSOB Communication No. DEM/6064293 of July 28, 2006 is presented in the Financial Statements, and in the Note entitled *"Related Party Transactions"* in the 2019 Annual Report. Related Party Transactions, are neither unusual nor exceptional, but are part of the ordinary course of business for the Group companies and are carried out in the interest of the individual companies. Such transactions, when not settled under standard conditions, or dictated by specific regulatory conditions, are in any case regulated by conditions consistent with those of the market. Furthermore, their execution is carried out in compliance with the OPC Procedure.

Furthermore, there were no Related Party Transactions - or changes or developments to the transactions described in the preceding Financial Statements - that have had a significant impact on the financial position or results of Group for the 2019 financial year.

EXCEPTIONAL AND/OR UNUSUAL OPERATIONS

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

COMPLIANCE WITH THE REGULATIONS ON THE PROTECTION OF PERSONAL DATA

Following the entry into force of EU Regulation 2016/679 and amendments to Legislative Decree No. 196/2003 (introduced by Legislative Decree No. 101/2018), it should be noted that the Company has completed, with the support of the competent functions, all the activities necessary to meet the new requisites of the law, including, amongst others, the preparation of the registry of data processing operations. The Company has also appointed lawyer Alberto Bastanzio as the Data Protection Officer (*"DPO"*), whose contact details have been duly communicated to the Guarantor for the Protection of Personal Data July 25, 2018. The DPO can be contacted at, other than at the registered office of the Company, also through the following e-mail address: dpo_pirelli@pirelli.com. The activities carried out by the DPO during the relevant reporting period are described in detail in the *"Annual Report of the DPO"* available at the registered office of the Company, to which reference should be made for further details.

The Board of Directors
Milan, March 2, 2020