DIRECTORS' REPORT ON OPERATIONS AT DECEMBER 31, 2020

MACROECONOMIC AND MARKET SCENARIO

ECONOMIC OVERVIEW

Global economic performance for 2020 felt the impacts of the COVID-19 pandemic, with global GDP falling by -3.6%. Following the collapse in GDP for the second quarter, and the rebound recorded in the third, any recovery again lost its momentum during the last three months of 2020, due to the additional wave of contagion that hit Europe and the US in particular.

The European Union suffered one of the sharpest downturns in the international arena, with a -6.2% drop in gross domestic product for 2020. Amongst the various European economies, the impacts varied in magnitude depending on the severity of the health crisis, the different measures introduced to contain the virus, the exposure of the economy to the most affected sectors, the respective population structures and density, and the fiscal policy responses. GDP in Germany fell by -5.3%, and in the Netherlands by -3.8% for 2020, but was better than the European average, and in comparison to the contraction of -8.9% in Italy and -11% in Spain.

The contraction of GDP in the US for 2020 equalled -3.5%, which was more contained due to extensive income support measures, and fewer restrictions on mobility.

ECONOMIC GROWTH, PERCENTAGE CHANGE IN GDP

	1Q 2020	2Q 2020	3Q 2020	4Q 2020	2019	2020
UE	-2.7	-13.8	-4.1	-4.6	1.6	-6.2
USA	0.3	-9.0	-2.8	-2.4	2.2	-3.5
China	-6.4	3.6	5.1	6.8	6.0	2.3
Brazil	-0.3	-10.9	-3.9	-1.1	1.4	-4.1
Russia	1.7	-8.0	-3.4	-2.7	1.3	-3.1
World	-2.3	-7.6	-1.5	-0.6	2.6	-3.6

Note: Year-on-year percentage changes. Final data and estimates for Russia and the world.
Source: National statistics offices and IHS Markit, March 2021.

Economic activity in China, the first country to be affected by the pandemic, returned to growth as early as of the second quarter, and recorded a gradual improvement for the following quarters, with an overall growth rate of +2.3% during the course of 2020.

Despite the recovery in industrial production since the middle of the year, Brazilian economic activity remained below normal levels. Lastly, Russia was penalised by the virus containment measures and by the drop in global oil demand, which led to lower crude oil prices and lower production levels.

EXCHANGE RATES

The euro/US dollar exchange rate averaged 1.14 for 2020, an appreciation of +2% year-on-year, +7.2% for the second half-year of 2020, compared to the first half-year, following the announcement of the NextGenerationEU fund (euro 750 billion over six years), in response to the economic and social damage caused by the pandemic.

KEY EXCHANGE RATES	1Q		2Q		3Q		4Q		FULL YEAR AVERAGE	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
US$ per euro	1.10	1.14	1.10	1.12	1.17	1.11	1.19	1.11	1.14	1.12
Chinese yuan per US$	6.98	6.75	7.08	6.82	6.92	6.99	6.62	7.03	6.90	6.90
Brazilian real per US$	4.47	3.77	5.39	3.92	5.38	3.97	5.40	4.12	5.16	3.95
Russian rouble per US$	66.39	65.89	72.41	64.53	73.57	64.62	76.19	63.70	72.21	64.66

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

For 2020 the average price for the Chinese yuan depreciated by -2% against the euro, and stood at 6.90 against the US dollar, remaining unchanged from the previous year. The Chinese currency weakened against the US dollar during the first five months of the year, reaching a peak of 7.13 in early June, before recovering ground during the second half-year, thanks to the country's economic recovery. For the fourth quarter, the yuan averaged 6.62 against the US dollar, an appreciation of +6% compared to the same period in 2019.

The Brazilian real was weak, penalised by the outflow of capital, with a depreciation of -24% against the US dollar for 2020, and of -25% against the euro (-24% for the fourth quarter against the US dollar, -29% against the euro).

The rouble also fell: a depreciation of -10.5% against the US dollar for 2020, and -12% against the euro (-16% and -22% respectively for the fourth quarter of the year).

RAW MATERIALS PRICES

During 2020, the slowdown in global demand led to a general decline in the prices of the main raw materials. The average price of Brent crude stood at US$ 43.2 per barrel, down by -32.7% from the average prices of 2019, due to both the collapse in global demand caused by the pandemic, and the temporary lack of agreement within OPEC+. The average price of Brent reached US$ 45.2 per barrel for the fourth quarter of the year, -27.6% compared to the same period of 2019.

The trend for butadiene was similar to that of oil, with an average price of euro 511 per tonne for 2020, down by -38% compared to 2019, -26.6% for the fourth quarter.

The average price of natural rubber was US$ 1,317 per tonne for 2020, down by -6.3% compared to 2019, but with an acceleration during the fourth quarter (a quarterly average of US$ 1,545 per tonne, +12.7% year-on-year), due to the gradual recovery in demand.

RAW MATERIAL PRICES	1Q			2Q			3Q			4Q			FULL YEAR AVERAGE		
	2020	2019	% var,	2020	2019	% var,	2020	2019	% var,	2020	2019	% var,	2020	2019	% var,
Brent (US$ / barrel)	50.9	63.9	-20.4%	33.3	68.3	-51.3%	43.4	62.0	-30.0%	45.2	62.5	-27.6%	43.2	64.2	-32.7%
Butadiene (€ / tonne)	727	865	-16.0%	392	900	-56.5%	382	790	-51.7%	543	740	-26.6%	511	824	-38.0%
Natural rubber TSR20 (US$ / tonne)	1,337	1,397	-4.3%	1,107	1,514	-26.9%	1,281	1,345	-4.8%	1,545	1,371	12.7%	1,317	1,406	-6.3%

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

TRENDS IN CAR TYRE MARKETS

For 2020, the car tyre market also felt the impact of the COVID-19 emergency, with a drop in global demand of -15.3%. The Original Equipment channel recorded a decline of -17.6%, consistent with the trend in car production (-15.7%). The decline for the Replacement channel was more limited (-14.5%), impacted by the measures adopted by various countries to restrict mobility.

The Car New Premium segment (tyres with a rim diameter ≥18") was the most resilient segment, with a decline of -9.5% compared to -16.5% for the Car Standard segment (tyres with a rim diameter ≤17").

The market trend over the course of the year was varied:

- a sharp decline for the first half-year due to the pandemic (an overall demand of 28.0%; 23.4% for Car New Premium);
- a gradual improvement which began in the third quarter (-5.5% for the car market, +2.0% for Car New Premium) thanks to the recovery in car production, and the easing of mobility restrictions.

For the fourth quarter of the year, in particular, the drop in volumes was more limited (-0.8%):

- Car Tyres ≥18" recorded a +5.3% growth, supported by a recovery in Prestige and Premium vehicle production (+13.7%, approximately double compared to +5.2% for the third quarter), in Europe, North America and APAC;
- the trend in demand for Car Tyres ≤17" also improved: a -2.0% drop for the fourth quarter compared to -7.0% for the third quarter, thanks to a recovery in both car production, and orders from the distribution chain.

TRENDS IN CAR TYRE MARKETS

% YEAR-ON-YEAR	1Q 2020	2Q 2020	3Q 2020	4Q 2020	2020 TOTAL
Total Car Tyre Market					
Total	**-20.7**	**-35.1**	**-5.5**	**-0.8**	**-15.3**
Original equipment	-22.4	-43.3	-4.3	-0.0	-17.6
Replacement	-20.0	-32.0	-5.9	-1.0	-14.5
New Premium Market ≥ 18"					
Total	**-11.7**	**-34.8**	**2.0**	**5.3**	**-9.5**
Original equipment	-16.0	-46.5	0.1	9.1	-13.2
Replacement	-8.5	-26.2	3.3	2.5	-6.9
Standard Market ≤ 17"					
Total	**-22.4**	**-35.2**	**-7.0**	**-2.0**	**-16.5**
Original equipment	-24.4	-42.2	-5.8	-3.1	-19.1
Replacement	-21.7	-32.9	-7.3	-1.6	-15.6

Source: Pirelli estimates

The trend varied at geographical level:

- APAC, which was heavily penalised during the first half-year (-26.6% for the car tyre market), recovered during the second half-year (-1.5% and +3.9% respectively for the third and fourth quarters), thanks to the recovery in New Premium demand (+6.0% for the third quarter, +12.5% for the fourth quarter). The overall market decline for 2020 equalled -12.3% (-5.4% for Car New Premium);
- in Europe, the effects of the pandemic were concentrated in the second quarter (-40.8% for the market), following the halt in production during April and May. During the second half-year, the car tyre market managed to contain its losses (-4.5% for the third quarter, -4.0% for the fourth quarter), sustained by the recovery of the New Premium market (+2.1% for the second half-year). For the year as a whole, Europe recorded a market contraction of -15.6% (-11.6% for Car New Premium);
- North America also bore the brunt of the pandemic from the second quarter onwards (the market down by -40.2%), but with a stronger recovery than Europe for the second half-year (-2.0%), for both channels (Original Equipment at +1.0%; Replacement at -2.7%). For the year as a whole, the market fell by -13.1% (-9.8% for Car New Premium);
- South America and Russia/Nordics/MEAI, which were the last Regions to be affected by the COVID-19 emergency, suffered the effects of restrictions during the first half-year, with the market declining by an average of -35%, closing the year at -24%, thanks to a recovered performance for the fourth quarter (-6.2% for South America, -4.0% for Russia/Nordics/MEAI).

SIGNIFICANT EVENTS OF 2020

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

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

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

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

On **March 2, 2020** Pirelli's Board of Directors approved the 2019 Financial Statements, which closed with a consolidated net income of euro 457.7 million, and resolved to propose to the Shareholders' Meeting, the distribution of a dividend of 0.183 euro per share, totalling euro 183 million. On **April 3, 2020** the Board of Directors, cancelled the distribution of dividends for the 2019 financial year as part of the COVID-19 containment measures, thereby amending the previous resolution.

On **March 31, 2020** Pirelli announced that it had signed a new euro 800 million credit facility, with an incentive mechanism linked to the environmental sustainability objectives for product and process set out in Pirelli's Industrial Plan, and with a 5-year maturity to be used mainly to repay existing debt. The Company also extended the maturity date of a euro 200 million credit facility by more than one year (to September 2021 from June 2020), through early repayment and the simultaneous opening of a new facility for the same amount, under the same terms and conditions. These transactions were part of the ongoing measures aimed at optimising and strengthening Pirelli's financial structure.

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

On **April 29, 2020**, following the convocation of the Shareholders' Meeting held on **April 28, 2020**, Pirelli announced the entry into force of the agreements signed on August 1, 2019 - and already disclosed to the market - between ChemChina, CNRC, Silk Road Fund, Camfin and Marco Tronchetti Provera & C. S.p.A., concerning their long-term partnership with Pirelli. In addition, on this occasion, the "*Revised Acting-in-Concert Agreement*" was signed by the Silk Road Fund Co., Ltd. and the China National Tyre & Rubber Co., Ltd., which supersedes and replaces the previous "*Acting-in-Concert Agreement*" signed between the parties on July 28, 2017, as well as the "*Amendment*" to the supplemental Agreement to the contract to invest in Pirelli, signed between the parties on July 28, 2017. The "*Revised Acting-in-Concert Agreement*" became effective on **September 29, 2020** following the completion of the partial non-proportional and asymmetrical de-merger of Marco Polo International Italy Srl in favour of PFQY Srl - a company wholly owned by the Silk Road Fund - as a result of which, among other things, a stake equal to 9.02% of Pirelli's capital was assigned to the latter. Following the aforementioned de-merger, Marco Polo International Italy Srl, which is controlled by ChemChina/CNRC, holds 37.01% of Pirelli's capital.

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

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

The Shareholders' Meeting also approved the adoption of the 2020-2022 three-year monetary Long Term Incentive Plan (the LTI Plan) for the Management sector of the Pirelli Group, as well as the "*Directors and Officers Liability Insurance*". In the extraordinary session, the Shareholders' Meeting also approved some amendments to the Articles of Association, mainly concerning the new legislation on gender quotas.

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

On **June 22, 2020**, Pirelli announced that the Science Based Targets initiative (SBTi) - an organisation that aims to guide companies in defining their ambitious targets for controlling planet temperatures – had validated the Company's targets on reducing CO_2 emissions, judging them to be consistent with the actions needed to keep global warming well below 2°C.

On **July 23, 2020**, at the proposal of Executive Vice Chairman and CEO, Marco Tronchetti Provera, Pirelli's Board of Directors agreed to create the office of General Manager and co-CEO, which reports directly to him, and appointed Angelos Papadimitriou to this position, effective August 1, 2020. Angelos Papadimitriou was co-opted on **August 5, 2020** to replace Carlo Secchi who resigned from his position as Director, effective as of the same date. Professor Carlo Secchi will continue to hold the position of Chairman of the Company's Supervisory Board.

On **August 5, 2020**, the Board of Directors, in order to take the radical changes in the macroeconomic scenario into account, instructed the Remuneration Committee to revise the 2020-2022 Long Term Incentive Plan ("***LTI Plan***"), for the part concerning 'Net Cash Flow', and to align the relative target with the New Guidance disclosed to the market on the occasion of the release of the data as at June 30, 2020, and with the targets of the Business Plan for the years 2021 and 2022, which will be announced by the end of the first quarter of 2021. This revision will make it possible to maintain the full alignment of interests between Shareholders and Management in an LTI plan that upholds the objectives of relative Total Shareholder Return (compared to tier one peers), and Pirelli's positioning in selected sustainability indexes at global level.

In **September 2020** Pirelli was recognised as the only company in the tyre sector to be part of the United Nations Global Compact Lead. In the same month of September Pirelli, already a founding member of the UN Global Compact CFO Taskforce for Sustainable Development Goals (SDGs), was among the signatories of the "*CFO Principles on Integrated SDG Investments and Finance*" presented at the 75th UN General Assembly.

On **October 28, 2020**, the European Court of Justice upheld the previous decisions of the General Court of the European Union and the European Commission on the merits of the electric cables market cartel case, which had imposed a pecuniary sanction on Prysmian Cavi e Sistemi S.r.l., a portion of which (amounting to euro 67,310,000), Pirelli had been held jointly and severally liable with Prysmian based solely on the application of the principle of so-called parental liability. In this regard, Pirelli had already deposited a bank guarantee in favour of the EU Commission, to the amount of euro 33,655,000 (corresponding to 50% of the sanction imposed jointly and severally on Prysmian and Pirelli) plus interest. This payment by Pirelli, of its portion of the aforementioned sanction, whose amount had already been accrued to the provision for liabilities and charges, took place on **December 31, 2020**. It should be noted that since 2014, a case has been pending before the Court of Milan, brought by Pirelli seeking an assessment and declaratory judgement of Prysmian's obligation to hold Pirelli harmless from any claim related to the cartel, including the sanction imposed by the EU Commission.

On **November 14, 2020** Pirelli was confirmed as the world sustainability leader for the Automobiles & Components sector in the Dow Jones Sustainability World and Europe Indexes based on a review of the two indexes conducted annually by S&P Global through SAM. The Company recorded an overall score of 84 points, against the industry average of 35 points.

On **December 15, 2020**, Pirelli placed euro 500 million in senior unsecured guaranteed equity-linked non-interest-bearing bonds, maturing in 2025, which are convertible, subject to approval by the Shareholders' Meeting, into Pirelli shares. The bonds were issued at a price equal to 100% of the nominal value, with a conversion price of euro 6.235 per share (equivalent to a 45% premium on the transaction's reference price of euro 4.3). This financing operation allows the Group to optimise its debt profile by extending its maturities, and to preserve the cash generated by the business, thanks to the non-interest-bearing nature of the bonds. The proceeds from the bond issue can be used both for the Group's general business and for refinancing part of the existing debt. The bonds were admitted for trading on the Vienna MTF, a multilateral trading facility operated by the Vienna Stock Exchange. For further details, reference should be made to the section "*Significant events subsequent to the end of the year*".

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 "*Alternative Performance Indicators*" section for a more analytical description of these indicators.

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During 2020, the tyre sector was heavily impacted by the COVID-19 emergency, and by the deterioration of the economic outlook, along with the general decline in consumption and production. Demand for car tyres recorded a -15.3% decline in volumes, and was particularly severe for the first half-year (-28.1%), but improved during the course of the second half-year (-3.2%), thanks to the recovery in demand for Car New Premium (+3.6% for the second half-year, and -9.5% for the year), which proved to be the most resilient segment.

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

This plan made it possible to:

- guarantee the health and safety of its employees through the adoption of all necessary preventive measures;
- protect profitability and cash generation through cost containment and the renegotiation of investment programs;
- strengthen the capital structure. For this purpose Pirelli signed a new sustainable bank credit facility for euro 800 million (5-year maturity), issued an equity-linked bond for euro 500 million (5-year maturity) and, in general, optimised its financial structure through the extension of debt maturities;
- consolidate its collaboration with the main Premium and Prestige vehicle manufacturers, and with the sales network, in view of the recovery in demand, while counting on a resilient supply chain and strengthen Pirelli's leadership position in the high-end products range.

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

Pirelli closed 2020 with results consistent with the year's targets:

- **revenues** of euro **4,302.1** million, (a target of between euro 4.18 billion and euro 4.23 billion), were down by -19.2% compared to 2019 (an organic change of -14.1%), with High Value revenues reaching a 70.4% share of the Group's revenues (66.5% for 2019), and the reinforcement of Pirelli's leadership position in the high-end products range;
- **EBIT adjusted** amounted to euro **501.2** million, with profitability at 11.6% (a target of ~11.5% ÷ 12%). The contribution of efficiencies and cost containment measures (to the amount of euro 142 million, 3.3% of revenues, euro 270 million in gross benefits), limited the impact of the external scenario (weakness in market demand, exchange rate volatility, slowdown and increased cost of production factors);
- **net income** amounted to euro **42.7** million, and **net income adjusted** amounted to euro **245.5** million, net of one-off, non-recurring and restructuring expenses, COVID-19 direct costs, and the amortisation of intangible assets included in the PPA;
- **net cash flow before dividends and convertible bond impact** amounted to euro **207.6** million, which includes the payment of the European Court sanction for the electrical cables cartel for the amount of euro -33.7 million (a corresponding cash generation target of euro ~190 million); a net cash flow of euro 248.8 million including the benefit (euro 41.2 million) linked to the accounting effect of the above mentioned convertible bond issue. In 2020, the low level of investments (CapEx and financial equity investments), and improved net working capital management, mitigated the impact of lower operating performance. There was a significant reduction in inventories over the course of the year, equal to approximately euro 257 million (approximately euro 154 million excluding the exchange rate effect), mainly due to the decrease in finished products (approximately 2.6 million less units for Car inventories, and approximately 300 thousand less units for Motorbike inventories, which occurred during the second and third quarters of the year);
- **Net Financial Position** at December 31, 2020 amounted to a loss of euro **3,258.4** million (euro 3,507.2 million at December 31, 2019), consistent with targets (euro ~3.3 billion);
- a **liquidity margin** equal to euro **3,034.4** million, capable of meeting all financial debt maturities until the end of the first half-year of 2024, thanks also to the Company's exclusive right to extend the bank debt maturing in June 2022 (euro 1,617 million) for a further two years.

Results improved significantly for the last quarter, with:

- **revenues** of euro **1,208.3** million, with an organic change of +1.7%, supported by the trend in volumes (+1.1%, with High Value at +10.3%), and by the improvement in the price/mix (+0.6%);
- **EBIT adjusted** equalled euro **220.8** million, with a margin of 18.3% (18.1% for the fourth quarter of 2019), thanks to the contribution of efficiencies and cost containment measures;
- **net income** equalled euro **60.5** million;
- **net cash flow before dividends** amounted to (euro **994.1** million, an improvement compared to euro 973.0 million for the fourth quarter of 2019), and had benefited from the usual cash generation from working capital performance, consistent with the historical trend.

COST COMPETITIVENESS PLAN AND COVID-19 MEASURES

The cost competitiveness plan ("*Cost Competitiveness Plan*") and the measures to counter the COVID-19 impact

("*COVID-19 Measures*"), were consistent with the forecasts announced on May 13, 2020: euro 142 million net of inflation and the slowdown (approximately 3% of the 2019 cost base, or approximately 3.3% of Group's turnover), and euro 270 million in gross benefits. In particular:

→ the Cost Competitiveness Plan which is divided into 4 areas (product cost, manufacturing, organisation and SG&A), contributed euro 110 million in benefits net of inflation (euro 160 million in gross benefits, euro -50 million due to the impact of inflation);
→ the COVID-19 Measures plan for cost containment, which comprises short-term measures for SG&A, marketing and communication, manufacturing and R&D, contributed euro 32 million net of the slowdown in production (euro 110 million in gross benefits; euro -78 million due to the impact of the slowdown).

For the **fourth quarter**, in particular, the benefits net of inflation and the slowdown amounted to euro 58 million (euro 71 million in gross benefits). In more detail:

→ euro 37 million in net benefits deriving from the Cost Competitiveness Plan (euro 51 million in gross benefits, euro -14 million due to the impact of the inflation);

→ euro 21 million in net benefits deriving from COVID-19 Measures (euro 20 million in gross benefits).

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

(in millions of euro)

	2020	2019
Net sales	**4,302.1**	**5,323.1**
EBITDA adjusted (°)	**892.6**	**1,310.0**
% of net sales	20.7%	24.6%
EBITDA (°°)	**725.1**	**1,250.0**
% of net sales	16.9%	23.5%
EBIT adjusted	**501.2**	**917.3**
% of net sales	11.6%	17.2%
Adjustments: - amortisation of intangible assets included in PPA	(114.6)	(114.6)
- non-recurring, restructuring expenses and other	(107.7)	(131.0)
- income from Brazilian tax credits	-	71.0
- COVID-19 direct costs	(59.8)	-
EBIT	**219.1**	**742.7**
% of net sales	5.1%	14.0%
Net income/(loss) from equity investments	(5.3)	(11.0)
Financial income/(expenses) (°°)	(156.4)	(109.4)
- of which financial income from Brazilian tax credits	-	*107.3*
Net income/(loss) before tax	**57.4**	**622.3**
Tax income/(expenses)	(14.7)	(164.6)
Tax rate %	25.6%	26.5%
Net income/(loss)	**42.7**	**457.7**
Eanings/(loss) per share (in euro per share)	0.03	0.44
Net income/(loss) adjusted	245.5	514.3
Net income/(loss) attributable to owners of the Parent Company	29.8	438.1

(°) Adjustments refers to one-off, non recurring and restructuring expenses to the amount of euro 99.3 million (euro 124.1 million for 2019), expenses relative to the retention plan approved by the Board of Directors on February 26, 2018 to the amount of euro 8.4 million (euro 6.9 million for 2019), and COVID-19 direct costs to the amount of euro 59.8 million. For 2019 it had also included income from Brazilian tax credits to the amount of euro 71.0 million.
(°°) The item includes the impacts deriving from the application of the accounting standard IFRS 16 - Leases, to the amount of euro +103.9 million on EBITDA (euro +104.3 million for 2019) and euro -22.3 million on financial expenses (euro -24.0 million for 2019).

(in millions of euro)

	12/31/2020	12/31/2019
Fixed assets	**8,857.1**	**9,469.8**
Inventories	836.4	1,093.8
Trade receivables	597.7	649.4
Trade payables	(1,268.0)	(1,611.5)
Operating net working capital	**166.1**	**131.7**
% of net sales	3.9%	2.5%
Other receivables/other payables	(25.6)	81.0
Net working capital	**140.5**	**212.7**
% of net sales	3.3%	4.0%
Net invested capital	**8,997.6**	**9,682.5**
Equity	**4,551.9**	**4,826.6**
Provisions	1,187.3	1,348.7
Net financial (liquidity)/debt position	**3,258.4**	**3,507.2**
Equity attributable to owners of the Parent Company	4,447.4	4,724.4
Investments in intangible and owned tangible assets (CapEx)	140.0	390.5
Increases in right of use	68.5	51.2
Research and development expenses	194.6	232.5
% of net sales	4.5%	4.4%
Research and development expenses - High Value	182.5	215.7
% of sales High Value	6.0%	6.1%
Employees (headcount at end of period)	30,510	31,575
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)

	1Q		2Q		3Q		4Q		TOTAL YEAR	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Net sales	**1,051.6**	1,313.8	**764.8**	1,341.0	**1,277.4**	1,381.6	**1,208.3**	1,286.7	**4,302.1**	5,323.1
yoy	-20.0%		-43.0%		-7.5%		-6.1%		-19.2%	
*organic yoy **	-18.5%		-38.3%		-1.5%		1.7%		-14.1%	
EBITDA adjusted	**244.2**	315.6	**23.7**	320.5	**309.4**	342.4	**315.3**	331.5	**892.6**	1,310.0
% of net sales	23.2%	24.0%	3.1%	23.9%	24.2%	24.8%	26.1%	25.8%	20.7%	24.6%
EBITDA	**220.2**	308.2	**(18.5)**	369.7	**276.8**	299.5	**246.6**	272.6	**725.1**	1,250.0
% of net sales	20.9%	23.5%	-2.4%	27.6%	21.7%	21.7%	20.4%	21.2%	16.9%	23.5%
EBIT adjusted	**141.1**	219.2	**(74.4)**	221.3	**213.7**	244.5	**220.8**	232.3	**501.2**	917.3
% of net sales	13.4%	16.7%	-9.7%	16.5%	16.7%	17.7%	18.3%	18.1%	11.6%	17.2%
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	(18.6)	(7.4)	(21.2)	(22.6)	(26.4)	(42.9)	(41.5)	(58.1)	(107.7)	(131.0)
- income from Brazilian tax credits	-	-	-	71.8	-	-	-	(0.8)	-	71.0
- COVID-19 direct costs	(5.4)	-	(21.0)	-	(6.2)	-	(27.2)	-	(59.8)	-
EBIT	**88.4**	183.1	**(145.2)**	241.9	**152.4**	172.9	**123.5**	144.8	**219.1**	742.7
% of net sales	8.4%	13.9%	-19.0%	18.0%	11.9%	12.5%	10.2%	11.3%	5.1%	14.0%

* before exchange rate effect and hyperinflation in Argentina

Total net sales amounted to euro 4,302.1 million, and recorded a decline of -19.2%, -14.1% excluding the combined impact of the exchange rate effect, plus the adoption of hyperinflation accounting in Argentina (totalling -5.1%).

High Value net sales which amounted to euro 3,029.8 million, represented 70.4% of total revenues (66.5% for 2019).

(in millions of euro)

	2020	% of total	2019	% of total	Change YoY	Organic change YoY
High Value	3,029.8	70.4%	3,539.9	66.5%	-14.4%	-12.3%
Standard	1,272.3	29.6%	1,783.2	33.5%	-28.6%	-17.9%
Total net sales	**4,302.1**	**100.0%**	**5,323.1**	**100.0%**	**-19.2%**	**-14.1%**

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

	2020				
	1Q	2Q	3Q	4Q	TOTAL YEAR
Volume	-17.2%	-41.6%	-3.8%	1.1%	-15.3%
of which:					
- High Value	*-14.2%*	*-35.2%*	*3.9%*	*10.3%*	*-9.0%*
- Standard	*-20.2%*	*-50.4%*	*-11.9%*	*-7.3%*	*-21.4%*
Price/mix	-1.3%	3.3%	2.3%	0.6%	1.2%
Change on a like-for-like basis	**-18.5%**	**-38.3%**	**-1.5%**	**1.7%**	**-14.1%**
Exchange rate effect /Hyperinflation accounting in Argentina	-1.5%	-4.7%	-6.0%	-7.8%	-5.1%
Total change	**-20.0%**	**-43.0%**	**-7.5%**	**-6.1%**	**-19.2%**

The trend in sales **volumes** for 2020 (-15.3%) was better than expected for both segments (the November target had been -17% / -18%). The High Value segment recorded a decrease of -9% (compared to a target of -11%) while the Standard segment suffered a decrease of -21.4%, which was lower than the -25% target.

During 2020, **Car ≥18” volumes** declined by -7.8% (the market by -9.5%):

- for **Original Equipment**, Pirelli recorded a decrease in volumes of -6.3%, which was more contained than that of the market (-13.2%), thanks to the exposure to the Premium and Prestige segment, and to the diversification of the customer portfolio (new contracts in North America and APAC as of the second half-year of 2019). There was a marked improvement in the trend for the fourth quarter which was up by +19.1% (+9.1% for the market), which benefited from the strong recovery in Premium and Prestige car production (+14%);
- for the **Replacement** channel (Pirelli volumes down by -8.9%, the market down by -6.9%), the Company gradually improved its performance, which had been particularly impacted during the first half-year, by the reduction of the main distribution partner inventory levels in Europe and North America. The performance for the fourth quarter was particularly strong: +6.5%, compared to +2.5% for the market, with the strengthening of its leadership position in APAC, the consolidation of its positioning in Europe, and the improvement of sales in North America.

For the **Car ≤17”** segment, the decline in **volumes** during 2020 (-22.6%), was more pronounced than that of the market (-16.5%), but consistent with the strategy of reducing exposure to less profitable segments. An exception to this was South America, where Pirelli gained market share for both channels during the second half-year, with the Replacement channel benefitting also from the reduction in import flows, and the Original Equipment channel from increased production by the main vehicle manufacturers that Pirelli serves in the region, in view of the launch of new models in early 2021.

For 2020 the **price/mix** improved by +1.2% and reflected the different trend between the quarters:

- a negative first quarter (-1.3%), with a channel mix that was impacted by the more marked decline for the Replacement channel, and the temporary drop in the Region mix due to the sharp drop in demand in China, the first country affected by the pandemic, and a channel mix that was affected by a more pronounced drop for the Replacement channel, as a result of inventory reduction measures for the distribution network in Europe and North America;
- positive second and third quarters (+3.3% and +2.3% respectively), thanks to the improvement of the product mix, the Region mix (with the recovery of sales in China starting from the second quarter), and the channel mix (positive for the second quarter, neutral for the third quarter in consideration of a more balanced trend between the Original Equipment and Replacement channels);
- for the fourth quarter, the price/mix trend (+0.6%) was impacted by the previously mentioned growth in volumes for the Original Equipment channel, compared to the Replacement channel.

A negative **exchange rate effect**, including hyperinflation in Argentina: -5.1% for 2020 (-7.8% for the fourth quarter), due to the strong volatility of emerging market currencies (mainly South America and Russia), and the appreciation of the euro against the main currencies as of the third quarter.

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

	2020				2019 **
	euro\mln	%	yoy	Organic Yoy*	%
Europe and Turkey	1,757.3	40.9%	*-17.0%*	*-16.2%*	39.8%
North America	870.5	20.2%	*-21.0%*	*-18.2%*	20.7%
APAC	866.0	20.1%	*-10.0%*	*-8.0%*	18.1%
South America	458.6	10.7%	*-32.8%*	*-6.9%*	12.8%
Russia, Nordics and MEAI	349.7	8.1%	*-24.0%*	*-18.9%*	8.6%
Total	**4,302.1**	**100.0%**	*-19.2%*	*-14.2%*	**100.0%**

* before exchange rate effect and hyperinflation in Argentina
** the comparative data for 2019 have been restated in accordance with the new repartitions by Regions

EBITDA adjusted for 2020 amounted to euro 892.6 million (-31.9%, compared to euro 1,310.0 million for 2019), and euro 315.3 million for the fourth quarter of 2020, with a margin of 26.1% (25.8% for the fourth quarter of 2019). The EBITDA adjusted included net indirect industrial costs relative to the COVID-19 emergency totalling euro 79.3 million, of which euro 78 million were costs relative to the slowdown, due to the temporary closure of some manufacturing plants, and more generally to the reduced use of the plants. These indirect costs have been stated net of the benefits of the welfare safety nets, and net of the benefits deriving from the COVID-19 cost-cutting measures implemented on the Group's industrial costs.

EBITDA amounted to euro 725.1 million (compared to euro 1,250.0 million for 2019; euro 246.6 million for the fourth quarter of 2020, compared to euro 272.6 million for the fourth quarter of 2019) and also includes; direct operating costs linked to the COVID-19 emergency to the amount of euro 59.8 million, mainly consisting of costs incurred for the purchase of protective personnel equipment (euro 9.8 million), costs relative to semi-finished products which due to the sudden closure cannot be utilised, in that they are not suitable for production (euro 11.5 million), non-discretionary sponsorship costs due to cancelled events or the reduced visibility of events (euro 33.3 million) and donations (euro 2.7 million).

EBIT adjusted amounted to euro 501.2 million (euro 917.3 million for 2019), with an EBIT margin adjusted of 11.6%, consistent with targets (~11.5% - ~12%). The trend in profitability improved markedly during the fourth quarter with an EBIT adjusted of euro 220.8 million (euro 232.3 million for the fourth quarter of 2019) and a margin of 18.3% (18.1% for the fourth quarter of 2019).

Internal levers (price/mix, net efficiencies, and the programme for the reduction of costs linked to the COVID-19 emergency net of the slowdown), contributed to limit the negative impacts arising from:

- the external scenario (volumes, raw materials, Forex and inflation);
- increased depreciation and amortisation and other costs.

During the course of 2020, efficiencies measures and the programme for the reduction of costs linked to the COVID-19 emergency, contributed in containing the impacts of the external scenario (very weak market demand, slowdown, volatility in exchange rates, and inflation of the cost of production factors).

In more detail:

- the Cost Competitiveness Plan generated structural efficiencies of euro 159.6 million (3.7% of revenues), which offset inflation (euro -50.0 million), the impact of the exchange rate effect (euro -60.1 million), and the increase in the cost of raw materials (euro -20.0 million), where the latter was impacted by the depreciation of the main currencies of countries where the Group's production is located (e.g. South America, Romania and Russia). These efficiencies concerned the cost of the product (optimisation of specifications, and rationalisation of components), organisation (re-engineering of processes) and SG&A costs (strict control of overheads);
- COVID-19 Measures, generated euro 110.0 million, which offset the impact of the slowdown (euro -78.0 million). These measures concerned discretionary costs (SG&A), the revision of marketing and communication activities, the renegotiation of contracts with suppliers, the prioritisation of R&D investments, and further production efficiencies;

- the impact of the price/mix amounted to euro 19.5 million;
- lastly, the negative impact of volumes (euro -350.6 million), of amortisation and depreciation (euro -30 million), and of other expenses (euro -116.5 million, of which euro 55 million was non-monetary), the latter relative to the transformation/digitisation process, the increase in the provisions for receivables and inventories and other costs of a non-monetary nature linked to the reduction in the value of inventories.

(in millions of euro)

	1Q	2Q	3Q	4Q	TOTAL YEAR
2019 EBIT Adjusted	**219.2**	**221.3**	**244.5**	**232.3**	**917.3**
- Internal levers:					
Volumes	(95.0)	(237.2)	(22.4)	4.0	(350.6)
Price/mix	(14.9)	21.9	14.4	(1.9)	19.5
Amortisation, depreciation and other expenses	3.8	(53.2)	(51.3)	(45.8)	(146.5)
Slowdown	(16.4)	(54.2)	(8.2)	0.8	(78.0)
COVID-19 cost cutting	32.9	28.8	28.6	19.7	110.0
Efficiencies	31.2	32.6	45.0	50.8	159.6
- External levers:					
Cost of production factors (commodities)	(3.3)	(11.5)	(5.0)	(0.2)	(20.0)
Cost of production factors (labour/energy/others)	(15.2)	(7.6)	(13.5)	(13.7)	(50.0)
Exchange rate effect	(1.2)	(15.3)	(18.4)	(25.2)	(60.1)
Total change	**(78.1)**	**(295.7)**	**(30.8)**	**(11.5)**	**(416.1)**
2020 EBIT Adjusted	**141.1**	**(74.4)**	**213.7**	**220.8**	**501.2**

EBIT, which amounted to a positive euro 219.1 million (euro 742.7 million for 2019), included:

- the amortisation of intangible assets identified during the Purchase Price Allocation (PPA) to the amount of euro 114.6 million (consistent with 2019);
- one-off, non-recurring, restructuring and other expenses to the amount of euro 107.7 million (euro 131 million for 2019), mainly relative to structural rationalisation measures, in addition to value adjustment of some pension funds in the UK as part of the buy-out operation (euro 11.2 million), and the retention plan approved by the Board of Directors on February 26, 2018 to the amount of euro 8.4 million (euro 6.9 million for 2019);
- direct costs linked to the COVID-19 emergency to the amount of euro 59.8 million, mainly relative to costs incurred for the purchase of protective personnel equipment (euro 9.8 million), costs relative to semi-finished products which due to the sudden closure cannot be utilised in that they are not suitable for production (euro 11.5 million), non-discretionary sponsorship costs due to cancelled events or the reduced visibility of events (euro 33.3 million), and donations (euro 2.7 million).

Income/(loss) from equity investments amounted to a loss of euro 5.3 million compared to the loss of euro 11.0 million for 2019. The results for 2020 mainly included the pro-rata share of the loss attributable to the Chinese joint venture Xushen Tyre (Shanghai) Co., Ltd (euro 4.6 million for 2020, compared to a loss of euro 7.2 million for 2019).

Net financial expenses amounted to euro 156.4 million compared to euro 109.4 million for 2019. It is to be noted that financial expenses for 2019 had been positively impacted by a non-recurring effect linked to tax credits in Brazil (PIS/COFINS). Net of these effects, financial expenses for 2019 had amounted to euro 216.7 million. Therefore, in comparing financial expenses for 2020 with those of the same period of 2019, with the abovementioned adjustment, there emerges a saving of euro 60.3 million. This reduction mainly reflected:

- the lower impact to the amount of euro 13 million deriving from the application of hyperinflation accounting in Argentina;
- the general reduction in interest rates in the currencies in which the Group operates, which resulted in a benefit of less interest paid on debt;
- a lower incidence of debt denominated in high yield currencies mainly in Brazil and Mexico;

→ the temporary reduction in the cost of the central credit facilities due to the improvement in the Group's financial leverage, and the consequent reduction in the interest margin, from which the Group benefited up until November 2020.

Consequently, the cost of debt year-on-year shows a reduction from 2.83% at December 31, 2019 to 1.94% at December 31, 2020.

Tax expenses amounted to euro 14.7 million against a pre-tax earnings of euro 57.4 million, with a tax rate which stood at 25.6%. For 2019, tax expenses had amounted to euro 164.6 million against pre-tax earnings of euro 622.3 million (tax rate of 26.5%).

Net income/(loss) amounted to a gain of euro 42.7 million, compared to a gain of euro 457.7 million for the corresponding period of 2019.

Net income/(loss) adjusted amounted to a gain of euro 245.5 million, compared to a gain of euro 514.3 million for 2019. The following table shows the calculations:

(in millions of euro)

	2020	2019
Net income/(loss)	**42.7**	**457.7**
Amortisation of intangible assets included in PPA	114.6	114.6
One-off, non-recurring and restructuring expenses	99.3	124.1
Income from Brazilian tax credits	-	(71.0)
COVID-19 direct costs	59.8	-
Retention plan	8.4	6.9
Financial income from Brazilian tax credits	-	(107.3)
Taxes	(79.3)	(10.7)
Net income/(loss) adjusted	**245.5**	**514.3**

Net income attributable to the owners of the Parent Company amounted to euro 29.8 million, compared to euro 438.1 million for 2019.

Equity went from euro 4,826.6 million at December 31, 2019, to euro 4,551.9 million at December 31, 2020.

Equity attributable to the owners of the Parent Company at December 31, 2020 equalled euro 4,447.4 million, compared to euro 4,724.4 million at December 31, 2019.

The change is shown in the table below:

(in millions of euro)

	Group	Non-controlling interests	TOTAL
Equity at 12/31/2019	**4,724.4**	**102.2**	**4,826.6**
Translation differences	(365.9)	(10.6)	(376.5)
Net income/(loss)	29.8	12.9	42.7
Convertible bond reserve	41.2	-	41.2
Effect of hyperinflation in Argentina	20.0	-	20.0
Other	(2.1)	-	(2.1)
Total changes	**(277.0)**	**2.3**	**(274.7)**
Equity at 12/31/2020	**4,447.4**	**104.5**	**4,551.9**

The impact from differences from foreign currency translation was mainly due to the depreciation of Brazilian and Mexican currencies.

The **reconciliation between equity attributable to the Parent Company and the consolidated equity** attributable to the Shareholders of the Parent Company is reported below:

(in millions of euro)

	Share Capital	Treasury reserves	Net income/ (loss)	TOTAL
Equity of Pirelli & C. S.p.A. at 12/31/2020	**1,904.4**	**2,702.7**	**44.0**	**4,651.1**
Net income (loss) of consolidated companies (before consolidation adjustments)	-	-	62.4	62.4
Share capital and reserves of consolidated companies (before consolidation adjustments)	-	4,375.4	-	4,375.4
Consolidation adjustments:				
- carrying amount of equity investments in consolidated companies	-	(4,647.8)	-	(4,647.8)
- intragroup dividends	-	53.7	(53.7)	-
- others	-	29.2	(22.9)	6.3
Consolidated equity of the Group at 12/31/2020	**1,904.4**	**2,513.2**	**29.8**	**4,447.4**

Net financial position amounted to a loss of euro 3,258.4 million, compared to euro 3,507.2 million at December 31, 2019. It was composed as follows:

(in millions of euro)

	12/31/2020	12/31/2019
Current borrowings from banks and other financial institutions	883.6	1,419.4
- of which lease liabilities	*75.4*	*77.8*
Current derivative financial instruments	53.9	31.7
Non-current borrowings from banks and other financial institutions	4,971.0	3,949.8
- of which lease liabilities	*390.4*	*405.3*
Non-current derivative financial instruments	87.6	10.3
Total gross debt	**5,996.1**	**5,411.2**
Cash and cash equivalents	(2,275.5)	(1,609.8)
Other financial assets at fair value through Income Statement	(58.9)	(38.1)
Current financial receivables and other assets**	(102.6)	(35.5)
Current derivative financial instruments	(34.8)	(32.1)
Net financial debt*	**3,524.3**	**3,695.7**
Non-current derivative financial instruments	-	(52.5)
Non-current financial receivables and other assets**	(265.9)	(136.0)
Total net financial (liquidity) / debt position	**3,258.4**	**3,507.2**

* Pursuant to Consob Notice of July 28, 2006 and in compliance with ESMA/2013/319 Recommendations.
** The item "financial receivables and other assets" is reported net of the relative provision for impairment which amounted to euro 8.5 million at December 31, 2020 (euro 8.7 million at December 31, 2019).

The **structure of gross debt** which amounted to euro 5,996.1 million, was as follows:

(in millions of euro)

	12/31/2020	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")	1,617.5	-	1,617.5	-	-	-	-
Convertible bond	451.9	-	-	-	-	451.9	-
EMTN program bond	549.3	-	-	549.3	-	-	-
Schuldschein	523.3	81.9	-	421.5	-	19.9	-
Pirelli & C. bank bilateral borrowings	921.5	200.0	-	124.7	596.8	-	-
Sustainable credit facility	794.6	-	-	-	-	794.6	-
Other loans	672.2	580.3	89.5	2.4	-	-	-
Lease liabilities	465.8	75.4	63.0	51.8	44.0	39.4	192.2
Total gross debt	**5,996.1**	**937.6**	**1,770.0**	**1,149.7**	**640.8**	**1,305.8**	**192.2**
		15.6%	*29.5%*	*19.2%*	*10.7%*	*21.8%*	*3.2%*

At December 31, 2020 the Group had a liquidity margin equal to euro 3,034.4 million, composed of euro 700 million in the form of non-utilised committed credit facilities and euro 2,275.5 million in cash and cash equivalents, in addition to financial assets at fair value through the Income Statement to the amount of euro 58.9 million. The liquidity margin of euro 3,034.4 million guarantees coverage for maturities for borrowings from banks and other financial institutions, until January 2023, thereby covering two years of maturities. Also, considering the Company's exclusive right to extend the maturity of the unsecured "Facilities" loan by a further two years, this coverage would extend until June 2024.

Net cash flow, in terms of change in the net financial position, was positive to the amount of euro 248.8 million (euro 167.2 million for 2019, euro 344.1 million net of dividends paid by the Parent Company), and includes the payment of the European Court sanction for the electric cable cartel of euro -33.7 million, and a benefit of euro 41.2 million due to the classification, of the value of the conversion option relative to the bond, directly to equity, in accordance with the relevant accounting standards (a net cash flow of euro 207.6 million for the financial year excluding this benefit). Net cash flow also reflected lower investments (CapEx and financial investments in equity) and the careful management of working capital which mitigated the impact of the lower operating performance.

(in millions of euro)

	1Q		2Q		3Q		4Q		TOTAL	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
EBIT adjusted	141.1	219.2	(74.4)	221.3	213.7	244.5	220.8	232.3	501.2	917.3
Amortisation and depreciation (excluding PPA amortisation)	103.1	96.5	98.1	99.1	95.7	98.0	94.5	99.1	391.4	392.7
Investments in owned tangible and intangible assets (CapEx)	(56.6)	(78.0)	(24.8)	(89.7)	(24.7)	(74.6)	(33.9)	(148.2)	(140.0)	(390.5)
Increases in right of use	(22.9)	(3.2)	(24.1)	(14.0)	(15.2)	(8.5)	(6.3)	(25.5)	(68.5)	(51.2)
Change in working capital / other	(861.2)	(836.0)	131.9	10.1	(173.0)	(136.8)	809.5	901.9	(92.8)	(60.8)
Operating net cash flow	**(696.5)**	**(601.5)**	**106.7**	**226.8**	**96.5**	**122.6**	**1,084.6**	**1,059.6**	**591.3**	**807.5**
Financial income / (expenses)	(32.5)	(48.1)	(40.6)	38.1	(40.2)	(65.2)	(43.1)	(34.2)	(156.4)	(109.4)
Reversal of financial income from tax credits in Brazil	-	-	-	(99.8)	-	(0.8)	-	(6.7)	-	(107.3)
Taxes paid	(31.4)	(30.1)	(22.4)	(45.9)	(16.2)	(37.4)	(20.7)	(28.6)	(90.7)	(142.0)
Cash Out for non-recurring, restructuring expenses and other	(20.7)	(16.0)	(28.2)	(17.9)	(42.4)	(7.4)	(27.5)	(10.9)	(118.8)	(52.2)
Dividends paid to minorities	-	-	-	(8.9)	-	-	-	-	-	(8.9)
Differences from foreign currency translation / other	27.6	-	(19.5)	(19.8)	14.5	(0.2)	(6.7)	(6.2)	15.9	(26.2)
Net cash flow before dividends, extraordinary transactions and investments	**(753.5)**	**(695.7)**	**(4.0)**	**72.6**	**12.2**	**11.6**	**986.6**	**973.0**	**241.3**	**361.5**
EU electric cables market cartel sanction	-	-	-	-	-	-	(33.7)	-	(33.7)	-
(Acquisition) / Disposals of investments	-	(17.2)	-	(0.2)	-	-	-	-	-	(17.4)
Net cash flow before dividends paid by the Parent Company and convertible bond impact	**(753.5)**	**(712.9)**	**(4.0)**	**72.4**	**12.2**	**11.6**	**952.9**	**973.0**	**207.6**	**344.1**
Convertible bond impact	-	-	-	-	-	-	41.2	-	41.2	-
Net cash flow before dividends paid by the Parent Company	**(753.5)**	**(712.9)**	**(4.0)**	**72.4**	**12.2**	**11.6**	**994.1**	**973.0**	**248.8**	**344.1**
Dividends paid by the Parent Company	-	-	-	(176.9)	-	-		-	-	(176.9)
Net cash flow	**(753.5)**	**(712.9)**	**(4.0)**	**(104.5)**	**12.2**	**11.6**	**994.1**	**973.0**	**248.8**	**167.2**

More specifically, **operating net cash flow** for the year 2020 amounted to euro 591.3 million (euro 807.5 million for 2019) and reflected:

- investments in intangible and owned tangible assets (CapEx) to the amount of euro 140 million (euro 390.5 million for 2019), that were mainly earmarked for High Value activities, and the constant improvement of the mix and quality in all factories;
- increases in the right of use, by euro 68.5 million, relative to new lease contracts signed during 2020;
- the change in working capital which resulted in a cash absorption of euro -92.8 million. In particular, the significant reduction in inventories implemented as of the second quarter of 2020, mitigated the negative impact mainly attributable to the reduction in payables compared to the previous financial year, In particular:
  - inventories closed 2020 with an impact on sales of 19.4%, (20.5% at December 31, 2019), thanks to the strong reduction in inventories (a reduction of approximately 3 million units of finished Car and Motorbike products during the second and third quarters of 2020);
  - trade receivables closed 2020 with an impact on sales of 13.9% (12.2% at December 31, 2019). There was a significant collection over the course of the last quarter, consistent with the seasonality of the business, of receivables relative to revenues from winter products in the more seasonal markets such as Europe and Russia;
  - trade payables accounted for 29.5% of sales (30.3% at December 31, 2019). (30.3% at December 31, 2019). This figure highlights the significant increase compared to the close of the third quarter of 2020, and was linked to the recovery of business.

Net cash flow for the fourth quarter of 2020 amounted to euro 994.1 million. This figure highlighted:

- → EBIT adjusted (euro 220.8 million), which had improved compared to the third quarter of 2020 (euro 213.7 million), confirming the recovery of business;
- → investments (euro -33.9 million) which were lower compared to 2019 levels, (euro -148.2 million);
- → a trend in working capital (euro 809.5 million) that indicated significant cash generation, in keeping with the historical trend;
- → a decrease in taxes paid (euro -20.7 million, compared to euro -28.6 million for the fourth quarter of 2019), which partially offset the higher cash-out relative to restructuring and other expenses (euro -27.5 million, compared to euro -10.9 million for the fourth quarter of 2019).

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 approximately 2,100 personnel (equal to approximately 7% of the Group's human resources), between the Milan headquarters and the 12 technology centres located all over the world, allowing a direct relationship with markets and end users, and with the main vehicle manufacturers whose R&D centres and factories are located in the same geographical areas. Pirelli's model for research and development, implemented in accordance with the Open Innovation model, is carried out through a number of collaborations with partners who are external to the Group - such as suppliers, universities and the same said vehicle manufacturers - for the purposes of pre-empting technological innovations for the sector, to direct research and development activities, and to respond to and also steer towards the needs of the end consumer.

Research and development expenses for the 2020 financial year totalled euro 194.6 million, (4.5% of sales), of which euro 182.5 million was destined for High Value activities (6% of High Value revenues).

Pirelli continued to develop its CYBER™ technologies which, thanks to the sensors inside the tyre, and the fact that the tyre is the only element of the car capable of 'sensing' the conditions of the surface on which it is being driven, will contribute in delivering essential information to improve vehicle performance and driving safety. Pirelli was the first company in the world in the tyre sector to share information on the 5G network about road surfaces detected by sensorised or 'smart' tyres, and to identify situations that potentially compromise driving safety such as aquaplanes.

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 vehicle 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. 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 the sole supplier for Lamborghini, McLaren and Pagani Automobili. In this regard, in 2020 Pirelli developed a new P Zero Trofeo R for the fastest McLaren supercar ever, the 765LT, which minimises lap times on the track and ensures maximum safety on the road. Instead for the Premium segment, the special relationship with companies such as Alfa Romeo, Audi, BMW, Mercedes, Jaguar, Land Rover and Ford continued. Specifically, in 2020, Pirelli completed the development of the custom-made Scorpion ATR tyre for the latest version of the Ford F-150, which is part of the F-Series, the best-selling vehicle in the United States. For over twenty years, Pirelli and Ford have been working together to develop tyres specifically designed for the American company's model range.

The new generation of Pirelli Cinturato P7, launched in 2020, further enhances the qualities that are most important to drivers today: safety and efficiency. Pirelli, through its intense Research & Development activities, has created a product of a high technological level, capable of overcoming the compromises that until now have been typical of tyres. Thanks to the technologies created for the new Cinturato P7, it has been possible to reconcile requirements that are usually divergent, such as performance on wet surfaces and rolling resistance, thereby reaching a new level of technology and performance that will satisfy both drivers and manufacturers. In addition, the new P7 can also carry the new "Elect" marking, which distinguishes Pirelli tyres designed specifically for electric or plug-in hybrid cars, which are distinguished by their immediate grip, needed to respond to the specific torque delivery of electric motors, lower rolling resistance to maximise battery autonomy, and noise reduction to ensure the comfort benefits of electric propulsion. Finally, the Cinturato P7 can be fitted with Run Flat and Seal Inside technologies, which make it possible to drive even after a puncture, the former supporting the weight of the car even when the tyre is flat, thanks to its reinforced sidewall, and the latter thanks to a mastic that self-seals punctures up to 4 mm in diameter. The new P7 debuted with already more than 70 homologations to its credit. Each of these homologations required a dedicated process and development, in synergy with the car makers. In particular, in the "marked" versions for vehicles with rim diameters greater than 17", the Cinturato P7 immediately added 23 new versions to the more than 100 versions of its predecessor, demonstrating that it is the most chosen tyre in its category by Premium car manufacturers. One point of note in the development work, concerned the tread's ability to 'dialogue' with electronic driver assistance systems, such as the latest ADAS - Advanced

Driver Assistance Systems. In the case of ABS, for example, for the same car and tyre size, a tread optimised for operating in synergy with the car's electronics, can reduce braking distance. Tests carried out at a speed of 100 km/h showed that the new Cinturato P7, on average, requires up to 4 metres less braking distance, equal to a reduction of 7-10%. The development of the tyre, in collaboration with vehicle manufacturers, through tyre virtualisation models, makes it possible to calibrate the electronic driving assistance systems in the best possible way: as in the case of lane-keeping systems which, when combined with an 'unknown' tyre, might require continuous trajectory corrections, since they cannot predict the behaviour of the tyre itself. On the other hand, if the same car is fitted with the Cinturato P7, with the vehicle manufacturer's marking - which was developed to equip the specific vehicle - such corrections are not required, because the system can predict its reactions while driving.

In February 2020, Pirelli inaugurated the new static simulator at its Research & Development centre in Milan. The aim of the simulator is to optimise the development and testing phases of new tyres and reducing the time required, and reinforcing the collaboration with carmakers through a greater interaction between Pirelli's tyre modelling, and that of its partner vehicle manufacturers. With this technology, in fact, the average time for developing new tyres, both road and motorsport, is reduced by approximately 30%, thanks to the use of virtual prototypes for the various car models: thanks to these simulations, design parameters can be quickly modified during their development, and the exchange of digital information between Pirelli and the vehicle manufacturers becomes instantaneous. Compared to more traditional design methods, the virtual model of the car received from the vehicle manufacturer, can be installed on this simulator or reproduced in-house. In addition, joint design and development activities can also be carried out on the vehicle manufacturer's simulator, enabling the simulator to be perfectly in synch with the development times of vehicle manufacturers, who are producing new models with increasing frequency. The work performed on the static simulator is integrated with the design of the dynamic simulator, which also reproduces lateral and longitudinal acceleration. It is installed at the Milan Polytechnic, a university with which Pirelli has had a long-standing strategic partnership, and thanks to which additional tests will be performed in addition to those currently performed at the Pirelli research centre in Milan.

In August, Pirelli inaugurated the "*Circuito Panamericano*" in Brazil, the largest vehicle testing complex in all of Latin America. Located in the city of Elias Fausto, in the state of São Paulo, the new facility occupies an area of 1.65 million square metres. The various circuits and tracks - covering a total of more than 22 km - reflect the cutting-edge technological innovation that characterises Pirelli's support for the development of car, SUV and motorbike tyres, and the development of vehicles by manufacturers throughout the American continent.

In the motorbike sector, Pirelli remains the first and natural choice for many motorbike manufacturers who have selected Pirelli tyres as Original Equipment. Pirelli DIABLO™ Supercorsa SP has received yet another acknowledgement of its leadership position in the road racing tyre segment. It was chosen by Honda as Original Equipment for the new CBR1000RR-R Fireblade and CBR1000RR-R Fireblade SP, (the Tokyo-based company's most eagerly awaited new products for the year 2020), and also by Ducati as Original Equipment for the upgrade of the Panigale V4 model 2020, the most powerful and technologically advanced series-production Ducati ever, with tyres specifically developed to best manage the extremely high level of performance achieved, also due to the considerable aerodynamic load of the wing-like contours that profoundly distinguish the motorbike's aggressive design. The new Ducati Multistrada V4, on the other hand, which represents an important evolutionary step in the maxi-enduro motorbike sector, will be sold with SCORPION™ Trail II Original Equipment tyres, and is also homologated for SCORPION™ Rally STR and SCORPION™ Rally, which are more suitable for off-road use. The Pirelli DIABLO ROSSO™ III was chosen as Original Equipment for the new hypernaked Kawasaki Z H2, the only naked with a supercharged motor currently on the market.

In the Velo world, to further complete the Scorpion™ MTB range, Pirelli has added SCORPION™ XC RC, a very high performance, 100% race tyre, developed for and with the TREK PIRELLI team and dedicated to Cross-Country racers.

Pirelli has also launched the Scorpion E-MTB, a new family of products dedicated to electric mountain bikes. Robust, durable and aggressive, the new tyres guarantee maximum performance to withstand the hard workloads of the latest generation of e-motorbikes. The SmartGRIP+ compound, which is enhanced by lignin, offers high performance and is environmentally friendly.

Finally, Pirelli presented the P ZERO™ RACE TLR, the tubeless road tyre dedicated to maximum performance and professional competition. Developed in collaboration with two World Tour teams, the Mitchelton-SCOTT of reigning World Road Champion Annemiek van Vleuten, and the Trek-Segafredo of reigning World Champion Mads Pedersen, and Vincenzo Nibali, it represents the spearhead of the range of tyres dedicated to racing bikes. These new tubeless-ready Pirelli tyres are made with SmartEVO, an innovative compound evolved from the original SmartNET, which uses three different polymers, each of which delivers a specific performance, ensuring a perfect balance of opposing characteristics.

For further details on the elements of product sustainability, reference should be made to the section of the Annual Report entitled "*Report on Responsible Value Chain Management*", which constitutes the Company's consolidated non-financial statement pursuant to Legislative Decree no. 254/2016.

NEW MATERIALS

The Group is active in the development of new polymers to improve the characteristics of tyres in terms of rolling resistance, performance at low temperatures, 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 improved 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 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, for example, with the University of Milano-Bicocca, as part of the Consortium for Advanced Materials Research (CORIMAV) - allow for the development of innovative materials and solutions, which are essential for the production of tyres with low 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 increasingly safe and sustainable mobility. The most recent phase of the agreement, with a three year duration (2017-2020), focuses on two macro-strands of research: the area of innovative materials design, and the area for product and Cyber development.

For further details on the new materials and related sustainability characteristics, reference should be made to the section of the Annual Report entitled "*Report on Responsible Value Chain Management*", which constitutes the Company's consolidated non-financial statement pursuant to Legislative Decree no. 254/2016.

PROCESS AND PRODUCTIVITY INNOVATION

As part of an ambitious programme of investment in the digital transformation of all major business processes, in order to allow for the effective management of the diverse ranges of products in the factories, 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. "*Smart Manufacturing*" stems from the fourth industrial revolution *("Industry 4.0")*, and involves the digital and integrated management of factory processes.

To achieve a secure and reliable level of connectivity from the "Shopfloor" to the "Data Platform", Pirelli has therefore decided to launch an Industrial Internet of Things (IIoT) platform. Through "Edge Computing Capabilities", the IIoT platform will allow industrial efficiencies to be pursued in an agile manner. With the realisation of this project, the Pirelli factory will complete its transformation from a traditional factory to a fully integrated, connected and fully "Smart Manufacturing" oriented digital factory.

For further details on performance and sustainability targets in processes, reference should be made to the section of the Annual Report entitled "Report on Responsible Value Chain Management", which constitutes the Company's consolidated non-financial statement pursuant to Legislative Decree no. 254/2016.

COMMITMENT 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. The FIA's choice is a confirmation of Pirelli's leadership in competitive motorsports, thanks to the experience gained in over 110 years of racing. This new investment in the WRC, the speciality queen of road racing, flanks an identical role that Pirelli has played since 2011 as Global Tyre Partner in the most prestigious of Motorsports on the circuit, Formula 1®, where Pirelli has extended its involvement until 2023. The new agreement foresees for the introduction of new 18" rim tyres. 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 now engaged in approximately 350 championships across all five continents. In the European two-wheel championships, in which more than one tyre manufacturer participates, Pirelli equips an average of 70% of the motorcycles deployed on the paddock, which confirms the appreciation demonstrated by motorcycle riders around the world for the Pirelli brand. Pirelli has been chosen by the Dorna WorldSBK Organisation, in agreement with the 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. Pirelli has attained the remarkable figure of 74 world titles in motocross, confirming its dominance even in the final championship classifications where it has occupied with its riders, the first three positions in the MXGP class, with three different manufacturers, and the first seven in MX2. In the field of cycling, 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 was confirmed for 2019 (with four stage wins at the Tour de France), and for 2020, for both the men's and women's teams. Pirelli has also accelerated its strategy of increasing its involvement in professional cycling, by announcing a partnership with the prestigious Trek-Segafredo World Tour team, owned by reigning UCI World Champion, Mads Pedersen. Lastly, after a season as technical partner, Pirelli has become co-title sponsor of the TREK PIRELLI mountain bike team. The team, directed by former professional cyclist Marco Trentin, is one of the most important and renowned on the international MTB Cross Country scene.

PARENT COMPANY HIGHLIGHTS

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

(in millions of euro)

	12/31/2020	12/31/2019
Operating Income	9.1	15.8
Net Financial income/(expenses)	(36.4)	(23.7)
Income from equity investments	39.7	268.9
Taxes	31.6	12.2
Net income	**44.0**	**273.2**
Financial assets	4,681.1	4,711.2
Net Equity	**4,651.1**	**4,580.4**
Net financial position	1,891.0	1,897.4

Operating income of the Parent company amounted to euro 9.1 million, compared to the amount of euro 15.8 million for 2019.

The balance for **net financial income/expenses** was negative to the amount of euro 36.4 million compared to euro 23.7 million for the previous year. This worsening was mainly attributable to the decrease in interests receivables from loans to companies of the Group.

Income from equity investments amounted to euro 39.7 million compared to euro 268.9 million for the previous financial year. The decrease was essentially attributable to less dividends being distributed by the subsidiary Pirelli Tyre S.p.A. (euro 50 million for 2020 compared to euro 250 million for 2019) which, in consideration of the pandemic, resolved to allocate a large part of the earnings for the financial year, towards strengthening its own capital. The results for 2020 also include the impairment of the investment in the subsidiary Pirelli UK Ltd. equal which equalled euro 14 million.

Taxes for 2020 were positive to the amount of euro 31.6 million compared to the positive amount of euro 12.2 million for 2019.

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

(in millions of euro)

	12/31/2020	12/31/2019
Investments in subsidiaries		
- Pirelli Tyre S.p.A.	4,528.2	4,528.2
- Pirelli Ltda	9.7	9.7
- Pirelli Uk Ltd.	7.9	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	75.0
- Other companies	3.4	3.3
Total equity investments in subsidiaries	**4,633.7**	**4,647.6**
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	14.0	24.9
- Fin. Priv S.r.l.	15.9	20.6
- Fondo Comune di Investimento Immobiliare Anastasia	2.8	3.9
- Istituto Europeo di Oncologia S.r.l.	7.9	7.5
- Other	0.5	0.4
Total investments in associates and other financial assets at fair value through other comprehensive income	**47.4**	**63.6**
Total financial assets	**4,681.1**	**4,711.2**

Equity went from euro 4,580.4 million at December 31, 2019 to euro 4,651.1 million at December 31, 2020, as detailed below:

(in millions of euro)

Equity at 12/31/2019	**4,580.4**
Net income/(loss) for the financial year	44.0
Dividends approved	-
Convertible bond reserve	41.2
Other components of comprehensive income	(14.5)
Equity at 12/31/2020	**4,651.1**

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

(in millions of euro)

	12/31/2020	12/31/2019
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	12.5
Other reserve	133.7	92.5
IAS reserve	(17.7)	(3.2)
Retained earnings reserve	540.0	266.8
Merger reserve	1,022.9	1,022.9
Net income/(loss) for the financial year	44.0	273.2
Total Equity	**4,651.1**	**4,580.4**

RISK FACTORS AND UNCERTAINTY

The volatility of the macroeconomic environment, the instability of the financial markets, the complexity of management processes, and continuous 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. Pirelli's Risk Model systematically assesses three categories of risks:

1. **External risks**
   Risks whose occurrence is outside the Company's sphere of influence. 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 that are typical for the business, whose proper management is a source of competitive advantage, or alternatively can cause the failure to achieve economic and financial objectives.This category includes risks linked to markets, to product innovation and development, to human resources, to production processes, to financial risks, and risks connected to mergers and acquisitions.
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 amongst others, Information Technology, Business Interruption, Legal & Compliance, Health, Safety & Environment, and Security related risks.

In cross reference to the aforesaid 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.

EXTERNAL RISKS

Pirelli expects moderate growth in the global economy during 2021, concentrated mainly during the third and fourth quarters, thanks to the greater diffusion of effective medical solutions for the current COVID-19 pandemic. The current restrictions on personal mobility, as well as possible tensions associated with rising levels of both public and private debt, will continue to have a negative impact on consumer and business confidence, at least until the end of the first quarter of the year. The subsequent gradual return to normality will have a beneficial effect on the level of household savings, which will free-up purchasing power during the second half of the year. The timing of the recovery will differ considerably between regions. China is expected to experience sustained growth as early as the first-half year of 2021, while several European economies will require until 2023 or 2024 to return to stable pre-crisis levels.

However, these forecasts are not without risk. The change in the political environment in the US may not result in a significant easing of trade tensions between the US and China, while the Eurozone is likely to face a sharp rise in unemployment due to the end of subsidies and redundancy freezes. With regard to emerging markets, the risk of a delay in the mass supply of anti-COVID-19 vaccines remains significant, with negative repercussions on economic resilience.

COUNTRY RISK

Where appropriate, Pirelli adopts 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 relative 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 future. Uncertainty also persists regarding the future relationship 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 production capacity of some factories, production may be re-allocated amongst the Group's manufacturing plants.

BREXIT RISKS

The Group constantly monitors potentially critical issues (and related mitigation plans) concerning the new trade agreement between the UK and the EU, which officially came into force on January 1, 2021. These risks are both of a mainly operational nature in the short-term (related to possible delays in the supply of raw materials and/or finished products), and of a structural nature in the medium to long-term. To date, in fact, defining what the impact might be is complicated (in terms of potential extra costs/regulatory barriers) for the automotive and auto-parts sector, both on the UK domestic market and in terms of exports to the European Union.

CORONAVIRUS RISK (COVID -19)

Pirelli sells its products on a world-wide basis in over 160 countries and owns manufacturing sites located in different countries, some of which are also significantly affected by the COVID-19 (SARS-CoV-2) outbreak. Although there is broad consensus on the gradual improvement of the global health outlook in the short to medium-term, this assumption contains elements of uncertainty, some of them significant, mainly related to the availability of vaccines on a large scale. If these risks were to persist during the year, they could lead to an alteration in normal market dynamics and, more generally, in business operating conditions.

In terms of operational risks, Pirelli monitors, amongst other things, potential risk events relative to both supply chain resilience, and the massive use of new technological devices linked to remote working.

Lastly, the Group is following developments in the spread of the Coronavirus with constant contact with national and international organisations. The Company has promptly adopted control and prevention measures for all employees worldwide.

RISKS RELATED TO CHANGES IN DEMAND IN THE LONG-TERM

Mobility is undergoing an unprecedented evolution due to technological changes (electrification of propulsion, driving automation and digital connectivity), cultural changes (increase in the average age for obtaining a driving licence, loss of importance of owning a car, etc.) and regulatory changes, often aimed at limiting the presence of polluting vehicles in and around metropolitan areas. In addition to all this, during the course of 2020, there was the health emergency linked to the spread of COVID-19, which led, among other things, to a forced and sudden reduction in mobility, and to the massive adoption of digital technologies aimed at remotely managing many activities that used to be carried out almost exclusively in person. To date, it has not been easy to predict the long-term trends of this phenomenon, and therefore the potential impact on the tyre sector. On the one hand, certain types of mobility - such as daily commuting over limited distances - will be strongly impacted, while on the other, a possible reduction in the use of public transport, together with a move to peripheral areas - even distant from the workplace - could lead to an increase in "*miles driven*". Pirelli constantly monitors these trends, both by analysing studies and data available at global and local level, and by participating in webinars and national and international conferences on the subject. The Group is also active on specific projects together with other major players in global mobility, such as the Transforming Urban Mobility project, promoted by the World Business Council for Sustainable Development (WBCSD), active since 2019.

RISKS RELATED TO CLIMATE CHANGE

Having joined the Task Force on Climate-related Financial Disclosures (TCFD) in September 2018, Pirelli applies all the recommendations made in June 2017 by the TCFD and is committed, on a voluntary basis, to the dissemination of transparent reporting on climate change-related risks and opportunities. To this end, Pirelli monitors these elements of uncertainty through sensitivity analyses and risk assessments to assess and quantify the financial impacts (risks and opportunities) related to climate change, compared to the IPCC (Intergovernmental Panel on Climate Change) climate and IEA (International Energy Agency) energy transition scenarios. In accordance with the findings of the most recent Climate Change Risk Assessment of the Group, in the short to medium-term there are no significant risks relative to production processes or to the markets in which Pirelli operates. On the other hand, as regards a medium to long-term scenario, the tyre sector could be subject to a number of risks both of a physical nature (extreme weather events with potential impacts on the continuity of production at the plants), as well as of a regulatory nature (possible effects on operating costs).

On the other hand, there were opportunities for growth in the sales of Pirelli Eco & Safety Performance products, which are tyres with a lower environmental impact during their relative life cycle. For a full discussion of the eleven TCFD recommendations, reference should be made to the section "*Joining the Task Force on Climate-related Financial Disclosures (TCFD)*" in this Report.

RISKS RELATED TO PRICE TRENDS AND THE AVAILABILITY OF RAW MATERIALS

Natural rubber, synthetic rubber and oil-related raw materials (particularly chemicals and carbon black) will continue to represent 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 historical volatility and/or the best information available on the market (e.g. forward prices). On the basis of the different scenarios, the sales price increases and/or the different internal cost efficiency recovery measures (use of alternative raw materials, reduction of product weight, improvement of the process quality and reduction in waste levels), necessary to guarantee the expected profitability levels 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, with brands that enjoy a significant level of international or local renown. To date, Pirelli is the only player in the tyre industry which focuses solely on the Consumer market on a global scale, with its single brand positioned in the segment of interest for 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 to long-term, have an impact on its income, equity and financial situation. High barriers to entry - both technological and productive - provide structural mitigation to the potential intensification of the competitive arena in the Group's core market sector. To this can be added the uniqueness of the Pirelli's strategy which is based - 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.

Transactional exchange rate risk is generated by transactions of a commercial and financial nature carried out in 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 transactional exchange rate 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 transactional exchange rate 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 positions for each currency and, in accordance with pre-established guidelines and constraints, it in turn closes out all risk positions by trading hedging derivative 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 transactional exchange rate risk on future transactions. From time to time the Group assesses the opportunity to carry out hedging transactions on future transactions, for which it typically uses both forward buy or sell transactions, and optional risk-reversal structures (e.g., 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 translational exchange rate 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 translational exchange rate 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 collection and payment cash flows in compliance with various local currency and tax regulations. Banking relationships are negotiated and managed centrally, in order to ensure hedging 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 of euro 700 million, which at December 31, 2020 resulted as being completely unused, the Pirelli Group has resorted to 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 the exposure to variability in the fair value or future cash flows, of financial assets or liabilities, due to changes in market interest rates. The Group assesses, based on market conditions, 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 provided 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, and to monitor expected collection flows, and to take credit recovery action if and when necessary. The aim of these procedures is to define customer credit limits, whereby in the event that those limits are exceeded, the rule to withhold further supplies is activated. In some cases customers are asked to provide guarantees, mainly bank guarantees issued by parties of the highest credit or personal standing. Less frequently, mortgage guarantees may be requested. Other instruments used for commercial credit risk management is the taking out of insurance policies. A master agreement has been in place, which was recently renewed for the 2021-2022 two-year period, with a leading insurance company for worldwide coverage for credit risk, mainly relative to sales on the Replacement channel (the coverage ratio at December 31, 2020 was equal to 72% (Pirelli Group)).
However, as regard the financial counterparties for the management of its temporary cash surpluses or for trading in derivative instruments, the Group deals only with entities with a high credit standing. Pirelli does not hold public debt instruments from any European country, and constantly monitors its net credit exposure to the banking system, and does not have any 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

The Pirelli Group, in carrying out its activities, incurs expenses and costs for the actions necessary to ensure full compliance with the obligations provided for by the regulations regarding health and safety in the workplace. Particularly in Italy the law relating to health and safety at work (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 231/01).

DEFECTIVE PRODUCT RISK

Like 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 present. The Group has therefore implemented measures to achieve full compliance with all data protection regulations in force (while still maintaining the legislative framework of reference which was introduced by Regulation (EU) 2016/679, the so-called "*General Data Protection Regulation*" or "*GDPR*", which came into force in May 2018), in this way mitigating the risk of proceedings before regulatory authorities and/or privacy litigation. Nevertheless, changes to applicable legislation, the launch of new products onto 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 2020, 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 security systems against unauthorised access, and of the Company's data management solutions. This work continued in order 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, and which could impact on the Group's activities. In particular, the 2020 initiatives that directly or indirectly led to the mitigation of security risks were the following:

- The "*Move Datacenter Bicocca*" project was completed. With this project the old Bicocca Data Centre was closed and a Tier 4 Gold Data Centre was opened, with best in class availability, service and security levels;
- The "*Cloud Governance*" project
  This project made it possible to consolidate a governance model that could be adopted in public and private cloud environments, the aim of ensuring that they are properly managed 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.

On the cost side, Pirelli has implemented reservation solutions and optimised server start-up times, thereby minimising expenditure.

- Software-Defined data centre Project
  The "*Software Defined Datacenter*" project continued, with the objective of transforming traditional factory datacentres into modern datacentres based on hyperconverged and software defined architectures, increasing the flexibility and speed required in the development and deployment of business-critical services and applications. This transformation, which during the year affected the Silao, Voronezh, Slatina and Feira plants, will affect all Pirelli plants over the next two years.
- Software-Defined WAN Project
  The SD WAN project is almost complete, with 52 out of 55 sites implemented. With it Pirelli has achieved:
  - greater total WAN bandwidth than before and the elimination of the concept of backup;
  - the optimised use of links, through the selection of the most appropriate link at that moment, enabling direct internet access;
  - the enabled shifting of workloads to cloud to minimise overloads;
  - improved network agility through automation and Zero Touch Provisioning;
  - a changed operations model from reactive to proactive, improving traffic visibility;
  - improved user experience with more consistent connectivity.

- Pirelli/Prometeon Split API Infrastructure Project
  The project for the physical segregation of the API (Application Programming Interfaces) infrastructure (basic infrastructure and end-user services such as e-mail, identity management, software distribution, etc.) between Pirelli and Prometeon, has been completed, with the aim of making the two environments completely separate also from a physical point of view, as a result of the migration of all users which already began at the beginning of 2021. The segregation project, in its entirety (applications, security, etc.) will be definitively completed during 2022.

- Operational support activities and Cyber Security for Prometeon according to contractual provisions.

- A Cyber Security Assessment, was carried out based on the NIST standard, through which the technological, organisational and process level of Cyber Security was evaluated. Following the Assessment, a new three-year Strategic Roadmap was drawn up, containing initiatives such as the enhancement of the internal central team in Milan, the relocation of the SOC to Europe, the modernisation of the SOC & CERT services, the improvement of processes such as Security Risk Management, the introduction of structured Training worldwide to the entire population, and many technological projects ranging from internal Intrusion Detection systems, especially in factory OT environments, to the renewal of the Data Classifier, to name but a few.

- Cyber Security training campaigns focused on Ransomware and a triptych of White Phishing tests were carried out to test the average level of corporate awareness in recognising malicious emails.

- CERT-P (CERT Pirelli)
  The Computer Emergency Response Team (CERT) is in the process of evolving to cope with the ever-growing and changing cyber security risk scenario. 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.

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). Pirelli's supply chain is also regularly evaluated for potential risks.

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 financial reporting process is carried out through the appropriate administrative and accounting procedures, 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, in the annual/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. 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 consist 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 consist 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, regular verification measures have been scheduled, and have been assigned specific functions.

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.

Moreover, a half-yearly declaration has also been scheduled from the Chief Executive Officer and the Chief Financial Officer for 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 31, 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.

CORPORATE SOCIAL-ENVIRONMENTAL RESPONSIBILITY RISK

RISKS RELATIVE TO CORPORATE SOCIAL AND ENVIRONMENTAL RESPONSIBILITY, AND BUSINESS ETHICS

Risk management in 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 related to the Company, at Pirelli affiliates or in dealings with them, such as those related to 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-compliance are found, a remediation plan is provided for, whose implementation is regularly monitored by the auditing body.

OUTLOOK FOR THE FIVE-YEAR PERIOD

Target 2021-2022 I 2025 (euro billions)

	2020	2021E	2022E	2025E
Revenues	4.3	~4.7 ÷ ~4.8	~5.1 ÷ ~5.3	~5.7 ÷ ~6.2
Ebit margin adjusted	11.6%	>14% ÷ ~15%	>16% ÷ ~17%	>19% ÷ ~20%
Investments (CapEx) *(% of net sales)*	0.14 *(3.3%)*	~0.33 *(~7%)*	~0.38 ÷ ~0.4 *(~7.5%)*	~1.2 ÷ ~1.3 cum 23-25 *(~7.5% avg)*
Net cash flow before dividends and convertible bond impact	0.21	~0.30 ÷ ~0.34	~0.42 ÷ ~0.46	~1.7 ÷ ~1.9 cum 23-25
Net financial position* *NFP/Ebitda Adj.*	3.3 *3.65x*	~3.0 *~2.7x*	~2.75 ÷ ~2.65 *~2x*	~1.6 ÷ ~1.4 *~1x*
ROIC *post taxes*	10.4%	~16%	~19%	~25%

*assuming a dividend policy with a payout equal to about 50% of consolidated net earnings of 2021-2022 and equal to about 40% of 2023-2024

For the **2-year period 2021-2022**, the company foresees growth in sales of between ~800 million euro and ~1 billion euro, with group revenues at the end of 2022 of between ~5.1 and ~5.3 billion euro. The commercial program will enable the capture of opportunities linked to the market's recovery and the focus on the segments with the highest growth (Car ≥19") and greatest technological content (Specialty and EV).

Profitability is expected to see progressive improvement, with an **Ebit margin adjusted** of between >16% and ~17% at the end of 2022, thanks to the effectiveness of internal levers: volumes, price/mix and net efficiencies. The benefits deriving from "Phase 2" of the Competitiveness plan presented in February of 2020 are confirmed, with net efficiencies in the 2-year period 2021-2022 expected to total ~170 million euro.

The **accumulated net cash flow** before dividends for the 2-year period 2021-2022 is expected at between ~700 and ~800 million euro, supported mainly by the improved operating performance.

At the end of 2022 the **Net Financial Position** will be between ~2.75 and ~2.65 billion euro, equal to ~2 times Adjusted Ebitda (~3.3 billion euro at end 2020, equal to 3.7 times Adjusted Ebitda).

For the **3-year period 2023-2025** (second phase of the plan), Pirelli expects revenue growth of between ~600 million and ~900 million euro, with group sales at the end of 2025 of between ~5.7 and ~6.2 billion euro, with a more balanced contribution between growth in volumes and price/mix.

Profitability (**Ebit margin adjusted**) is expected at between ~19% and ~20% in 2025, supported by the above mentioned growth in volumes, improvement in the price/mix and the contribution of "Phase 3" of the Competitiveness program, the net benefits of which in the 3-year period are estimated at between ~70 and ~100 million euro.

The **accumulated net cash flow** in the period 2023-2025 is seen at between ~1.7 and ~1.9 billion euro, supported by:

- the improvement of operational management, deriving from the above mentioned programs;
- lower outlays for restructurings and organizational rationalizations, compared with the 2-year period 2021-2022, whose programs will end by 2022.

At the end of 2025 the **Net Financial Position** will be between ~1.6 and ~1.4 billion euro, equal to about 1 times Adjusted Ebitda.

Based on the outlook for cash generation for the period 2020-2025, the **dividend policy** approved by the Board of Directors foresees a payout of about 50% of the consolidated net result for 2021 and 2022, and a payout of about 40% of consolidated net profit in 2023 and 2024.

The solid cash profile will enable the guarantee of a Return on Invested Capital (ROIC), net of the fiscal impact, improving along the Plan's entire horizon: ~16% in 2021 (10.4% in 2020), ~19% in 2022, ~25% in 2025.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

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

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

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

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

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

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

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

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 excludes the depreciation and amortisation of property, plant and equipment and intangible assets. The EBITDA is used to measure the ability to generate earnings, excluding the impacts deriving from investments;

- **EBITDA adjusted:** is an alternative measure to the EBITDA which excludes non-recurring, restructuring and one-off expenses, COVID-19 direct costs and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBITDA margin:** is calculated by dividing the EBITDA by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency, excluding impacts deriving from investments;
- **EBITDA margin adjusted:** is calculated by dividing the EBITDA adjusted by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency excluding, the impacts deriving from investments, operating costs attributable to non-recurring, restructuring and one-off expenses, COVID-19 direct costs and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBIT:** is an intermediate measure which is derived from the net income/(loss) but which excludes 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 impacts deriving 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, restructuring and one-off expenses, COVID-19 direct costs and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBIT margin:** 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:** is calculated by dividing the EBIT adjusted by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency excluding, the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring, restructuring and one-off expenses, COVID-19 direct costs, and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **Net income/(loss) adjusted:** is calculated by excluding the following items from the net income/(loss):
  - the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring, restructuring and one-off expenses, COVID-19 direct costs and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
  - non-recurring expenses/income recognised under financial income and expenses;
  - non-recurring expenses/income recognised under taxes, as well as the tax impact relative to the adjustments referred to in the previous points.
- **Fixed assets:** 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 non-current financial assets at fair value through the Income Statement"*. Fixed assets represent the non-current assets included in the net invested capital;
- **Operating net working capital:** this measure is constituted by the sum of *"Inventory"*, *"Trade receivables"* and *"Trade payables"*;
- **Net working capital:** this measure is constituted by the operating net working capital, by other receivables and payables, and by the derivative financial instruments not included in the net financial position. This measure represents short-term assets and liabilities included in the net invested capital, and is used to measure short-term financial stability;
- **Net invested capital:** this measure is constituted by the sum of (i) fixed assets, and (ii) net working capital. Net invested capital is used to represent the investment of financial resources;
- **Provisions:** this measure is constituted by the sum of *"Provisions for liabilities and charges (current and non-current)", "Other non current assets", "Provisions for employee benefit obligations (current and non-current)", "deferred tax liabilities" and "deferred tax assets"*. The item provisions represents the total amount of net liabilities due to obligations of a probable but uncertain nature;
- **Net financial debt:** 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 current financial assets at fair value through the Income Statement, current financial receivables (included in the Financial Statements under the item *"Other receivables"*), and current derivative financial instruments included in the net financial position (included in the Financial Statements under current assets, current liabilities and non-current liabilities, as *"Derivative financial instruments"*);
- **Net financial position:** this measure represents the net financial debt less the *"non-current financial receivables"* (included in the Financial Statements under *"Other receivables"*) and non-current derivative financial instruments included in the net financial position (included in the Financial Statements under non-current assets as *"Derivative financial instruments"*). Total net financial position is an alternative measure to net financial debt which includes non-current financial assets;
- **Operating net cash flow:** is calculated as the change in the net financial position relative to operations;
- **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 the Parent company and convertible bond impact:** is calculated by adding the change in the net financial position due to extraordinary transactions and the management of investments, to the net cash flow before dividends and extraordinary transactions/investments;

- **Net cash flow before dividends paid by the Parent company:** is calculated by adding the impact on the net financial position due to the recognition of the convertible bond, to the net cash flow before dividends paid by the Parent company and convertible bond impact;
- **Net cash flow:** is calculated by adding the change in the net financial position due to the payment of dividends by the Parent company, to the net cash flow before dividends paid by the Parent company;
- **Investments in intangible and owned tangible 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 right of use;
- **Increases in the right of use:** is calculated as the increases in the right of use relative to lease contracts;
- **Ratio of investments to depreciation:** this is calculated by dividing the investments (increases) in owned tangible assets 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;
- **ROIC:** calculated as the ratio between adjusted EBIT net of tax effect and average net invested capital, which does not include investments in associates and joint ventures, "other financial assets at fair value through other comprehensive income" and "other non-current financial assets at fair value through profit or loss", intangible fixed assets relating to assets acquired as a result of a business combination and deferred tax liabilities relating to the latter. The ROIC is used as an indicator of the return on invested capital.

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, and the competence to undertake 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 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.

On December 14, 2020, the Board of Directors passed a resolution for the placement of the *"euro 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025"* maturing on December 22, 2025, which is reserved for qualified investors. The relevant placement was launched on December 14, 2020 and closed the following day, with pricing defined on December 15, 2020.
Subsequently, on March 24, 2021, the Company's Shareholders' Meeting approved:

- the convertibility of the aforementioned bond issue;
- the proposal for an increase in the share capital in cash, by payment and on a divisable basis, with the exclusion of option rights, for a maximum nominal amount, including any share premium, of euro 500,000,000 to be released in one or more tranches through the issue of up to 80,192,461 ordinary shares, (notwithstanding that the maximum number of Pirelli & C. ordinary shares may increase on the basis of the effective conversion ratio applicable from time to time), of the Company, having the same characteristics as the outstanding ordinary shares reserved exclusively and irrevocably to service the conversion of the bond loan.

The shareholder Marco Polo International Italy S.r.l. - pursuant to Article 93 of Legislative Decree 58/1998 - controls the Company with a 37% 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 *2020 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 through contributions in kind, acquisitions and disposals.

FOREIGN SUBSIDIARIES NOT BELONGING TO THE EUROPEAN UNION (NON-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, 2020, the Extra-EU Companies controlled, directly or indirectly, by Pirelli & C. S.p.A. which are of relevance pursuant to Article 15 of the Market Regulations are:
Limited Liability Company Pirelli Tyre Russia (Russia); Pirelli Pneus Ltda (Brazil); Pirelli Comercial de Pneus Brasil Ltda (Brazil); Comercial e Importadora de Pneus Ltda. (Brazil); Pirelli Tire LLC (USA); Pirelli Tyre Co., Ltd. (China); Pirelli Otomobil Lastikleri A.S. (Turkey); Pirelli Neumaticos S.A.I.C. (Argentina); Pirelli Neumaticos S.A. de C.V. (Mexico); Pirelli Neumaticos de Mexico S.A. de C.V. (Mexico); Pirelli Tyre (Suisse) SA (Switzerland).

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 of information is also provided to guarantee to the Board of Statutory Auditors, that the Company is carrying out 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 hereby declared that the Company has fully complied with the provisions of Article 15 of the aforementioned CONSOB Regulation No. 20249 of December 28, 2017, and the subsistence of the conditions required by the same.

RELATED-PARTY TRANSACTIONS

The Company's Board of Directors again approved the Procedure for Related Party Transactions (*"RPT Procedure"*), as part of the new listing process initiated and completed during the 2017 financial year. Subsequently, following the renewal of the administrative body and the constitution of the Committee for Related Party Transactions (*"RPT Committee"*), the RPT Procedure was approved, without any modification, following the unanimous favourable opinion expressed by the members of the RPT Committee, and also by the Board of Directors currently in office. On the occasion of the periodic review of the internal procedure on related party transactions, the Board of Directors - subject to the unanimous opinion of the Committee for Related Party Transactions - confirmed the Procedure for Related Party Transactions without amendments, which had last been approved on November 6, 2017, reserving the right to carry out a subsequent review of the same in the light of the amendments to the CONSOB Regulation that will be adopted by the supervisory body in the implementation of the amendments to the European Shareholders' Rights Directive II. The RPT Procedure can be consulted, together with other corporate governance procedures, in the section of the website www.pirelli.com dedicated to Corporate Governance. For more details on the RPT Procedure, reference should be made to the section *"Directors' Interests and Related Party Transactions"* included in the Annual Report on the Corporate Governance and Ownership Structure contained in the 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 2020 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.

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 2020 Annual Report. Transactions with related parties are neither unusual nor exceptional, but are part of the ordinary course of business for the companies of the Group, and carried out in the interests of the individual companies. Such transactions, when not carried out under standard conditions, or dictated to by specific regulatory conditions, are in any case governed by conditions consistent with those of the market. Furthermore, they are carried out in accordance with the RPT Procedure.

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

EXCEPTIONAL AND/OR UNUSUAL OPERATIONS

Pursuant to CONSOB Notice No. 6064293 of July 28, 2006, it is hereby specified that during the course of the 2020 financial year, 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 departments, 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 a Data Protection Officer (*"DPO"*) in the person of lawyer Alberto Bastanzio, whose contact details were duly communicated to the Guarantor for the Protection of Personal Data on July 25, 2018. The DPO can be contacted, other than at the registered office of the Company, also at 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 31, 2021