Directors' Report on Operations at December 31, 2021

Macroeconomic and market scenario

ECONOMIC OVERVIEW

For 2021, the global economy recorded GDP growth of +5.7%, having fully recovered from the decline recorded during 2020 due to the pandemic, thanks to unprecedented monetary and fiscal support, to the gradual easing of the restrictive measures imposed on mobility, to the progress of the global vaccination campaigns and to the consequent rapid recovery in demand. Temporary supply constraints, linked to the speed of recovery and to lockdowns, led to a significant increase in the costs of production factors and finished products, which was also passed on to consumer prices during the second half-year of 2021.

In Europe, the success of the vaccination campaigns, particularly during the second and third quarters of 2021, allowed for the gradual reopening of economic activity which contributed to GDP growth of +5.2% for 2021. This trend slowed during the fourth quarter due to the spread of the Omicron variant, to the persistent supply-side bottlenecks and to rising inflation (particularly energy).

GDP growth in the US (+5.7% for 2021) was bolstered by a combination of broad measures of support for the economy, and by strong vaccination programme participation during the first part of the year, which eased mobility restrictions and supported domestic demand. The trend for the fourth quarter improved significantly (annualised GDP growth of +6.9%), particularly due to increased investment and exports, even though the negative impacts of the Omicron variant, the persistent supply chain disruptions and higher inflation, led to more moderate consumption levels.

ECONOMIC GROWTH, TREND CHANGES IN GDP

	1Q 2021	2Q 2021	3Q 2021	4Q 2021	2021	2020
EU	-1.1	13.8	4.1	4.8	5.2	-6.0
US	0.5	12.2	4.9	5.5	5.7	-3.4
China	18.3	7.9	4.9	4.0	8.1	2.3
Brazil	1.3	12.3	4.0	1.6	4.6	-3.9
Russia	-0.9	10.0	4.3	4.8	4.7	-2.7
World	3.6	11.7	4.8	4.0	5.7	-3.4

Note:Change in year-on-year percentages. Final data, forecasts for Brazil, Russia and the World.
Source: National statistics offices and IHS Markit, February 2022.

In China, GDP growth of +8.1% for 2021 was characterised by a strong rebound at the beginning of the year followed by the normalisation of activity, albeit with discontinuities due to COVID-19 outbreaks under to the country's *"zero contagion"* policy. During the second half-year, electricity shortages and a slowdown in the housing market put a brake on economic activity, leaving the change in GDP for the fourth quarter at +4.0% year-on-year.

In Brazil following the increase in external demand, which lent support to exports and economic activity during the first part of 2021, recovery slowed due to uncertainty regarding the evolution of the pandemic, as well as due to the impacts of the crisis in hydroelectric power generation, industrial production and rising inflation and interest rates.

The Russian economy recovered quickly from the COVID-19 linked recession, with GDP returning to pre-crisis levels as early as last summer. Preliminary estimates indicate that Russian GDP grew by +4.7% for 2021, thanks to the return of foreign trade volumes to *"pre-pandemic"* levels and also to the recovery in energy prices.

EXCHANGE RATES

The euro/US dollar exchange rate averaged 1.18 in 2021, an appreciation of +3.5% compared to the previous year. During the fourth quarter, however, expectations of a more restrictive monetary policy in the United States compared to the Eurozone, favoured the US dollar, with the exchange rate averaging US$ 1.14 (-4.1% compared to the same quarter in 2020).

The growth of the Chinese economy in 2021 was accompanied by the strengthening of the renminbi, which averaged 6.45 against the US dollar, an appreciation of +6.9% compared to the average for 2020 (and by +3.3% against the euro). This trend continued for the fourth quarter: the renminbi averaged 6.39 against the US dollar, an appreciation of +3.5% compared to the same period of 2020 (+7.9% against the euro).

Rising inflation and political uncertainty weighed on the Brazilian real in 2021, which depreciated by -4.4% against the US dollar and by -7.7% against the euro, (by -6.3% for the fourth quarter against the US dollar but was stable against the euro).

Rising oil and natural gas prices, together with rising interest rates, sustained the gradual strengthening of the rouble during the course of 2021, effectively limiting its year-on-year depreciation against both the US dollar (-1.9%) and the euro (-5.3% against the euro).

KEY EXCHANGE RATES	1Q		2Q		3Q		41Q		FULL YEAR AVERAGE	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
US$ per euro	1.20	1.10	1.21	1.10	1.18	1.17	1.14	1.19	1.18	1.14
Chinese renminbi per US$	6.48	6.98	6.46	7.08	6.47	6.92	6.39	6.62	6.45	6.90
Brazilian real per US$	5.49	4.47	5.30	5.39	5.23	5.38	5.58	5.40	5.40	5.16
Russian rouble per US$	74.32	66.39	74.20	72.41	73.49	73.57	72.61	76.19	73.64	72.21

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

RAW MATERIALS PRICES

Raw material prices rose steadily during 2021, following the generalised decline during 2020 due to the slowdown in global demand in the early stages of the pandemic.

For 2021, the average price of Brent equalled US$ 70.8 per barrel, up by +64% from the average price for 2020. This price increase during the second half-year of 2021 was also influenced by the shortage in natural gas in Europe, and the closure of some coal-fired electric power plants in China which led to higher demand and prices for gas and oil. Brent prices averaged US$ 79.8 per barrel during the fourth quarter of the year (+76% compared to the same period in 2020).

For 2021, the trend for butadiene was similar to that of oil, with an average price that stood at euro 1,006 per tonne, almost double compared to the average price recorded for 2020 (euro 1,192 per tonne for the fourth quarter, +119% year-on-year).

The average price for natural rubber was US$ 1,678 per tonne for 2021, an increase of +27% compared to 2020. Particularly during the fourth quarter of 2021, natural rubber prices returned to 2014 levels, reaching an average of euro 1,729 per tonne (+12% compared to the fourth quarter of 2020).

RAW MATERIALS PRICES	1Q			2Q			3Q			4Q			FULL YEAR AVERAGE		
	2021	2020	% var,	2021	2020	% var,	2021	2020	% var,	2021	2020	% var,	2021	2020	% var,
Brent (US$ / barrel)	61.1	50.9	20%	69.0	33.3	107%	73.2	43.4	69%	79.8	45.2	76%	70.8	43.2	64%
Butadiene (€ / tonne)	715	727	-2%	853	392	118%	1,265	382	231%	1,192	543	119%	1,006	511	97%
Natural rubber TSR20 (US$ / tonne)	1,668	1,337	25%	1,653	1,107	49%	1,659	1,281	30%	1,729	1,545	12%	1,678	1,317	27%

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

TRENDS IN CAR TYRE MARKETS

In 2021, the car tyre market grew by +7.7% globally; volumes still remain below pre-pandemic 2019 levels by around 8%. Growth in the Parts channel (+9.7% vs. 2020) was supported by the recovery in mobility but the market still remains below pre-COVID levels (-4.5% vs. 2019); the Original Equipment market (+2.1% vs. 2021, -15.3% from pre-pandemic levels) is suffering from the impact of the semiconductor shortage on car production.

There was a more marked recovery in demand for the Car ≥18" segment (+14.9% compared to 2020, +7.5% for Original Equipment, +20.1% for the Replacement channel), which continued its growth to beyond pre-pandemic levels (+5.4% growth in overall demand, -4.4% for Original Equipment and +12.9% for the Replacement channel compared to 2019), also supported by an improved parc mix.

Market demand for the Car ≤17" segment (+6.1% compared to 2020) recovered from the lows of 2020, while still remaining well below 2019 levels (-10.2% overall) in all regions.

TRENDS IN CAR TYRE MARKETS

% YEAR-ON-YEAR	1Q 2021	2Q 2021	3Q 2021	4Q 2021	2021	2021/2019
Total Car Tyre Market						
Total	**11.8**	**41.3**	**-5.1**	**-5.3**	**7.7**	**-7.5**
Original Equipment	14.1	47.9	-19.2	-13.3	2.1	-15.3
Replacement	11.0	39.2	-0.1	-2.1	9.7	-4.5
Market ≥ 18"						
Total	**20.3**	**56.5**	**-1.6**	**0.7**	**14.9**	**5.4**
Original Equipment	18.4	66.3	-15.0	-10.6	7.5	-4.4
Replacement	21.8	50.8	7.9	9.6	20.1	12.9
Market ≤ 17"						
Total	**9.9**	**38.0**	**-5.9**	**-6.7**	**6.1**	**-10.2**
Original Equipment	12.4	41.2	-21.0	-14.3	-0.0	-19.3
Replacement	9.2	37.2	-1.4	-4.1	7.9	-7.2

Source: Pirelli estimates

Significant events of 2021

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

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

In accordance with the Pirelli Remuneration Policy, the Board of Directors granted to Mr Papadimitriou, in addition to the amounts due by way of remuneration and other legal benefits accrued up to the date of his termination: (i) 10 months' of gross annual salary 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; (ii) euro 100,000 gross by way of a general novative settlement, to be paid once the termination was defined in accordance with the existing labour law procedures, as well as the maintenance until December 31, 2021 of certain non-monetary benefits granted at the time of recruitment as an executive. Mr Papadimitriou shall remain 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 applicable year, equal to 100% of his gross annual salary, to be paid in eight 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. The termination of Angelos Papadimitrou's appointment as Director occurred on **March 31, 2021**.

On **March 24, 2021** the Shareholders' Meeting approved, during an extraordinary session, the convertibility of the *"EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025"* issued on December 22, 2020, as well as approved a divisible capital increase, with the exclusion of option rights, to service the conversion 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. S.p.A. ordinary shares (notwithstanding that the maximum number of Pirelli & C. S.p.A. ordinary shares could increase depending on the effective conversion ratio applicable from time to time). Bondholders have the option as of May 6, 2021, based on the Physical Settlement Notice issued by the Company on **April 15, 2021**, to exercise the right to convert the bonds into Pirelli ordinary shares as provided for in the terms and conditions of the bond.

On **March 31, 2021**, the Board of Directors approved the 2021-2022|2025 Industrial Plan, which had been presented to the financial community on the same date, and also approved the Financial Statements at December 31, 2020 which had closed with a consolidated net income of euro 42.7 million and a net income for the Parent Company of euro 44 million. The Board of Directors resolved to propose to the Shareholders' Meeting convened for June 15, 2021, the distribution of a dividend, also by way of withdrawing part of the earnings accrued during previous financial years, of euro 0.08 per share for a total of euro 80 million.

On **April 1, 2021**, Pirelli announced that on March 31, 2021 it had received notification from ChemChina, informing it that the latter had received notification regarding the restructuring of ChemChina and the Sinochem Group Co., Ltd. by the Assets Supervision and Administration Commission of the State Council (*"SASAC"*), which foresaw for the establishment of a new holding company by SASAC, which will perform the duties of the transferor on behalf of the State Council and the consolidation of Sinochem and ChemChina into a new holding company. Following the completion of the joint restructuring in September, ChemChina is now directly controlled by Sinochem Holdings Corporation Ltd.

On **May 19, 2021**, Pirelli announced that it was the first company in the world to produce a line of Forest Stewardship Council (FSC) certified tyres, designed for the new BMW X5 xDrive45e Plug-In Hybrid. The FSC Forest Stewardship Certification ensures that natural rubber plantations are managed in a way that preserves biological diversity and benefits the lives of local communities and workers, while at the same time ensuring economic sustainability. The attainment of FSC Certification for natural rubber produced from certified plantations, is just the latest milestone in Pirelli's long standing commitment to the sustainable management of the natural rubber supply chain.

On **June 15, 2021**, the Company's Shareholders' Meeting approved the Financial Statements for the 2020 financial year, and resolved to distribute a dividend of euro 0.08 per share, equal to a total dividend pay-out of euro 80 million before withholding taxes. The dividend was placed in payment on June 23, 2021 (with an ex-dividend date of June 21, 2021 and a record date of June 22, 2021). The Shareholders' Meeting also confirmed the number of members of the Board of Directors at fifteen, and - upon proposal of the Board of Directors - appointed Giorgio Luca Bruno as new Director, whose mandate will expire together with the other members of the Board of Directors with the approval of the financial statements at December 31, 2022. The Shareholders' Meeting then appointed the Board of Statutory Auditors for the 2021-2022-2023 financial years, which is made up of Riccardo Foglia Taverna (Chairman), Alberto Villani, Teresa Cristiana Naddeo, Antonella Carù (who maintains her position as a member of the Supervisory Board) and Francesca Meneghel as Statutory Auditors and Franca Brusco, Marco Taglioretti and Maria Sardelli as Alternate Auditors. The Shareholders' Meeting also approved the remuneration policy for 2021, and expressed its favourable opinion on the Financial Report regarding remunerations paid during the 2020 financial year, as well as approved the adoption of the three-year 2021-2023 monetary incentive plan for the management sector of the Group. Lastly, with reference to the three-year 2020-2022 monetary incentive plan approved by the Shareholders' Meeting of June 18, 2020, the Shareholders' Meeting approved the proposal to adjust the Group's cumulative Net Cash Flow target (before dividends), and the possibility of normalising the potential effects on the TSR (Total Shareholder Return) target for Goodyear's acquisition of Cooper (which took place at the beginning of 2021), which is included in the panel of reference for this objective.

Also on **June 15, 2021**, the Pirelli Board of Directors, in keeping with that which had been announced to the market, appointed Giorgio Luca Bruno as Deputy-CEO, who was granted powers for the operational management of Pirelli, to be exercised in a vicarious capacity. The Board also appointed Giorgio Luca Bruno as a member of the Strategies Committee, confirming the number of its members at eight. Consistent with that which was disclosed to the market, Pirelli's macroorganisational structure envisages that DeputyCEO Giorgio Luca Bruno will report directly to Executive Vice Chairman and CEO Marco Tronchetti Provera, thus superseding the office of General Manager and co-CEO, whose responsibilities had been entrusted *ad interim* to the Executive Vice Chairman and CEO as of the termination date of termination of the working relationship with Mr Papadimitriou. The Executive Vice Chairman and CEO is in charge of strategic and industrial direction and will therefore continue to be responsible for: Strategic Planning & Controlling, Investor Relations, Competitive, Business Insight and Micromobility Solutions, Communication and Brand Image, Institutional Affairs and Culture, Corporate Affairs, Compliance, Audit and the Company Secretary. The Deputy-CEO is attributed all the necessary executive levers, in addition to the staff areas that do not report directly to the Executive Vice Chairman and CEO. Reporting to the Deputy-CEO is the General Manager of Operations, Andrea Casaluci, to whom all business divisions and regions will continue to report.

The Board of Directors - following the unanimous opinion of the Committee for Related Party Transactions, which deliberated with the presence of all its members - also unanimously approved the new Related Party Transactions Procedure, which has been adapted to the new provisions on related party transactions recently adopted by CONSOB.

On **September 20, 2021** Pirelli was the only company in the global Automobiles & Parts sector, confirmed by the United Nations as a Global Compact LEAD. This year comprising thirty seven companies, the Global Compact LEAD brings together the world's companies who are most committed to implementing the Ten Principles of the United Nations Global Compact.

On **October 28, 2021** Pirelli announced the start of a three-year project in the Hutan Harapan forest in Indonesia, in collaboration with the BMW Group and BirdLife International, which involves measures to support local communities, the conservation of forests and the protection of endangered animal species.

On **November 11, 2021**, the Board of Directors approved a syndicated credit facility, to be finalised in the coming months, for a total of euro 1.6 billion that will be used to refinance and/or replace the bank credit facilities maturing in June 2022. The operation allows for the optimisation of the debt profile by extending maturity dates.
Also on the same date, the Board of Directors - subject to the favourable opinion of the Board of Statutory Auditors and the verification of the requirements set forth in the Articles of Association - resolved to appoint Giorgio Luca Bruno, effective November 11, 2021, as the Manager Responsible for the Preparation of the Corporate Financial Documents, replacing Francesco Tanzi who, as was announced to the market, left the company on December 31, 2021.
Giorgio Luca Bruno holds 500 Pirelli shares.

On **November 20, 2021** Pirelli announced that it was the first and only tyre manufacturer in the world to have been awarded the *Three Star Certification* of the Environmental Accreditation Programme promoted by the FIA, the International Automobile Federation. This is an award that attests to the Company's achievements in sustainability in motorsport, achieved thanks to a supply chain that is fully managed in accordance with environmental and social sustainability criteria.

On **December 7, 2021** Pirelli was recognised as a global leader in the fight against climate change, obtaining a place on the 2021 Climate A List drawn up by the CDP, the international non-profit organisation that collects, disseminates and promotes information on environmental issues. An *"A"* rating is the highest that can be awarded and was only given to 200 companies out of 13,000 participants. This recognition by the CDP is confirmation of Pirelli's ongoing commitment to environmental sustainability, whereby the Company has had its CO_2 emissions reduction target validated by the Science Based Targets Initiative (SBTi) and has long since set a *"carbon neutrality"* objective for 2030, which is also supported by the target of sourcing 100% renewable electrical energy at global level by 2025.

Group performance and results

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

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

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Pirelli's results for 2021 reflect the recovery in demand and the implementation of the key programmes of the 2021-2022|2025 Industrial Plan.

On the **Commercial** front:

- strengthening of the High Value segment, with an outperformance by Car ≥18" (+23% for Pirelli volumes compared to +15% for the market); with even more sustained growth for Car ≥19" (+28% for Pirelli volumes compared to +24% for the market). Pirelli fully seized the opportunities offered by the market recovery, by leveraging a portfolio of products with a high technological content which were further upgraded during the year and a production and logistics structure capable of handling the high volatility of demand;
- increased exposure to the electric vehicle market, with Original Equipment volumes at ~6x those of 2020;
- consolidation of leadership in China in the high-end products range:
    - both on the Original Equipment channel, thanks to the strong exposure to Premium Car makers and also to partnerships with the leading local Premium manufacturers of electric vehicles;
    - and on the Replacement channel, where the recovery in demand was intercepted through the distribution chain and the strong development of online sales;
- a recovery in sales for the Standard segment (+9% for Pirelli Car ≤17" volumes compared to +6% for the market), with the mix increasingly oriented towards higher rim diameter products;
- progressive price/mix improvement (+9.1% for 2021, +16.3% in the fourth quarter of 2021 alone), which reflected the price increases and the favourable performance of the mix.

On the **Innovation** front:

- the homologation plan continued with the OEM partners, with ~310 technical homologations in 2021, concentrated mainly in the ≥19" range and Specialties;
- the launch of six new product lines dedicated to the Replacement channel to meet the different needs of consumers.

For the **Competitiveness Programme: Phase 2 of the Efficiency Plan** continued with gross benefits of euro 155 million (euro 70 million net of inflation) relative to:

- product cost, with modularity and design-to-cost programmes;
- manufacturing, through the completion of the previously announced optimisation of the industrial footprint and the implementation of efficiency programmes;
- SG&A, by leveraging, an optimised of the logistics and warehouse network and the negotiation of purchases;
- organisation, through the recourse to digital transformation.

For the **Operations Programme**:

- the process of returning to optimum levels of plant saturation continued, which at year-end were equal to approximately 90%;
- completed instead, were the restructuring programmes in Italy, with the conversion of the Bollate factory from Car Standard to cycling and in Brazil with the transfer of motorbike production from Gravatai to Campinas, (which allows for a more efficient supply for both the Latin American market and the export channel) and the reorganisation programme in Great Britain for the Burtonon-Trent factory, which now focuses on semi-finished products.

For the **Digitisation Program**, efforts continued to transform the Company's key processes by 2023. This programme will enable the real-time integration of the exchange of information between the various corporate functions and its partners/external customers through digital platforms, using artificial intelligence models.

With regard to the **Sustainability Programmes**, reference should be made to the Presentation of the Integrated Financial Statements for 2021 and to the "*Report on Responsible Value Chain Management*".

Pirelli closed the 2021 financial year with results that exceeded targets, which had been revised upwards twice during the course of the year:

- **net sales** amounted to euro **5,331.5** million, +23.9% compared to 2020 (+24.8% growth net of the exchange rate effect and hyperinflation in Argentina), with November targets of euro ~5.1/~5.15 billion, thanks to a better than expected commercial performance. In particular:
  - volume growth (+15.7% at Group level, a target of ~+14%/~+15%) was especially supported by the High Value segment (+20.2% compared to the target of +17%/+18%), and sustained the recovery in demand in the main geographical regions, and by the strengthening of market share; Standard volumes were up by +11.2% (a target of +11.5%/+12.5%);
  - an improved price/mix (+9.1%), which reflected the above mentioned dynamics;
  - a negative impact, however, from the exchange rate effect and hyperinflation in Argentina (-0.9%), affected by the depreciation compared to 2020, of the US dollar (-3.4%) and of the main currencies of emerging countries against the euro (the Brazilian real at -7.7% and Russian rouble at -5.3%), particularly concentrated in the first half-year;

- **EBIT adjusted** equalled euro **815.8** million (euro 501.2 million for 2020), with profitability at 15.3%, an improvement compared to 11.6% for 2020. Internal levers (volumes, price/mix, efficiencies) more than compensated for the negative external scenario (raw materials, inflation, exchange rate effect), making it possible to achieve results that exceeded the Company's expectations (the implicit objective of the November net target had been euro 770/800 million);

- **net income/(loss)** amounted to an income of euro **321.6** million (euro 42.7 million for 2020), and **net income/(loss) adjusted** amounted to an income of euro **468.8** million, net of one-off, non-recurring and restructuring expenses, COVID-19 direct costs and the amortisation of the intangible assets included in the PPA;

- the **net financial position** at December 31, 2021 showed a debt of euro **2,907.1** million (euro 3,258.4 million at December 31, 2020), with a solid cash generation before dividends of euro 431.2 million (euro 248.8 million for 2020, euro 344.1 million for 2019), which was above the target (euro 390/410 million). This trend was supported by a markedly improved operating performance and by the careful management of working capital.

- a **liquidity margin** equal to euro **2,698.6** million.

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

(in millions of euro)

	2021	2020
Net sales	**5,331.5**	**4,302.1**
EBITDA adjusted (°)	**1,210.7**	**892.6**
% of net sales	22.7%	20.7%
EBITDA (°°)	**1,085.7**	**725.1**
% of net sales	20.4%	16.9%
EBIT adjusted	**815.8**	**501.2**
% of net sales	15.3%	11.6%
Adjustments: - amortisation of intangible assets included in PPA	(113.7)	(114.6)
- non-recurring, restructuring expenses and other	(106.1)	(107.7)
- COVID-19 direct costs	(18.9)	(59.8)
EBIT	**577.1**	**219.1**
% of net sales	10.8%	5.1%
Net income/(loss) from equity investments	4.0	(5.3)
Financial income/(expenses) (°°)	(144.3)	(156.4)
Net income/(loss) before taxes	**436.8**	**57.4**
Taxes	(115.2)	(14.7)
Tax rate %	26.4%	25.6%
Net income/(loss)	**321.6**	**42.7**
Eanings/(loss) per share (in euro per share)	0.30	0.03
Net income/(loss) adjusted	468.8	245.5
Net income/(loss) attributable to owners of the Parent Company	302.8	29.8

(°) The adjustments refer to one-off, non-recurring and restructuring expenses to the amount of euro 101.4 million (euro 99.3 million for 2020), to expenses relative to the retention plan approved by the Board of Directors on February 26, 2018 to the amount of euro 4.7 million (euro 8.4 million for 2020), and to COVID-19 direct costs to the amount of euro 18.9 million (euro 59.8 million for 2020).
(°°) This item includes the impacts deriving from the application of the accounting standard IFRS 16 – Leases, on EBITDA to the amount of euro +103.0 million (euro +103.9 million for 2020), and on financial expenses to the amount of euro -20.8 million (euro -22.3 million for 2020).

(in millions of euro)

	12/31/2021	12/31/2020
Fixed assets	**8,912.4**	**8,857.1**
Inventories	1,092.2	836.4
Trade receivables	659.2	597.7
Trade payables	(1,626.4)	(1,317.0)
Operating net working capital	**125.0**	**117.1**
% of net sales	2.3%	2.7%
Other receivables/other payables	0.8	23.4
Net working capital	**125.8**	**140.5**
% of net sales	2.4%	3.3%
Net invested capital	**9,038.2**	**8,997.6**
Equity	**5,042.6**	**4,551.9**
Provisions	1,088.5	1,187.3
Net financial (liquidity)/debt position	**2,907.1**	**3,258.4**
Equity attributable to owners of the Parent Company	4,908.1	4,447.4
Investments in intangible and owned tangible assets (CapEx)	345.6	140.0
Increases in right of use	122.4	68.5
Research and development expenses	240.4	194.6
% of net sales	4.5%	4.5%
Research and development expenses - High Value	225.1	182.5
% of High Value sales	6.0%	6.0%
Employees (headcount at end of period)	30,690	30,510
Industrial sites (number)	18	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	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Net sales	**1,244.7**	1,051.6	**1,320.1**	764.8	**1,414.5**	1,277.4	**1,352.2**	1,208.3	**5,331.5**	4,302.1
yoy	18.4%		72.6%		10.7%		11.9%		23.9%	
organic yoy *	24.5%		73.9%		10.5%		9.0%		24.8%	
EBITDA adjusted	**266.5**	244.2	**307.4**	23.7	**320.1**	309.4	**316.7**	315.3	**1,210.7**	892.6
% of net sales	21.4%	23.2%	23.3%	3.1%	22.6%	24.2%	23.4%	26.1%	22.7%	20.7%
EBITDA	**223.5**	220.2	**278.5**	(18.5)	**304.8**	276.8	**278.9**	246.6	**1,085.7**	725.1
% of net sales	18.0%	20.9%	21.1%	(2.4)%	21.5%	21.7%	20.6%	20.4%	20.4%	16.9%
EBIT adjusted	**168.8**	141.1	**208.6**	(74.4)	**221.4**	213.7	**217.0**	220.8	**815.8**	501.2
% of net sales	13.6%	13.4%	15.8%	(9.7)%	15.7%	16.7%	16.0%	18.3%	15.3%	11.6%
Adjustments: - amortisation of intangible assets included in PPA	(28.4)	(28.7)	(28.5)	(28.6)	(28.4)	(28.7)	(28.4)	(28.6)	(113.7)	(114.6)
- non-recurring, restructuring expenses and other	(39.4)	(18.6)	(23.8)	(21.2)	(10.7)	(26.4)	(32.2)	(41.5)	(106.1)	(107.7)
- COVID-19 direct costs	(3.6)	(5.4)	(5.1)	(21.0)	(4.6)	(6.2)	(5.6)	(27.2)	(18.9)	(59.8)
EBIT	**97.4**	88.4	**151.2**	(145.2)	**177.7**	152.4	**150.8**	123.5	**577.1**	219.1
% of net sales	7.8%	8.4%	11.5%	(19.0)%	12.6%	11.9%	11.2%	10.2%	10.8%	5.1%
Net income/(loss) from equity investments	(0.1)	(5.3)	2.1	0.7	(0.4)	(1.5)	2.4	0.8	4.0	(5.3)
Financial income/(expenses)	(40.0)	(32.5)	(31.8)	(40.6)	(35.1)	(40.2)	(37.4)	(43.1)	(144.3)	(156.4)
Net income/(loss) before taxes	**57.3**	50.6	**121.5**	(185.1)	**142.2**	110.7	**115.8**	81.2	**436.8**	57.4
Taxes	(15.1)	(12.1)	(32.1)	44.9	(37.6)	(26.8)	(30.4)	(20.7)	(115.2)	(14.7)
Tax rate %	26.4%	24.0%	26.4%	24.3%	26.4%	24.2%	26.3%	25.4%	26.4%	25.6%
Net income/(loss)	**42.2**	38.5	**89.4**	(140.2)	**104.6**	83.9	**85.4**	60.5	**321.6**	42.7

*before exchange rate effect and hyperinflation in Argentina.

Net sales totalled euro 5,331.5 million, a growth of +23.9% compared to 2020, or +24.8% excluding the combined impact of the exchange rate effect and the adoption of hyperinflation accounting in Argentina (totalling -0.9%).

High Value sales accounted for 70.9% of total Group revenues (70.4% for 2020), consistent with the target for the year.

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

	2021				
	1Q	**2Q**	**3Q**	**4Q**	**Total year**
Volume	22.2%	69.9%	(0.4%)	(7.3%)	15.7%
of which:					
- High Value	*29.3%*	*68.8%*	*1.8%*	*0.0%*	*20.2%*
- Standard	*15.4%*	*72.9%*	*(2.6%)*	*(13.4%)*	*11.2%*
Price/mix	2.3%	4.0%	10.9%	16.3%	9.1%
Change on a like-for-like basis	**24.5%**	**73.9%**	**10.5%**	**9.0%**	**24.8%**
Exchange rate effect /Hyperinflation accounting in Argentina	(6.1%)	(1.3%)	0.2%	2.9%	(0.9%)
Total change	**18.4%**	**72.6%**	**10.7%**	**11.9%**	**23.9%**

Pirelli volumes grew by +15.7% compared to 2020, with an increase in market share particularly for the High Value segment: Pirelli recorded volume growth for the segment of +20.2%, with a +11.2% increase for the Standard segment.

Pirelli Car ≥18" volumes increased by +23%, compared with +15% for the market.

- for the **Original Equipment** channel (Pirelli volumes at +21%, the market at +8%), growth was supported by exposure to the Premium and Prestige segments, by the consolidation of the client base in North America and APAC and by the growing demand for specific products for electric vehicles;
- for the **Replacement** channel (Pirelli volumes at +25%, the market at +20%), the Company further strengthened its market share in the main geographical regions, benefiting from the growth in High Value pull-through volumes (Replacement demand for vehicles with Pirelli tyres as Original Equipment) and the launch of six new dedicated lines.

Pirelli Car ≥19" volumes rose sharply and recorded a growth of +28% against a market growth of +24%.

Pirelli Car ≤17" volumes recorded a more pronounced growth during 2021 (+9%) compared to the relevant market (+6%), thanks to the strong recovery in demand in South America where the Company is a market leader.

Volume trends for the **fourth quarter** reflected the fall in global demand for Car tyres (-5%), mainly on the Original Equipment channel (-13%), due to the shortage in semi-conductors. Demand on the Replacement channel (-2%), was impacted by the volatility of macroeconomic scenario. Against this backdrop, Pirelli High Value volumes remained unchanged from 2020, while the Standard segment declined by -13.4%.

For **Car ≥18"**, Pirelli confirmed its outperformance compared to the market (+4% for Pirelli volumes, +1% for market volumes):

- both for the Original Equipment channel (-5% for Pirelli volumes, -11% for market volumes) which was supported by the greater penetration of Prestige and Premium OEMs and by new contracts in North America and APAC;
- and the Replacement channel (+13% for Pirelli volumes, +10% for market volumes), particularly in North America and APAC.

Within the **Car ≤17"** segment, the reduction in Pirelli volumes during the last quarter (-12%) was more marked than that of the market (-7%), which was consistent with the Group's strategy of reducing exposure to the segment.

The **price/mix** for 2021 rose sharply (+9.1%), which reflected:

- the aforementioned price increases in an inflationary environment;
- the improvement in the product mix, linked to the gradual migration from Standard to High Value and the improvement in the mix in both segments (High Value and Standard).

Price/mix for the fourth quarter was at record levels (+16.3%), benefiting from the price increases and the improvement of all mix components (product, channel and Region).

The negative **exchange rate effect**, which also took the application of hyperinflation accounting in Argentina into account: -0.9% for 2021 (but +2.9% for the fourth quarter), was impacted by the appreciation of the euro against the US dollar and the main emerging market currencies (particularly South America and Russia).

The performance for **net sales according to geographical region** was as follows:

(in millions of euro)

	2021				2020
		%	yoy	Organic Yoy*	%
Europe and Turkey	2,058.5	38.6%	*17.2%*	*17.6%*	40.8%
North America	1,145.7	21.5%	*31.6%*	*34.2%*	20.2%
APAC	1,018.8	19.1%	*17.6%*	*16.0%*	20.1%
South America	667.6	12.5%	*45.6%*	*49.3%*	10.7%
Russia, Nordics and MEAI	440.9	8.3%	*25.6%*	*26.7%*	8.2%
Total	**5,331.5**	**100.0%**	***23.9%***	***24.8%***	**100.0%**

* before exchange rate effect and hyperinflation in Argentina

Net sales for the fourth quarter amounted to euro 1,352.2 million (euro 1,208.3 million for the same period in 2020), up by +11.9% year-on-year (an organic growth of +9.0%) and reflected the above trends.

EBITDA adjusted equalled euro 1,210.7 million (euro 892.6 million for 2020), with a margin of 22.7% (20.7% for 2020) and reflected the dynamics described in the following paragraph in terms of EBIT adjusted.

EBIT adjusted equalled euro 815.8 million (euro 501.2 million for 2020) with a margin of 15.3% (11.6% for 2020). The contribution of internal levers (volumes, price/mix and efficiencies), more than offset the negativity of the external scenario (raw materials, inflation and exchange rate effect). More specifically:

- strong **volume** growth (euro +266.6 million);
- **price/mix** (euro +282.7 million) which more than compensated the **increase in the cost of raw materials** (euro -211.9 million including the relative exchange rate effect) and the negative impact of the exchange rate effect (euro -11.5 million);
- the **positive effect of Phase 2 of the Competitiveness Plan** which generated structural efficiencies which amounted to euro 154.6 million, which more than compensated:
  - **inflation** (euro -85.0 million);
  - the **reversal impact of COVID-19 Measures** (euro -30.7 million equal to the balance between euro -79.7 million in higher discretionary costs relative to activities suspended during 2020 due to the pandemic and the benefits derived from the increased utilisation of production plants which amounted to euro +49.0 million);
  - **amortisation and depreciation** (euro -11.0 million);
- the **increase in other costs** (euro -39.2 million, mainly concentrated in the first quarter), being the balance between higher **R&D and marketing costs for the High Value segment** (euro -32.0 million), **increased accruals** (euro -51.2 million) for the long and short-term management incentive plans (the latter cancelled in 2020) and the benefit (euro +44.0 million) derived mainly from the rebuilding of inventories, consistent with the recovery in sales volumes.

For the **fourth quarter of 2021**, EBIT adjusted equalled euro 217.0 million, thanks to the contribution of the price/mix, which offset the impact of raw materials by 1.4 times. The EBIT margin adjusted equalled 16.0% (18.3% for the fourth quarter of 2020) and reflected:

- the increased impact of inflation on the costs of production compared to the targets for the year (approximately euro 10 million more), linked mainly to logistics and energy costs;
- the reversal impact of COVID-19 Measures (the net balance amounted to euro -8.0 million for the quarter).

(in millions of euro)

	1Q	2Q	3Q	4Q	TOTAL YEAR
2020 EBIT Adjusted	**141.1**	**(74.4)**	**213.7**	**220.8**	**501.2**
- Internal levers:					
Volumes	95.9	219.1	(5.5)	(42.9)	266.6
Price/mix	16.0	31.0	103.0	132.7	282.7
Amortisation and depreciation	(4.0)	(2.0)	(2.0)	(3.0)	(11.0)
COVID-19 cost cutting (reversal impact)	(25.0)	(29.4)	(16.3)	(9.0)	(79.7)
Slowdown (reversal impact)	10.0	34.0	4.0	1.0	49.0
Efficiencies	25.8	56.7	27.2	44.9	154.6
Other costs	(58.1)	24.1	(4.0)	(1.2)	(39.2)
- External levers:					
Cost of production factors (commodities)	(11.1)	(27.6)	(75.0)	(98.2)	(211.9)
Cost of production factors (labour/energy/other)	(10.8)	(21.2)	(18.6)	(34.4)	(85.0)
Exchange rate effect	(11.0)	(1.7)	(5.1)	6.3	(11.5)
Total change	**27.7**	**283.0**	**7.7**	**(3.8)**	**314.6**
2021 EBIT Adjusted	**168.8**	**208.6**	**221.4**	**217.0**	**815.8**

EBIT, which equalled euro 577.1 million (positive to the amount of euro 219.1 million for 2020), included:

- the amortisation of the intangible assets identified during the PPA to the amount of euro 113.7 million (substantially consistent with 2020);
- non-recurring, restructuring expenses and other to the amount of euro 101.4 million (euro 99.3 million for 2020), mainly relative to structural rationalisation measures, in addition to the retention plan (approved by the Board of Directors on February 26, 2018) to the amount of euro 4.7 million (euro 8.4 million for 2020);
- emergency COVID-19 direct costs to the amount of euro 18.9 million (euro 59.8 million for 2020), mainly relative to costs incurred for the purchase of protective personnel equipment.

Net income/(loss) from equity investments amounted to an income of euro 4.0 million, compared to the loss of euro 5.3 million for 2020. Net income/(loss) from equity investments included dividends received in 2021 amounting to euro 2.3 million, plus the pro-rata result for the period for the Chinese joint venture Xushen Tyre (Shanghai) Co., Ltd. and for the Indonesian joint venture PT Evoluzione Tyres, totalling a positive euro 1.0 million, which was an improvement compared to the pro-rata result for the two joint ventures for 2020, which had amounted to euro -5.9 million.

Net financial expenses for 2021 amounted to euro 144.3 million, compared to euro 156.4 million for 2020.

This decrease by euro 12.1 million, compared to the previous year, was mainly the result of higher expenses for financial debt (euro +4.3 million) which was impacted by, amongst other factors, the effects of COVID-19 which caused a temporary increase in the margin on the Group's main bank credit facility. These higher expenses were more than compensated by the benefits arising from financial management, mostly at local level (euro -16.4 million not related to debt).

At December 31, 2021, the cost of debt year-on-year (calculated over the last twelve months) equalled 2.38% (1.94% at December 31, 2020), which reflected the aforementioned slight increase in financial expenses relative to financial debt (euro +4.3 million), combined with the significant reduction in gross debt achieved during the course of the year, thanks to cash generation and the repayment of financial debt during the first months of 2021, to the amount of euro 838 million.

Taxes for 2021 amounted to euro -115.2 million against a net income before taxes of euro 436.8 million, with a tax rate of 26.4%. For 2020, taxes had amounted to euro -14.7 million against a net income before taxes of euro 57.4 million (a tax rate of 25.6%).

Net income/(loss) amounted to an income of euro 321.6 million, compared to an income of euro 42.7 million for 2020.

Net income/(loss) adjusted amounted to an income of euro 468.8 million, compared with an income of euro 245.5 million for 2020. The following table shows the calculations:

(in millions of euro)

	2021	2020
Net income/(loss)	**321.6**	**42.7**
Amortisation of intangible assets included in PPA	113.7	114.6
One-off, non-recurring and restructuring expenses	101.4	99.3
COVID-19 direct costs	18.9	59.8
Retention plan	4.7	8.4
Taxes	(91.5)	(79.3)
Net income/(loss) adjusted	**468.8**	**245.5**

Net income/(loss) attributable to the owners of the Parent Company amounted to an income of euro 302.8 million, compared to the loss of euro 29.8 million for 2020.

Equity went from euro 4,551.9 million at December 31, 2020, to euro 5,042.6 million at December 31, 2021.

Equity attributable to the owners of the Parent Company at December 31, 2021 equalled euro 4,908.1 million, compared to euro 4,447.4 million at December 31, 2020.

The change is shown in the table below:

(in millions of euro)

	Group	Non-controlling interests	TOTAL
Equity at 12/31/2020	**4,447.4**	**104.5**	**4,551.9**
Translation differences	114.6	11.3	125.9
Net income/(loss)	302.8	18.8	321.6
Fair value adjustment of financial assets / derivative instruments	27.5	-	27.5
Actuarial gains/(losses) on employee benefits	61.0	-	61.0
Dividends approved	(80.0)	-	(80.0)
Effect of hyperinflation in Argentina	33.6	-	33.6
Other	1.2	(0.1)	1.1
Total changes	**460.7**	**30.0**	**490.7**
Equity at 12/31/2021	**4,908.1**	**134.5**	**5,042.6**

The **reconciliation between equity the Parent Company's equity and the consolidated equity** attributable to the owners 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 12/31/2021	**1,904.4**	**2,692.1**	**216.6**	**4,813.1**
Net income/(loss) of consolidated companies (before consolidation adjustments)	-	-	315.9	315.9
Share capital and reserves of consolidated companies (before consolidation adjustments)	-	4,419.1	-	4,419.1
Consolidation adjustments:				
- carrying amount of equity investments in consolidated companies	-	(4,633.8)	-	(4,633.8)
- intragroup dividends	-	229.3	(229.3)	-
- other	-	(5.8)	(0.4)	(6.2)
Consolidated equity of the Group at 12/31/2021	**1,904.4**	**2,700.9**	**302.8**	**4,908.1**

The **net financial position** showed a debt of euro 2,907.1 million, compared with a debt of euro 3,258.4 million at December 31, 2020. It was composed as follows:

(in millions of euro)

	12/31/2021	12/31/2020
Current borrowings from banks and other financial institutions	1,489.2	883.6
- of which lease liabilities	*91.6*	*75.4*
Current derivative financial instruments (liabilities)	10.3	32.5
Non-current borrowings from banks and other financial institutions	3,789.4	4,971.0
- of which lease liabilities	*412.8*	*390.4*
Non-current derivative financial instruments (liabilities)	3.5	87.6
Total gross debt	**5,292.4**	**5,974.7**
Cash and cash equivalents	(1,884.7)	(2,275.5)
Other financial assets at fair value through Income Statement	(113.9)	(58.9)
Current financial receivables**	(81.8)	(102.6)
Current derivative financial instruments (assets)	(38.8)	(13.4)
Net financial debt*	**3,173.2**	**3,524.3**
Non-current derivative financial instruments (assets)	(4.6)	-
Non-current financial receivables**	(261.5)	(265.9)
Total net financial (liquidity) / debt position	**2,907.1**	**3,258.4**

* Pursuant to CONSOB Notice of July 28, 2006 and in compliance with the ESMA guidelines regarding disclosure requirements pursuant to the Prospectus Regulation applicable from May 5, 2021.
** The item "financial receivables" is reported net of the relative provisions for impairment which amounted to euro 9.3 million at December 31, 2021 (euro 8.5 million at December 31, 2020).

The **structure of gross debt** which amounted to euro 5,292.4 million, was as follows:

(in millions of euro)

	12/31/2021	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")	949.2	949.2	-	-	-	-	-
Convertible bond	461.0	-	-	-	461.0	-	-
EMTN programme bond	550.8	-	550.8	-	-	-	-
Schuldschein	442.0	-	422.1	-	19.9	-	-
Pirelli & C. bank bilateral borrowings	1,221.3	99.9	124.8	996.6	-	-	-
Sustainable credit facility	796.0	-	-	-	796.0	-	-
Other loans	367.7	358.8	5.7	3.2	-	-	-
Lease liabilities	504.4	91.6	71.8	62.5	54.9	42.5	181.1
Total gross debt	**5,292.4**	**1,499.5**	**1,175.2**	**1,062.3**	**1,331.8**	**42.5**	**181.1**
		28.3%	*22.2%*	*20.1%*	*25.2%*	*0.8%*	*3.4%*

At December 31, 2021 the Group had a liquidity margin equal to euro 2,698.6 million, composed of euro 700 million in the form of non-utilised committed credit facilities and euro 1,998.6 million in cash and cash equivalents, including financial assets at fair value through the Income Statement to the amount of euro 113.9 million. The liquidity margin of euro 2,698.6 million guarantees coverage for maturities for borrowings from banks and other financial institutions, until February 2024. Considering also the Company's optional right to extend the maturity of the unsecured *"Facilities"* loan by a further two years (therefore until June 2024), this coverage would be guaranteed until June 2024.

Net cash flow, in terms of change in the net financial position, was positive to the amount of euro 351.3 million (euro 248.8 million for 2020) and included the payment of dividends amounting to euro -79.9 million (no dividends were paid in 2020). Net cash flow for the year can be summarised as follows:

(in millions of euro)

	1 Q		2 Q		3 Q		4 Q		TOTAL	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
EBIT adjusted	168.8	141.1	208.6	(74.4)	221.4	213.7	217.0	220.8	815.8	501.2
Amortisation and depreciation (excluding PPA amortisation)	97.7	103.1	98.8	98.1	98.7	95.7	99.7	94.5	394.9	391.4
Investments in intangible and owned tangible assets (CapEx)	(89.8)	(56.6)	(63.0)	(24.8)	(60.5)	(24.7)	(132.3)	(33.9)	(345.6)	(140.0)
Increases in right of use	(26.7)	(22.9)	(23.2)	(24.1)	(9.7)	(15.2)	(62.8)	(6.3)	(122.4)	(68.5)
Change in working capital and other	(717.2)	(861.2)	73.3	131.9	(61.7)	(173.0)	756.5	809.5	50.9	(92.8)
Operating net cash flow	**(567.2)**	**(696.5)**	**294.5**	**106.7**	**188.2**	**96.5**	**878.1**	**1,084.6**	**793.6**	**591.3**
Financial income / (expenses)	(40.0)	(32.5)	(31.8)	(40.6)	(35.1)	(40.2)	(37.4)	(43.1)	(144.3)	(156.4)
Taxes paid	(37.1)	(31.4)	(34.9)	(22.4)	(26.8)	(16.2)	(26.8)	(20.7)	(125.6)	(90.7)
Cash-out for non-recurring, restructuring expenses and other	(28.9)	(20.7)	(40.4)	(28.2)	(33.4)	(42.4)	(19.0)	(27.5)	(121.7)	(118.8)
Differences from foreign currency translation and other	15.9	27.6	(14.9)	(19.5)	11.4	14.5	13.0	(6.7)	25.4	15.9
Net cash flow before dividends, extraordinary transactions and investments	**(657.3)**	**(753.5)**	**172.5**	**(4.0)**	**104.3**	**12.2**	**807.9**	**986.6**	**427.4**	**241.3**
EU electric cables market cartel sanction	-	-	-	-	-	-	-	(33.7)	-	(33.7)
(Acquisition) / Disposals of investments	3.8	-	-	-	-	-	-	-	3.8	-
Net cash flow before dividends paid by the Parent Company and impact of convertible bond	**(653.5)**	**(753.5)**	**172.5**	**(4.0)**	**104.3**	**12.2**	**807.9**	**952.9**	**431.2**	**207.6**
Impact of convertible bond	-	-	-	-	-	-	-	41.2	-	41.2
Net cash flow before dividends paid by the Parent Company	**(653.5)**	**(753.5)**	**172.5**	**(4.0)**	**104.3**	**12.2**	**807.9**	**994.1**	**431.2**	**248.8**
Dividends paid by the Parent Company	-	-	(79.3)	-	(0.5)	-	(0.1)	-	(79.9)	-
Net cash flow	**(653.5)**	**(753.5)**	**93.2**	**(4.0)**	**103.8**	**12.2**	**807.8**	**994.1**	**351.3**	**248.8**

Net cash flow before dividends paid by the Parent Company amounted to euro 431.2 million, a marked improvement compared to euro 248.8 million for 2020 and to euro 344.1 million for 2019. This trend was mainly supported by the improved **operating net cash flow** equal to euro 793.6 million (euro 591.3 million for 2020, euro 807.5 million for 2019), which reflected:

- EBIT adjusted which amounted to euro 815.8 million (compared to euro 501.2 million);
- investments in tangible and intangible assets (CapEx) amounting to euro -345.6 million (euro -140 million in 2020), aimed mainly at High Value activities and at the constant improvement of the mix and quality in all factories;

- increases in the right of use by euro -122.4 million (euro -68.5 million for 2020), mainly due to the signing/renewal of medium-term lease contracts for some of the Group's strategic warehouses in the regions of Europe and North America;
- cash generation related to working capital/other of euro 50.9 million for 2021 (euro -92.8 million for 2020). This improvement compared to 2020 was mainly due to the careful management of working capital, with:
  - inventories accounted for a 20.5% share of net sales, a slight increase compared to the figure for 2020 (19.4%) and consistent with 2019. This increase was attributable to an increase in raw materials (raw materials accounted for 3.3% of sales in 2021, 2.5% in 2020 and 2.2% in 2019), with the aim of mitigating potential supply chain risks in an extremely volatile macroeconomic context characterised by uncertainties regarding international transport. This increase was offset by the efficient management of finished products, which accounted or 15.7% of sales in 2021, which was stable compared to 2020 (15.6%), but had decreased compared to 2019 (17.0%). The greater efficiency in the management of finished product inventories was mainly attributable to the structural measures put in place in terms of the integration of information with customers, and to the resulting higher visibility of demand trends, as well as greater production flexibility;
  - significant cash generation for trade payables, which benefitted from organic growth as a result of business recovery, as well as the low level of investments carried out in the last quarter of 2020. The ratio of trade payables to net sales at December 31, 2021 was 30.6%, consistent with the 2020 financial year at closing and down from the 32.3% for 2019;
  - cash absorption for trade receivables was slightly higher than for 2020, due to the recovery of business. Trade receivables accounted for 12.4% of net sales which was consistent with 2019 and a marked improvement compared to 2020 (13.9%).

Net cash flow improved by euro 102.5 million compared to the 2020 financial year and equalled euro 351.3 million (euro 248.8 million for 2020) and included, in addition to that described for operating cash flow, the following impacts:

- financial expenses to the amount of euro -144.3 million (euro -156.4 million for 2020);
- taxes paid to the amount of euro -125.6 million (euro -90.7 million for 2020);
- cash-out for non-recurring, restructuring expenses and other to the amount of euro -121.7 million (euro -118.8 million for 2020);
- differences from foreign currency translation and other to the amount of euro +25.4 million (euro +15.9 million for 2020);
- dividends paid to the amount of euro -79.9 million (no dividends were paid in 2020).

For the **fourth quarter of 2021**, **net cash flow** was positive in the amount of euro 807.8 million (euro +994.1 million for the fourth quarter of 2020), thanks to the usual seasonality of working capital, consistent with the historical trend.

Research and development activities

Pirelli Research and Development - which counts approximately 2,000 personnel, equal to approximately 7% of the Group's human resources between the Milan headquarters and its twelve technology centres located all over the world - constitutes a central phase for the development of new products, and allows a direct relationship with markets with end users and with the R&D centres and factories of the main vehicle manufacturers, which are located in the same geographical regions. Pirelli's Research and Development model, implemented according to the *"Open Innovation"* model, is complemented by a series of collaborations with external partners - suppliers, universities and the vehicle manufacturers themselves - in order to anticipate technological innovations in the sector, direct research and development activities and meet the needs of the end user. During the course of 2021, collaboration began with the Milan Polytechnic for the integrated use of their dynamic simulator with the static simulator at the Pirelli R&D centre in Milan for virtual tyre development activities. Pirelli's Eco & Safety approach aims to maximise its environmental performance while maximising safety for people at the same time, by embracing the entire life cycle of the product with a view to a circular economy characterised by a reduction in the environmental resources used, especially where these are non-renewable. In this context, Eco & Safety Design is at the heart of Pirelli's innovation strategy.

Research and development expenses for the 2021 financial year totalled euro 240.4 million, (4.5% of net sales), of which euro 225.1 million was destined for High Value activities (6% of High Value revenues).

Pirelli also continued to develop its CYBER™ technologies which, thanks to the sensors inside the tyre will contribute in making essential information available for the improvement of vehicle performance and driving safety. In 2021, for the first time in the world, a vehicle (the McLaren Artura) was fitted with sensorised tyres as Original equipment. The Pirelli Cyber Tyre system consists of a sensor in each of the tyres and software integrated into the car's electronics.

INNOVATION IN PRODUCTS, MATERIALS AND PRODUCTION PROCESSES

In order to develop new products specifically designed to satisfy the needs and technical specifications of its customers, Pirelli has established relationships with major Prestige and

Premium vehicle manufacturers. At the IAA Mobility 2021 International Motor Show in Munich, almost 1 in 3 (29%) of the electric cars on display, were fitted with Pirelli tyres. Also on display for the first time were the world's first Forest Stewardship Council (FSC) certified tyres. Pirelli P ZERO tyres containing FSC certified natural rubber and rayon were fitted to the new BMW iX5 Hydrogen and BMW X5 xDrive45e Plug-In Hybrid.

Pirelli is the absolute leader in the Prestige segment with a market share that exceeds 50% for Original Equipment. Pirelli is also the leading supplier to brands such as Aston Martin, Bentley, Ferrari, Porsche, Maserati, McLaren and Pagani Automobili. For example, in 2021, the P ZERO Corsa tyres were developed specifically for the new Porsche Cayenne Turbo GT as Original Equipment. Pirelli P ZERO Slick tyres were instead chosen by Dallara to equip the exclusive Stradale EXP, a version of the Stradale designed for track use, thanks to an increase in power to 500 hp and a weight of just 890 kg.

In the Premium segment, on the other hand, the privileged relationship with companies such as Alfa Romeo, Audi, BMW, Mercedes, Jaguar, Land Rover and Ford continued.

In 2021, the P ZERO beat the leading manufacturers in the Ultra High Performance segment for the second time in a major comparative test organised by the British Evo Magazine, which is one of the most arduous tests on the market for key aspects such as handling, braking and acceleration in both dry and wet conditions.

New product launches in 2021 include:

→ the new Cinturato All Season SF2, an all-season tyre that ensures compliance with winter regulations at all times and safe driving in all weather conditions, as revealed by the tests carried out by the TÜV SÜD certification body - which awarded this tyre the Performance Mark - and by the comparison tests carried out by Dekra with the tyres of the main competitors;
→ Pirelli Powergy, a summer tyre for the Replacement channel aimed at modern crossovers, SUVs, sedans and MPVs, created thanks to the latest simulation technologies fine-tuned by Pirelli;
→ Cinturato Winter 2, a winter tyre for medium-sized cars and CUVs that offers performance that is among the best on the market, in all winter driving conditions, as confirmed by tests conducted by the TÜV SÜD certification body, which also awarded this tyre the Performance Mark. With the Cinturato Winter 2, therefore, Pirelli wraps up the complete renewal of the Cinturato family, following presentation of the new Cinturato P7 summer tyre in 2020 and the aforementioned Cinturato All Season SF2 in early 2021.

In the Motorcycle sector, the DIABLO ROSSO™ IV was presented in February: the fourth generation of the DIABLO ROSSO™ family of high-performance tyres, is designed for supersport, naked and crossover motorbikes as well as for road sports use. The technological features, which enable it to achieve better grip levels, precise feedback and vehicle control even in the wet, consist of a dual tread with a high silica content for the front axle and a dual-compound or three-compound tread with a Cap&Base pattern for the rear axle. The innovative profiles, derived from experience in the FIM Superbike World Championship, are characterised by a multi-radius design that improves tyre handling.

For Cycling, Pirelli presented a new family of clincher tyres – the P ZERO – which is divided into the P ZERO Race, the product designed for pure performance and the P ZERO Road, the alternative for those looking for a more durability oriented all-round tyre, which replaces the P ZERO Velo, Pirelli's first clincher launched in June 2017. The objective of further improving grip, smoothness and comfort has been achieved, using the same tread pattern and compound as the Tubeless Ready version of the same name. SmartEVO, the compound based on a ternary blend of functionalised polymers, has been tested by the top World Tour teams with whom Pirelli is a partner. The construction of the casing, in 120 TPI Nylon, is innovative and is characterised by a wider protection belt: the TechBelt Road, comprising of an additional layer of Aramid fabric underneath the compound, which increases puncture protection in varied conditions of use. The P ZERO Road clincher was specifically developed as a multi-purpose tyre. It differs from the Race tyre in its tread pattern with narrower and longer grooves and with its EVO Compound, which makes it a more versatile tyre with a more durability-oriented performance. Pirelli then completed its line of tyres dedicated to road cycling by introducing the new P7 Sport clincher to the market, geared towards greater robustness and durability than other tyres in the Pirelli road range, in fact it features a 60 TPI Nylon casing with TechBELT. The tread features the new PRO Compound, with a formulation geared towards mileage and grip and a special tread design that has many more sipes to reduce the warm-up phase of the tyre compared to the P ZERO Race, which benefits grip, even in colder conditions. Pirelli also launched SmarTUBE: the new inner tube with technology derived from the tubulars developed for the World Tour teams and now available for all clincher tyre models, made of thermoplastic polyurethane (TPU), a latest generation material chosen for its excellent performance compared to traditional butyl. In fact, SmarTUBE features a weight reduction of up to 70% compared to the already light latex chambers. The lower mass of the wheel results in better responsiveness from the bike, particularly when climbing and accelerating. Lastly, Pirelli initiated the development of a new line of tyres, specifically dedicated to the world of gravity racing, with the involvement of Fabien Barel.

COMMITTENT TO MOTORSPORTS

Motorsport has always played a first order role in Pirelli's history. The Company has been involved in competitions for 115 years, starting with the feat achieved in 1907 by Prince Scipione Borghese, who won the Paris-Beijing motor race in an Itala fitted with Pirelli tyres. Today, Pirelli participates in more than 350 competitions each year and 2022 will be particularly important for technical innovations. These include the introduction of 18 inch tyres in the FIA Formula 1 World Championship, tyres made for hybrid cars in the FIA World Rally Championship and a new range of products across several classes for GT competitions.

Formula 1, which has seen the presence of Pirelli since the start of the World Championship in 1950 and in the role of Global Tyre Partner since 2011, which has been confirmed until 2024, is preparing for a technological revolution. After more than half a century, tyres will change size from 13 to 18 inches and will play a key role together with the single-seaters developed according to the new regulations, which will reintroduce the ground effect. The 18 inch tyre is a completely new project which has involved all elements of the tyre, from profiles to structure to compounds, with a wider window of use. Its design required more than 10,000 hours of indoor testing, more than 5,000 hours of simulation and more than 70 solutions which were developed virtually to create the 30 specifications tested by almost all the teams, across a total of more than 20,000 kilometres. The new 18 inch tyres are more similar to the tyres used daily by drivers around the world and this will give Pirelli the opportunity to transfer all the technologies derived from Formula 1 to road products. Pirelli has also been present in rally racing since the inaugural season of the World Rally Championship in 1973 and in the role of sole tyre supplier from 2021 to 2024. The relentless technological evolution during the 2022 season will be particularly marked by the introduction of new hybrid engines for the WRC cars. Pirelli has evolved its entire range of P ZERO, Scorpion and Sottozero tyres to cope with the extra weight and increased power of the new WRC1s. In Gran Turismo, a single family of tyres, the P ZERO DHF, has been designed to cover the specific needs of all GT racing classes (GT2, GT3 and GT4).
Even the mono-brand championships - Ferrari, Lamborghini and McLaren - will also use the upgraded products and the TRANS-AM series will switch from 16 inch to 18 inch tyres in 2022. Pirelli is the first and only tyre manufacturer in the world to have been awarded the Three Stars Certification of the Environmental Accreditation Programme promoted by the FIA, in recognition of its commitment to sustainability in Motorsport.

Pirelli has been confirmed by the Dorna WorldSBK Organization, in agreement with the FIM, International Motorcycling Federation, as the Official Tyre Supplier for all classes of the MOTUL FIM Superbike World Championship, up to and including the 2023 season. This technical partnership, which began in 2004, can claim the record for the longest running single-brand tyre in the history of international motorsport and has been continually supported by intense research and development, which has succeeded in increasing the competitiveness of the championship year after year. Beginning with the 2021 season, Pirelli will also be the sole tyre supplier for the newly formed Yamaha R3 bLU cRU European Cup. Since 2004, Pirelli has brought a total of more than 1 million racing tyres to the Superbike circuits, with the development of 750 new solutions during the period of collaboration stipulated in the contract. Pirelli has won 76 world titles in motocross, winning the world titles in the MXGP and MX2 classes, where together with its riders it has occupied the top nine positions in the overall standings and has been chosen by the VR46 Riders Academy as its technical partner and tyre supplier for multiple training activities with road motorbikes, motocross and e-MTB bikes.

For 2021, in the field of cycling, with the reconfirmation of its agreements with the top UCI teams, Trek-Segafredo and Team BikeExchange, Pirelli has added a partnership with a third World Tour team: AG2R Citroën. This partnership with the teams is also and above all aimed at product evolution, a constant exchange of feedback on the tyres and the continuous improvement in their performance, thanks to the suggestions of the athletes. In particular, at the Giro d'Italia 2021, the P ZERO RACE Tub SL was introduced, which is a new tubular product aimed almost exclusively at professional cycling and which took almost two years to develop in collaboration with professional cyclists.
In road tests carried out by the teams, the new tyre demonstrated that it improved the handling of the bike as well as the speed of ascent (VAM) offering excellent protection against punctures and greater control at high speeds.

For further information on the sustainability aspects of products - also for Motorsport - and on new materials, 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 Declaration pursuant to Legislative Decree No. 254/16.

Parent company highlights

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

(in millions of euro)

	12/31/2021	12/31/2020
Operating income/(loss)	(19.6)	9.1
Financial income/(expenses)	(46.0)	(36.4)
Net income/(loss) from equity investments	230.3	39.7
Taxes	51.9	31.6
Net income/(loss)	**216.6**	**44.0**
Financial assets	4,693.6	4,681.1
Net Equity	4,813.1	4,651.1
Net Financial Position	1,694.6	1,891.0

Operating income/(loss) of the Parent company amounted to loss of euro 19.6 million, compared to an income of euro 9.1 million for 2020. This decrease was mainly due to the negative impact of the provisions for the short-term incentive plan for Management, which was cancelled in 2020 due to the COVID-19 pandemic and for the long-term management incentive plans, which reflects the improved performances on the underlying parameters of the plans.

Net financial expenses amounted to euro 46 million, compared to euro 36.4 million for the previous financial year. This worsening was mainly due to increased financial expenses for financial debt which was impacted, by amongst other factors, the effects of COVID-19, which caused a temporary increase in the margin on the Company's main bank credit facilities.

Net income from equity investments amounted to euro 230.3 million compared to euro 39.7 million for the previous financial year. This increase was essentially attributable to higher dividends distributed by the subsidiary Pirelli Tyre S.p.A. (euro 220 million in 2021 compared to euro 50 million in 2020).

Taxes for 2021 were positive to the amount of euro 51.9 million, compared to the positive amount of euro 31.6 million for 2020. This increase was mainly attributable to the recognition of deferred tax assets on temporary differences that were generated during the year.

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

(in millions of euro)

	12/31/2021	12/31/2020
Investments in subsidiaries		
- Pirelli Tyre S.p.A.	4,528.2	4,528.2
- Pirelli Ltda	8.4	9.7
- Pirelli Uk Ltd.	7.9	7.9
- 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	3.4
Total equity investments in subsidiaries	**4,632.4**	**4,633.7**
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	21.9	14.0
- Fin. Priv S.r.l.	21.2	15.9
- Fondo Comune di Investimento Immobiliare Anastasia	2.8	2.8
- Istituto Europeo di Oncologia S.r.l.	8.0	7.9
- Other	1.0	0.5
Total investments in associates and other financial assets at fair value through Other Comprehensive Income	**61.2**	**47.4**
Total financial assets	**4,693.6**	**4,681.1**

Equity went from euro 4,651.1 million at December 31, 2020 to euro 4,813.1 million at December 31, 2021, as detailed below:

(in millions of euro)

Equity at 12/31/2020	**4,651.1**
Net income/(loss) for the financial year	216.6
Dividends approved	(80.0)
Other components of comprehensive income	25.3
Other movements	0.1
Equity at 12/31/2021	**4,813.1**

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

(in millions of euro)

	12/31/2021	12/31/2020
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 reserves	133.7	133.7
IAS reserve	7.5	(17.7)
Retained earnings reserve	504.2	540.0
Merger reserve	1,022.9	1,022.9
Net income/(loss) for the financial year	216.6	44.0
Total Equity	**4,813.1**	**4,651.1**

Risk factors and uncertainty

The uncertainty 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, the instruments needed, to anticipate and manage the effects of these risks. The Pirelli Risk Model systematically assesses three categories of risks:

1. **External Risks**
   Risks whose occurrence is outside the sphere of influence of the company. This category includes risks related to macroeconomic trends, to the evolution of demand, to competitor strategies, to technological innovation, to the introduction of new regulations and to country specific risks (financial, security related, political and environmental risks), as well as the impacts linked to climate change.

2. **Strategic Risks**
   Risks that are characteristic of the relevant business, the proper management of which is a source of competitive advantage, or otherwise, a cause of 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**
   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.

Transversal to the aforesaid risks are **Corporate Social Responsibility, 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, 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

RISK RELATED TO THE MACROECONOMIC OUTLOOK

After the strong rebound of the global economy following the recession caused by the pandemic, Pirelli expects a more moderate pace of growth during the course of 2022 - with the gradual normalisation of rates to pre-COVID trend levels. This slowdown will affect both mature and emerging markets and will be due to the effects of the Omicron COVID-19 variant (at least for the first few quarters of the year), on higher energy prices and, more generally, the continuation of a higher and more persistent inflationary scenario than expected. In addition to this global scenario, there are also elements peculiar to individual economies, such as the expected economic slowdown in the People's Republic of China, due to the normalisation of the real estate market, together with the impact on private consumption caused by the containment measures linked to their zero-COVID policy. Further elements of uncertainty also persist in connection with geopolitical tensions, especially with regard to the current Russian-Ukrainian crisis, as well as the emergence of new variants of COVID-19. Lastly, with regards to emerging markets, the risk of financial instability remains significant in those countries with a high level of public debt, also in light of the impact of the current health crisis on public finances.

COUNTRY RISK

Where appropriate, Pirelli adopts a local-for-local strategy, creating a productive presence in rapidly developing countries, in order to respond to local demand with competitive industrial and logistical costs. This strategy is aimed at increasing the competitiveness of the Group, as well as to allow the Group to overcome potential protectionist measures (customs barriers or other measures such as technical prerequisites, product certification and administrative costs related to import procedures, etc.). In context of this strategy, Pirelli operates in countries (Argentina, Brazil, Mexico and Russia) where the general politico-economic situation and tax regimes may prove unstable in the future. Uncertainty also persists regarding the future relationship between China and the United States and, more generally, regarding the medium-long term balance of current international trade agreements, which could lead to an alteration of the normal market dynamics and, more generally, in 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 pre-emptive) measures to mitigate the potential impacts of any changes arising at local level. Furthermore, in situations of under-utilisation of the production capacity of some factories, the reallocation of production between Group manufacturing sites is possible.

RISKS RELATIVE TO THE RUSSIA-UKRAINE CRISIS

At the date of this document, the outcomes and implications of the Russia-Ukraine crisis remain uncertain. The tightening of international sanctions is also having repercussions on the economy of the Russian Federation in terms of growth expectations, the currency market and the sustainability of the domestic economic and financial system in the medium-term.

These factors are compounded by the additional complications arising from the restrictive countermeasures that the Russian government is preparing - and in some cases has already implemented - in response to the pressure of international sanctions.

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

The Group has set up a "*Crisis Committee*" to constantly monitor developments in the Russia-Ukraine crisis, for which it has already activated mitigation measures and a contingency plan.

BREXIT RISKS

The Group constantly monitors potentially critical issues (and their relative mitigation plans) concerning the new trade agreements between the UK and the EU, which officially came into force on January 1, 2021. These risks are both of a mainly operational nature (related to possible delays in the supply of raw materials and/or finished products) in the short-term, while elements of structural uncertainty also persist which are difficult to estimate. To date, it has been difficult to define what the political and commercial relations between the two trading areas will be in the long-term and therefore what the impact will be for the automotive and auto parts sector both on the UK domestic market and in terms of exports to the European Union.

RISKS ASSOCIATED WITH THE SHORTAGE IN SEMI-CONDUCTORS

The COVID-19 pandemic has led to a radical change in the way work is done, resulting in, among other things, a significant increase in demand for products and technologies that are heavily dependent on semi-conductors. Not only does this further exacerbate an already growing trend in global chip demand, but it also depressed supply due to prolonged lockdowns and related reductions in production The pandemic effect was further compounded by the occurrence of a catastrophic event at the plant of one of the largest chip manufacturers, further depressing available supply. The automotive sector, which is closely dependent on the availability of semi-conductors on the one hand and to a just-in-time strategy on the other, turned out to be particularly vulnerable to this shock, with significant consequences on the volumes produced and, indirectly, on the demand for tyres by Original Equipment customers. This imbalance between supply and demand for semi-conductors is considered an emerging risk in that it could continue during the course of 2022, also because of new COVID-19 variants and their relative impacts on production, thereby continuing to negatively impact the automotive sector. The Group constantly monitors the elements of uncertainty connected with this emerging risk, in order to continue to adopt timely measures to mitigate any possible impacts on demand.

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 situation in the short to medium-term, this hypothesis contains elements of uncertainty, some of them significant, mainly linked to the evolution of new variants of the Coronavirus (Omicron, Delta). If these risks were to persist during the year, they could lead to an alteration in the dynamics of the market 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 extensive use of new technological devices used for remote working.

Lastly, the Group is following developments in the spread of the Coronavirus through constant contact with national and international organisations. The Company adopts check and prevention measures in respect of all employees worldwide.

RISKS ASSOCIATED WITH THE EVOLUTION OF LONG-TERM DEMAND

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 of 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, amongst other things, to a forced and unexpected reduction in mobility and to the widespread 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 impacts on the tyre sector. On the one hand, in fact, 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 the 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 in specific projects together with other major players in global mobility, such as the Transforming Urban Mobility Initiative, promoted by the World Business Council for Sustainable Development (WBCSD), which has been active since 2019.

RISKS LINKED 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 and the disclosure of any relevant information 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) relative to climate change, in relation to IPCC (Intergovernmental Panel on Climate Change) climate scenarios, to IEA (International Energy Agency) energy transitions and to put in place appropriate prevention and mitigation measures to protect its business. In accordance with the findings of the most recent Climate Change Risk Assessment of the Group, in the short to medium-term there are no significant risks relative to production processes or to the markets in which Pirelli operates. On the other hand, as regards a medium-long term scenario, the tyre sector could be subject to a number of risks both of a physical nature (extreme weather events with potential impacts on the continuity of production at the plant sites), as well as of a regulatory nature (possible effects on operating costs).
In contrast, opportunities were identified for an increase in the sales of Pirelli Eco & Safety Performance products, which are tyres with a lower environmental impact throughout their life cycle.

For the full description 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 and Pirelli's public responses to the CDP Climate Change 2021 questionnaire.

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, sale 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) which are 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 and 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 which interests the 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 Statement, Statement of Financial Position and Financial Statements. High barriers to entry - both technological and productive - provide structurally mitigating factors against the potential intensification of the competitive arena in the Group's key sector. Added to this is the uniqueness of the Pirelli's strategy which is based - amongst other things - on an extensive homologation based parc, which is 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 geographic distribution of Pirelli's manufacturing and commercial activities entails exposure to exchange rate risk, both transactional and translational. Transactional exchange rate risk is generated by transactions of a commercial and financial nature carried out by individual companies in currencies other than the functional currency, due to fluctuations in exchange rates between the time when the commercial/financial relationship originates and the time when the transaction is settled (collection/payment).

The Group's policy is to minimise the impact of 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 Treasury is responsible for hedging the resulting net position for each currency and, in accordance with the established guidelines and predetermined restrictions, it in turn closes out all risk positions by negotiating hedging derivative contracts on the market, typically forward contracts. Of note is that, as part of the annual and three-year planning process, the Group formulates exchange rate forecasts for these time horizons based on the best information available on the market. 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 type instruments. (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 to not adopt specific hedging policies for these exposures.

LIQUIDITY RISK

The main 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 as well as treasury plans, in order to allow for the complete and correct detection and measurement of cash inflows and outflows. The differences between the plans and the final data are subjected to constant analysis. The Group has implemented a centralised system for the management of collection and payment flows in compliance with the various local currency and tax regulations. The negotiation and management of banking relationships is carried out centrally, in order to ensure hedging for short and medium-term financial needs at the lowest possible cost. Even the procurement of medium to long-term resources on the capital market is optimised through centralised management. The prudent management of the aforementioned risk requires the maintenance of an adequate level of cash or cash equivalents and/or highly liquid short-term securities and the availability of funds obtainable through an adequate amount of committed credit facilities and/or the recourse to the capital market. In addition to the available portion of the committed credit facility (*Revolving Credit Facility*) totalling euro 700 million, which at December 31, 2021 resulted as being completely unused, the Pirelli Group resorts 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 the variability in the fair value or the future cash flows of financial assets or liabilities due to changes in market interest rates. The Group evaluates, based on market conditions, whether to enter into derivative contracts, typically interest rate swaps and cross currency interest rate swaps.

PRICE RISK ASSOCIATED WITH FINANCIAL ASSETS

The Group's exposure to price risk is limited to the volatility of financial assets, such as listed and unlisted equities and bonds, which represent 1.2% of the Group's total assets. Derivatives are not normally placed on these assets to limit their volatility.

CREDIT RISK

Credit risk represents the Group's exposure to potential losses resulting from the non-fulfilment of the commercial and financial obligations undertaken by counterparties. As regards these commercial counterparties, in order to limit this risk, Pirelli has put in place procedures to assess the potential and financial creditworthiness of customers, to monitor expected cash flows and to take any recovery action. The aim of these procedures is to define customer credit limits, whereby in the event that those limits are exceeded, the rule to withhold further supplies is activated. In some cases customers are asked to provide guarantees, mainly bank guarantees issued by parties of the highest credit or personal standing. Less frequently, mortgage guarantees may be requested. Other instruments used for commercial credit risk management is the taking out of insurance policies. A master agreement has been in place, which was recently renewed for the 2021-2022 two-year period, with a leading insurance company for worldwide coverage of credit risk mainly related to sales on the Replacement channel (the coverage ratio as of December 31, 2021 was equal to 72% (for the Group). However, as regards the financial counterparties for the management of its temporary cash surpluses, or for trading in derivative instruments, the Group deals only with entities of the highest credit standing. Pirelli does not hold public debt instruments from any European country, and constantly monitors its net credit exposure to the banking system and, does not have any significant concentrations of credit risk.

RISKS ASSOCIATED WITH HUMAN RESOURCES

The Group is exposed to the risk of loss of human 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-compete agreements (which also have a retention effect), designed amongst other things, to fit the risk profiles of the activities of the business. Lastly, 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 in which the Group operates. These regulations have in common their tendency to evolve in an ever more restrictive manner, also due to the growing concern in the international community over issues of environmental sustainability. Pirelli expects the gradual introduction of ever stricter laws in relation to the various environmental aspects on which companies may impact (atmospheric emissions, waste generation, impacts on soil and water use, etc.), by virtue of which the Group expects to have to continue to make investments and/or incur costs that may be significant.

EMPLOYEE HEALTH AND SAFETY RISKS

In carrying out its activities, the Pirelli Group incurs charges and costs for the measures necessary to ensure full compliance with the obligations provided for by the regulations on 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 which have impacted the management of activities at Pirelli sites and the processes for allocating liabilities. Failure to comply with the regulations in force entails penal and/or civil sanctions against those responsible and, in some cases of violation of health and safety regulations, against companies, in accordance with the European model of objective corporate responsibility that has also been implemented in Italy (Legislative Decree No. 231/01).

DEFECTIVE PRODUCT RISK

Like all manufacturers of goods for sale to the public, Pirelli could be subject to liability actions related to the alleged defectiveness of materials sold, or may be required to initiate product recall campaigns. Although in recent years there have not been any 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, tyres produced by Pirelli are subjected to careful quality analysis before being placed on the market and the entire production process is subjected to specific quality assurance procedures, with constantly upgraded safety and performance requirements.

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 on employees, customers (B2C and B2B) and suppliers are processed. The treatment of personal data collected by the Group companies is subject to the laws and regulations applicable in the countries in which these companies operate or are present. The Group has therefore put in place measures to achieve full compliance with all applicable data protection regulations (while maintaining as the reference legislative framework, that which was introduced by Regulation (EU) 2016/679, the so-called *"General Data Protection Regulation"* or *"GDPR"*, which came into force in May 2018), thus mitigating the risk of proceedings before the 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 treatment of personal data (or substantial modifications to existing personal data processing operations), could involve the need to incur significant costs, or require the Group to revise its modus operandi with regard to compliance activities in this area.

RISKS RELATED TO INFORMATION SYSTEMS AND NETWORK INFRASTRUCTURE

The supporting role of ICT (Information and Communication Technology) systems in supporting business processes, their evolution and development and the Group's operating activities was also confirmed during the course of 2021, as being fundamental to the achievement of results. Work was carried out in continuity with 2020 for the prevention and mitigation of risks related to possible malfunctions of the systems, through high reliability solutions and the protection of the Company's information assets by upgrading the security systems against unauthorised access and the Company's data management solutions. On the other hand, some of the processes for managing incidents were improved in order to minimise the impact in terms of service unavailability. These measures continued in order to bring the Server and Client environments into compliance, through the constant and progressive upgrading of the operating systems, in order to reduce their vulnerabilities. Particular attention has been paid to the renewal of infrastructural components characterised by technological obsolescence, which could lead to an increased risk of breakdowns and accidents, with an impact on business activities.

The extensive practise of remote working in 2020 and 2021, with its probable impacts also in the short to medium-term, considering both the possible continuation of the pandemic scenario and in light of changing work habits, entails for the Company, an emerging exacerbation of cyber security risk and risks connected to the capacity and resilience of technological systems.

The Company has put in place risk mitigation measures for both of these emerging risks, and closely monitors their evolution. With regard to the emerging exacerbation of Cyber Security risk during 2021:

- consistent with the three-year Strategic Roadmap resulting from the NIST Assessment, initiatives were implemented aimed at increasing the Group's cyber security posture. Some examples: a new structure was defined and the number of staff in the Cyber Security HQ function was increased, the protection of Pirelli devices against the most advanced threats was improved, and periodic committees were set up with top management to share risks and initiatives on the subject. A specific Operational Technology Assessment was initiated to update the technical and organisational security measures at the industrial sites;
- periodic cyber security awareness and cyber readiness initiatives were carried out, to provide users with training and updates on the main cyber security risks, with particular reference to emerging risk dimensions, including those related to the extensive use of remote working and to ransomware, through the provision of:

    - ad-hoc training sessions, designed both according to the type of recipients and the specific risks to be addressed (e.g. new joiners);
    - awareness sessions (Cyber Security Pills) on a bi-weekly basis, through the publication of content on the intranet and courses on the corporate training portal (e.g. phishing, social engineering, ransomware, secure browsing);
    - monthly sessions of phishing simulations (white phishing campaigns) aimed at "preparing" users to recognise and manage malicious e-mails.

- Cyber Security Defence Center – CSDC:
  In order to cope with the ever-increasing and changing cyber security risk scenario, in 2021 activities were further intensified to evolve the systems for monitoring and managing security events and incidents. The Cyber Security Defence Centre structure was set up in Italy, the fulcrum of the Group's defensive management which, in real time, manages and implements the protective measures necessary to ensure the security of Company assets, by integrating Threat Intelligence services in order to identify potential threats or security risks in advance and to appropriately manage potential incidents or related attacks.
  Lastly, with regard to the emerging exacerbation of technological risks linked to the extensive practice of working remotely, the Digital Department took many measures in 2021 aimed at supporting business activities, by minimising the impact on users and ensuring their security. Among the main actions was the strengthening of the network to allow the increase in remote connections (VPN); refresher courses were provided, with sessions in Italian and English in collaboration with Learning Lab, on the new Office365 technologies (Teams and OneDrive), to increase the conscious use of online technologies; investments were made for the modernisation of meeting rooms to facilitate hybrid working methods; Softphones were configured on PCs to remotely access telephone extensions, even for Smart Working; and the Anti-Virus system on all employees' PCs was updated to minimise Cyber Security risks.

Many activities were carried out in 2021 that directly or indirectly led to the mitigation of security risks, specifically:

- The *"TIM Data Centre Closure"* project was completed.
  With this project the old Pirelli Data Centres hosted in the TIM Data Centres in Cesano and Bologna were closed, with the migration of the workloads partly to the Cloud and partly to SuperNap's Tier 4 Gold Data Centre, which offers best-in-class service levels and security.
  The migration of some of the workloads to the Cloud and especially the migration of all central Disaster Recovery solutions to the Cloud, has brought about cost efficiencies and improvements in performance and service availability, both under normal conditions and in the event of a disaster.

- *"Software Defined Data Centre"* Project
  The *"Software Defined Data Centre"* project continued, with the objective of transforming traditional factory data centres into modern data centres based on hyperconverged and software defined architectures, increasing the flexibility and speed as required in the development and deployment of business critical services and applications. This transformation, which affected the Kirov, Carlisle and Campinas plants last year, will affect all Pirelli plants over the next two years.

- Software Defined WAN Project
  The SD WAN project ended in January 2021, activating all 55 remote sites within its scope. With this Pirelli has achieved:

    - greater total WAN bandwidth than before;
    - the elimination of the concept of backup; both lines which connect to the remote site are active;
    - the optimised usage of links through the automatic selection of the most appropriate link at that moment on an application-by-application basis;
    - direct internet access enabled on each remote site;
    - improved network operations services through automation and Zero Touch Provisioning;
    - a changed operations model from reactive to proactive, which has improved traffic visibility;
    - an improved user experience across O365 applications with more resilient and performant connectivity.

- Operational support and Cyber Security services were provided for Prometeon in accordance with contractual provisions.

BUSINESS INTERRUPTION RISKS

The territorial fragmentation of operating activities and their interconnection exposes the Group to risk scenarios that could lead to the interruption of its business activities 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 in 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. Analyses confirm an adequate monitoring of business interruption risks, thanks to a complex series of security measures, of 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 sites might suffer, (the Group's insurance coverage may however not be sufficient in compensating all potential losses and liabilities in case of catastrophic events). Even Pirelli's supply chain is regularly assessed for potential business interruption risks.

RISKS RELATIVE TO THE FINANCIAL REPORTING PROCESS

Pirelli has also implemented a specific and articulated risk management and internal control system, supported by a dedicated Information Technology application, in relation to the process of preparing the half-year, annual and consolidated Financial Statements, in order to safeguard the Company's assets, its compliance with laws and regulations, the efficiency and effectiveness of corporate operations, as well as the reliability, accuracy and timeliness of its financial reporting. In particular, the process of preparing financial documentation is carried out through the appropriate administrative and accounting procedures, developed in accordance with the 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 production of the Financial Statements and all other financial reports fall under the responsibility of the Manager responsible for the preparation of the corporate financial documents, who verifies their adequacy and effective implementation on a half-yearly basis. In order to allow for the attestation by the Manager responsible for the preparation of the corporate financial documents, a mapping has been carried out of the companies and the relevant processes that feed and generate information of an economic or financial nature. 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 identifying those Group companies which, in relation to the selected processes, represent an aggregate value above a certain materiality threshold. The qualitative criteria consist of examining those processes and companies which, according to the assessment of the Manager responsible for the preparation of the corporate financial documents, may present potential areas of risk, even though they do not fall within the quantitative parameters described above. For each selected process, the risk/control objectives associated with the preparation of the Financial Statements and any related disclosures, as well as with the effectiveness/efficiency of the internal control system in general, have been identified. For each control objective, punctual verification measures have been provided for and specific responsibilities have been assigned. A system of supervision of the checks carried out by means of a chain attestation system has been implemented. Any criticalities emerging from the evaluation process are the subject of action plans whose implementation is verified at subsequent closures. There is even the half-yearly issue of a declaration by the Chief Executive Officer and the Chief Financial Officer of each subsidiary on the reliability and accuracy of the data supplied for the purposes of preparing the Group's consolidated Financial Statements. In the lead up to the dates of the Board of Directors' Meetings which approve the consolidated data at June 30 and December 31, the results of the verification procedures are discussed with the Manager responsible for the preparation of the corporate financial documents. The Internal Audit Department performs periodic audits aimed at verifying the adequacy of the design and operability of the checks carried out on sample companies and processes, selected on the basis of the materiality criteria.

SOCIO-ENVIRONMENTAL RESPONSIBILITY RISKS

RISKS RELATIVE TO SOCIAL AND ENVIRONMENTAL RESPONSIBILITY AND BUSINESS ETHICS

Risk governance at Pirelli is enterprise-wide and includes the identification, analysis and monitoring of environmental, social, economic/financial and business ethics risks that are directly or indirectly attributable to the Company, through Pirelli affiliates or in dealings with them, such as those related to the sustainability of the supply chain. Prior to investing in a specific market, ad-hoc assessments are conducted on possible political, financial, environmental and social risks, including those related to the respect of human rights and labour laws. Alongside the ongoing monitoring of the application of Pirelli's internal regulations regarding financial, social (particularly regarding human and workplace rights), environmental and business ethics on Group sites, which occurs through the periodic audits performed by the Internal Audit Department, 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 non-compliance is detected, a remedial plan is provided for, whose implementation is regularly monitored by the auditor. For further information on the model used for managing sustainability risks along the supply chain, see the paragraph *"Our Suppliers"*. For the governance aspects of human rights issues, see the paragraph *"Respecting Human Rights"*. For the management of internal risk within the affiliates, see the section *"Compliance with Legislative-Contractual Requirements on Overtime, Rest, Association and Bargaining, Equal Opportunities and Non-Discrimination, Prohibition of Child and Compulsory Labour"* of the consolidated non-financial Declaration.

Outlook for 2022

(in billions of euro)

	2021	2022E
Revenues	5.33	~5.6 ÷ ~5.7
Ebit margin adjusted	15.3%	~16% ÷ ~16.5%
Investments (CapEx) *% of net sales*	0.35 *~6.5%*	~0.39 *~7%*
Net cash flow before dividends	~0.43	~0.45 ÷ ~0.48
Net financial position *NFP/Ebitda Adj.*	-2.9 *2.4x*	~-2.6 *≤2x*
ROIC *post taxes*	17.6%	≥19%

MARKET OUTLOOK FOR 2022

Pirelli expects that 2022 will be characterised by sustained economic growth, albeit in a scenario that presents elements of volatility linked to the progression of the COVID-19 pandemic, to inflationary pressures and to the possible consequent monetary tightening, as well as the escalation of geopolitical tensions. Specifically, Pirelli expects global GDP to grow by +4.4% and inflation of 4.1% (particularly accentuated in North America and Europe), due to the increase in the costs of raw materials, energy and labour and in logistics costs.

For the **automotive sector**, global production for 2022 is expected to grow by +8.6% compared to 2021, with even stronger growth for the Premium and Prestige segments (+10.5%) and other SUVs (+11.1%). Growth - even more than forecast in the Industrial Plan - of the electric car segment share of total production (+7% vs. the Plan estimate of +6%), especially for the Premium and Prestige segments (+16% vs. the Plan estimate +12%).

Given this scenario, **global demand for car tyres** is expected to grow by approximately +3%, with the High Value segment once again proving to be the most dynamic, with volumes expected to increase by four times that of the Standard segment.

For the **High Value** segment in particular, market expectations are as follows:

- **Original Equipment** volumes ≥18" are expected to grow by approximately +9% thanks to the gradual normalisation of the semi-conductor shortage;
- **Replacement** volumes ≥18" are expected to grow by approximately +7%, driven by the restocking of dealer inventories and the effect of new car registrations from previous years.

Less growth is expected for the **Standard** segment, where Original Equipment ≤17" (which is more affected by the semi-conductor crisis than the high-end range) is expected to grow by approximately +5%, while the Replacement channel is expected to grow by approximately +1.5% (due to the gradual shift of the car parc towards the Premium range).

Pirelli will respond to a challenging 2022 by strengthening the levers already provided by the Industrial Plan. Specifically, an even more selective approach is planned for Original Equipment, with a focus on higher rim diameters (≥19") and on Specialties, especially for the electric car segment. The Competitiveness Plan has been confirmed with gross benefits of euro 150 million, and these efficiencies, together with price increases and an improved mix, will more than offset the increase in the costs of raw materials, in inflation of other production factors, and in exchange rate volatility.

In light of the results achieved for 2021 and the scenario forecast for 2022, Pirelli expects:

- **Revenues of between euro ~5.6 billion and euro~5.7 billion**, with:
  - **a total growth in volumes** of between ~+1.5% and ~+2.5%: High Value Volumes are expected to increase by ~+6%/~+7%; Standard volumes are expected to decline by ~-3%/~-4%, consistent with the strategy of progressively reducing exposure to this segment;
  - **price/mix improvement** by ~+5.5% / ~+6.5% thanks to further price increases and a more favourable mix;
  - an **exchange rate impact** of between ~-1.5% /~-2%.

- **EBIT margin adjusted of between approximately ~16% and ~16.5%** considering the aforementioned dynamics;
- **Net cash generation before dividends is expected to be between euro 450 million and euro 480 million**, thanks to the operating performance and the efficient management of working capital;
- **Investments** amounting to approximately euro 390 million (~ 7%);
- **Net financial position** equal to euro ~-2.6 billion with a NFP/EBITDA adjusted ratio of ≤ 2 times.

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

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

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

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

Significant events subsequent to the end of the year

On **January 28, 2022** Pirelli launched the start of celebrations, for the 150th anniversary of its foundation on January 28, 1872 which will continue throughout 2022, with an event at the *Piccolo Teatro* in Milan.

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

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

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

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

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

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

On **March 4, 2022** Pirelli announced that will donate euro 500 thousand to help Ukrainian refugees affected by the war. The company will also provide employees with a current account to collect their donations as well. Pirelli strongly condemns what is happening and stands by the people who are suffering.

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), in compliance with the ESMA Guidelines on Alternative Performance Indicators (ESMA Guidelines/2015/1415) published on October 5, 2015. 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 are as follows:

- **EBITDA**: is equal to the EBIT but which excludes the depreciation and amortisation of property, plant and equipment and intangible assets. The EBITDA is used to measure the ability to generate earnings, excluding the impacts deriving from investments;
- **EBITDA adjusted:** is an alternative measure to the EBITDA which excludes non-recurring, restructuring and one-off expenses, COVID-19 direct costs and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBITDA margin:** is calculated by dividing the EBITDA by revenues from sales and services. This measure is used to evaluate operating efficiency, excluding the impacts deriving from investments;
- **EBITDA margin adjusted:** is calculated by dividing the EBITDA adjusted by revenues from sales and services. This measure is used to evaluate operating efficiency, excluding the impacts deriving from investments, operating costs attributable to non-recurring, restructuring and oneoff 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/(expenses) and the net income/(loss) from equity investments. The EBIT is used to measure the ability to generate earnings, including the impact arising from investments;
- **EBIT adjusted:** is an alternative measure to the EBIT which excludes the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring, 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. This measure is used to evaluate operating efficiency;
- **EBIT margin adjusted:** is calculated by dividing the EBIT adjusted by revenues from sales and services. 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;
- **Net operating 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 net operating working capital and by other receivables and payables and derivative financial instruments not included in the net financial position. This measure represents the 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)", "Provisions for employee benefit obligations (current and non-current)", "Other non-current assets", "Deferred tax liabilities" and "Deferred tax assets"*;
- **Net financial debt**: is calculated pursuant to the CONSOB Notice dated July 28, 2006 and in compliance with the ESMA guidelines on disclosure requirements pursuant to the Prospectus Regulation applicable as of May 5, 2021. Net financial debt represents borrowings from banks and other financial institutions net of cash and cash equivalents, of other current financial assets at fair value through the Income Statement, of current financial receivables (included in the Financial Statements under "*Other receivables*") and of 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"*), the current derivative financial instruments included in the net financial position (included in the Financial Statements under current assets as *"Derivative financial instruments"*) and the non-current derivative financial instruments included in the net financial position (included in the Financial Statements under non-current assets as *"Derivative financial instruments"*). Net financial position is an alternative measure to net financial debt, but which includes non-current financial assets;
- **Liquidity margin**: this measure is constituted by the sum of the Financial Statement items, *"Cash and cash equivalents", "Other financial assets at fair value through the Income Statement"* and the committed credit facilities which have not been non-utilised;
- **Operating net cash flow**: this is calculated as the change in the net financial position relative to operations management;
- **Net cash flow before dividends and extraordinary transactions and 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:** 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 and investments;
- **Net cash flow**: is calculated by subtracting the dividends paid by the Parent company, from the net cash flow before dividends paid by the Parent company;
- **Investments in intangible and owned tangible assets (CapEx):** 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:** 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:** is calculated as the ratio between the EBIT adjusted net of tax effects and the average net invested capital net of provisions which does not include "*Investments in associates and joint ventures", "Other financial assets at fair value through other Comprehensive Income", "Other non-current financial assets at fair value through the Income Statement", "Other non-current assets",* the intangible assets relative to assets recognised as a consequence of Business Combinations, the deferred tax liabilities relative to the latter and the *"Provisions for employee benefit obligations current and non-current"*.

Other information

ROLE OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for the strategic guidance and supervision of the Company's overall business activities, with the power to direct the administration as a whole and with the authority to take the most important decisions in financial/strategic terms, or in terms of their structural impact on management, or functional to the exercise of Pirelli's controlling and steering activities.

The Chairman is endowed with the legal representation of the Company in legal proceedings, as well as with all other powers attributed to him under the Articles of Association.

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

The Deputy-CEO is attributed the powers attributed to the Executive Vice Chairman and Chief Executive Officer for the ordinary management of the Company and of the Group, to be exercised vicariously only in the case of the impediment, even temporary, of the Executive Vice Chairman and Chief Executive Officer.

The Board has internally instituted the following Committees with advisory and proposal-making duties:

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

For more information on the role of the Board of Directors, reference should be made to the Report on Corporate Governance and Ownership Structure contained in the 2021 Annual Report, as well as other additional information published in the Governance section of the Company's website (www.pirelli.com).

INFORMATION ON THE SHARE CAPITAL AND OWNERSHIP STRUCTURE

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

The Extraordinary Shareholders' Meeting of March 24, 2021 resolved to increase the share capital in cash, by way of a divisible payment, with the exclusion of option rights pursuant to Article 2441, paragraph 5, of the Italian Civil Code, for a total counter-value, including any share premium, of euro 500,000,000.00 to service the conversion of the *"EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025"*, to be paid in one or more tranches through the issue of ordinary shares of the Company, with regular dividend entitlements, for a maximum amount of euro 500,000,000.00 to exclusively service the *"EUR 500 million Senior Unsecured Guaranteed Equity-linked Bonds due 2025"* issued by the Company, in accordance with the criteria provided by the relevant Regulation, notwithstanding that the final deadline for the subscription of the newly issued shares is set as December 31, 2025 and that if, on that date, the capital increase has not been fully subscribed, it shall be deemed to have been increased by an amount equal to the subscriptions received and from that date onwards, with the express authorisation of the Directors to issue the new shares, as and when they are subscribed. No fractions of shares will be issued or delivered and no cash payment or adjustment will be made in lieu of such fractions.

The shareholder Marco Polo International Italy S.r.l. - pursuant to Article 93 of Legislative Decree No. 58/1998 - controls the Company with a 37% share of the capital, but does not exercise management and coordination activities over the Company.

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 2021 Annual Report group of documents, 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, taking into account the simplification of the 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, from the obligation to publish the prescribed disclosure documents in the event of significant mergers, de-mergers, capital increases through contributions of assets in kind, acquisitions and disposals.

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

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

With reference to data at December 31, 2021, 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 UK Tyres Ltd. (United Kingdom) and Pirelli Tyre (Suisse) SA (Switzerland).

Also pursuant to the same aforesaid provisions, the Company has specific and appropriate Group Operating Regulations in place which ensure immediate, constant and full compliance with the provisions of the aforementioned CONSOB Regulation. In particular, the competent Company managements provide the punctual and periodic identification and publication of the relevant Non-EU Companies pursuant to the Market Regulation and - with the necessary and appropriate cooperation of the companies concerned - guarantee the collection of data and information and the verification 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 request by CONSOB. A periodic flow of information is also provided for in order to guarantee to the Board of Statutory Auditors of the Company, that the prescribed and appropriate checks are performed.

Lastly, the aforesaid Operating Regulation, consistent with regulatory provisions, governs the disclosure to the public of the Financial Statements (that is the Statement of Financial Position and Income Statement), of the relevant non-EU companies, which are used to prepare the consolidated Financial Statements of Pirelli & C. S.p.A.

It should therefore be noted that the Company has fully complied with the provisions of Article 15 of the aforementioned CONSOB Regulation No. 20249 of December 28, 2017 and that the conditions required by the same have been met.

RELATED-PARTY TRANSACTIONS

The Company's Board of Directors, as part of the new listing process initiated and completed during the 2017 financial year, has once again approved the Procedure for Related Party Transactions (*"RPT Procedure"*),

As part of the periodic revision of existing procedures, on June 15, 2021, the Company's Board of Directors - following the unanimous opinion of the Committee for Related Party Transactions, which had deliberated with the presence of all its members - unanimously approved the new Procedure for Related Party Transactions, which had been adjusted to the new provisions on related party transactions adopted by CONSOB pursuant to the amendments to the European Shareholders' Rights Directive II. The new Procedure came into force on July 1, 2021.

Pursuant to Article 5, paragraph 8 of CONSOB Regulation No. 17221 of March 12, 2010 as subsequently amended and integrated, (most recently by CONSOB Resolution No. 21624 of December 10, 2020), concerning related party transactions, it should be noted that during the 2021 financial year, that no transaction of significant importance as defined by Article 3, paragraph 1, letter b) of the aforementioned Regulation, was submitted to the Board of Directors of Pirelli & C. S.p.A. for approval.

The RPT Procedure can be viewed, together with the other corporate governance procedures at the website (www.pirelli.com). 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.

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 2021 Annual Report. Related Party Transactions, are neither exceptional nor unusual, but are part of the ordinary course of business for the Group companies and are carried out in the interest of the individual companies. Such transactions, when not settled under standard conditions, or dictated by specific regulatory conditions, are in any case regulated by conditions consistent with those of the market. Furthermore, they are carried out in compliance with the RPT Procedure.

Also, there were no Related Party Transactions - or changes or developments to the transactions described in the preceding financial report - that have significantly affected the Group's financial position or results for the 2021 financial year.

EXCEPTIONAL AND/OR UNUSUAL OPERATIONS

Pursuant to CONSOB Notice No. 6064293 of July 28, 2006, it should be noted that during the course of the 2021 financial year, that no 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 a Record of Processing Activities. The Company has also appointed lawyer Alberto Bastanzio as the Data Protection Officer (*"DPO"*), 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 financial year 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 17, 2022