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Oggetto	:	Il Cda di Pirelli & C. S.p.A. ha approvato i risultati consolidati al 30 settembre 2020

Testo del comunicato

Vedi allegato.

PRESS RELEASE

PIRELLI: THIRD QUARTER SAW IMPROVEMENT, NET INCOME +6.6% TO 83.9 MILLION EURO HIGH VALUE VOLUMES +3.9% (CAR NEW PREMIUM +5.3%), ADJUSTED EBIT AT 213.7 MILLION EURO WITH MARGIN AT 16.7%, NET CASH FLOW POSITIVE (12.2 MILLION EURO) THANKS TO SIGNFICANT REDUCTION OF INVENTORIES

IMPACT OF COVID ON NINE MONTHS RESULT MITIGATED BY EFFICIENCIES PLAN AND COSTS REDUCTION IN LINE WITH TARGETS FOR THE YEAR

Board of Directors of Pirelli & C. S.p.A. approved consolidated results through September 30, 2020

Third quarter 2020

- Revenues: 1,277.4 million euro, with an organic variation of -1.5% compared with 3Q 2019 (-7.5% including effect of forex) thanks to a recovery in demand for High Value and price/mix (+2.3%)

- Adjusted Ebit: +213.7 million euro (+244.5 in 3Q 2019), Adjusted Ebit margin at 16.7% (17.7% in 3Q 2019) thanks to the contribution of internal levers

- Total net income: +83.9 million euro (+6.6% compared with +78.7 million euro in 3Q 2019)

- Cash flow positive 12.2 million euro (+11.6 million euro in 3Q 2019)

First nine months 2020

- Revenues: 3,093.8 million euro, with an organic variation of -19.3% (-23.4% including the effect of forex) because of a fall in demand particularly in the second quarter and the volatility of exchange rates.

- Adjusted ebit: 280.4 million euro thanks to the contribution of efficiencies and cost containment actions which limited the impact of the fall in demand and the slowdown (adjusted ebit 685.0 million euro on September 30, 2019)

- Net result: -17.8 million euro (+385.7 million euro on September 30, 2019)

- Net cash flow: -745.3 million euro (-805.8 million euro on September 30, 2019; -628.9 million net of dividends distributed in 2019)

- Net Financial Position: -4,252.5 million euro, substantially unchanged compared with -4,264.7 on June 30, 2020

- Liquidity margin: 1,849.8 million euro on September 30, 2020; financial debt maturities guaranteed until the end of the first half of 2023

2020 OUTLOOK

- 2020 market outlook improves thanks to Original Equipment in Apac and North America, but outlook cautious for Europe because of recent anti-Covid measures following the resurgence of the pandemic

- **Volumes expected at about -17%/-18% (previous indication about -18%/-20%)**

- **Revenues expected at around 4.18/4.23 billion euro (previous indication about 4.15/4.25 billion)**

- **Adjusted ebit margin expected at between around 11.5% and 12% (previous indication expected at between about 12% and13%) because of the impact of exchange rates, raw materials and the increase of other costs which are in part non-monetary**

- **Cash generation confirmed at approximately 190-220 million euro**

- **Net financial position at around -3.3 billion euro confirmed**

- **Efficiencies and cost reduction plans confirmed**

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Milan, 11 November 2020 – The Board of Directors of Pirelli & C. SpA met today and approved results for the nine months ended on September 30, 2020.

In the first nine months of 2020, the tyre sector was greatly impacted by the Covid-19 emergency and the deterioration of the economic outlook, with a general fall in consumption and production.
The demand for car tyres over the first nine months registered a 20.5% fall in volumes, particularly marked in the first half of the year (-28.1%) but improving in the third quarter (-6.1%) thanks to the recovery of Car New Premium demand (+2.3%).
The plan put together by Pirelli at the end of April to counter this scenario enabled the company to:

- Guarantee the health and safety of employees, with the necessary prevention measures;
- Safeguard profitability and cash generation, through costs' containment and the reconfiguration of investment programs;
- Reinforce the asset structure. This included the subscription to a new sustainable bank line of 800 million euro (5-year) and, in general, the optimization of the financial structure extending debt maturities;
- Consolidate the collaboration with the main Premium and Prestige carmakers and with the sales' network in view of the recovery in demand.

Pirelli's results through September 30, 2020 were characterized by:

- **Revenues** were 3,093.8 million euro (-23.4% compared with the same period in 2019, organic variation -19.3%) with the weight of High Value reaching 71.2% of total revenues (67.4% on September 30, 2019). The **third quarter** saw marked improvement with revenues of 1,277.4 million euro, (-1.5% at the organic level) thanks to the recovery in demand for the high-end (Pirelli High Value volumes +3.9%, Car New Premium volumes +5.3%) and improvement in the price/mix (+2.3%);
- **Adjusted ebit** in the **first nine months** was positive at 280.4 million euro, with profitability at 9.1%. The contribution from efficiencies and costs' containment (199 million euro overall, 6.4% of revenues, net benefits 84 million euro) limited the impact of the external context (weak demand, forex volatility, slowdown and increase in cost of production factors). In the **third quarter** alone Adjusted Ebit was 213.7 million euro with profitability at 16.7% (17.7% in the third quarter of 2019) thanks to the contribution of the internal levers (price/mix, efficiencies and cost containment actions);
- **Net result** in the **first nine months** was -17.8 million euro. In the **third quarter the net result was** positive at +83.9 million euro, an increase of 6.6% compared with +78.7 million euro in the same period of 2019;
- **Net cash flow** in the **first nine months** of -745.3 million euro (-805.8 million euro in the first 9 months of 2019, -628.9 million net of distributed dividends in 2019) where lower investments (Capex and financial investments on shareholdings) and improvement in the management of net working capital mitigated the impact of the lesser operational performance. There was a significant reduction of inventories in the first 9 months: approximately 270 million euro (about 165 million euro excluding forex effect) between raw materials and finished products (approximately -3 million car units and about -600,000 moto units). In the **third quarter,** the **cash flow** was positive +12.2 million euro (in line

with the third quarter of 2019) thanks to a progressive reduction of inventory above all in the Car business (reduction in the quarter -1.1 million units).

- **Net Financial Position** on September 30, 2020 was negative 4,252.5 million euro (3,507.2 million euro on December 31, 2019), substantially unchanged compared with -4,264.7 million euro on June 30, 2020;
- **Liquidity margin** at 1,849.8 million euro, with debt maturities guaranteed until the end of the first half of 2023 also thanks to the company's right to extend bank debt maturing in 2021 (242 million euro) and in 2022 (1,683 million euro) respectively in 2022 and 2024.

The costs' competitiveness Plan and actions to counter Covid-19 in line with estimates

The "costs' competitiveness plan" and the actions to counter the Covid-19 context are in line with the forecasts announced on May 13, 2020, when the figures for the first quarter were released. The expected gross benefits for the year are confirmed at about 280 million euro (about 6% of the 2019 cost base), equal to 140 million euro net of inflation and the slowdown (about 3% of the 2019 cost base). In particular:

- The "costs' competitiveness plan" (cost of the product, manufacturing, organization and SG&A), contributes approximately 160 million euro or 110 million net of inflation (-50 million euro);
- The "Covid Actions" costs' containment plan, including short term actions on SG&A, marketing and communication, manufacturing and R&D, contributes about 120 million euro or 30 million net of the production slowdown (the impact of which is confirmed at around -90 million euro).

In the first nine months of 2020, in line with forecasts, the gross benefits of the two plans totaled 199 million euro (71% of the efficiencies expected in 2020), equal to 84 million euro of benefits net of inflation and the slowdown. In detail:

- 109 million euro stemmed from the Competitiveness Plan, with benefits of 73 million net of inflation (-36 million euro);
- 90 million euro stemming from the "Covid Actions", 11 million euro in the first nine months net of the impact of the slowdown (-79 million euro).

In particular, in the third quarter gross benefits totaled 74 million euro (52 million net of inflation and the slowdown). In detail:

- Gross benefits of 45 million stemming from the Competitiveness Plan, with a benefit of 32 million euro net of inflation;
- Gross benefits of 29 million euro stemming from the Covid Actions, with benefits of 20 million net of the slowdown.

Sales

Revenues (euro *millions*)	30/09/2020	% of total	30/09/2019	% of total	Variation y/y	Organic variation y/y
High Value	2,203.3	71.2%	2,719.9	67.4%	-19.0%	-17.6%
Standard	890.5	28.8%	1,316.5	32.6%	-32.4%	-22.6%
Total	**3,093.8**	**100%**	**4,036.4**	**100%**	**-23.4%**	**-19.3%**

Revenues in the **first nine months** were 3,093.8 million euro, with a fall of 23.4% compared with September 30, 2019. Excluding the effect of forex and the adoption of the IAS 29 accounting principle to take account of the high inflation in Argentina (for an overall impact of -4.1%), the organic variation of revenues was -19.3%.

Revenue variations		30/09/2020
Volumes		-20.7%
	o/w High Value -14.9%	
	o/w Standard -26.4%	
Price/Mix		+1.4%
Forex/IAS 29 Argentina		-4.1%
Total variation		-23.4%

High Value revenues on September 30, 2020, were 2,203.3 million euro, registering a fall of 19% compared with the same period of 2019, because of the general fall in demand following the lockdown measures in the main High Value markets. As a percentage of total sales, High Value revenues grew by 3.8 basis points to 71.2% compared with 67.4% in the first nine months of 2019.

The performance of **total volumes** (-20.7% in the first nine months of 2020) reflects the fall in demand (-20.5% in the Car market, -10% in the moto market) which had a particular impact on the **Standard** segment (Pirelli volumes -26.4%) and, to a lesser extent, the **High Value** segment (Pirelli volumes -14.9%).

The volumes of **Car New Premium (≥18 inches)** fell 14.2% (market -14.6%) with different performances by channel:

- In Original Equipment, Pirelli saw a decline in volumes of 15.3% (market -20.7%) thanks to the diversification of the client portfolio, also following the attainment of new contracts in North America and Apac, already launched in the second half of 2019;
- In the Replacement channel, the fall in Pirelli volumes was -13% (market -10%) impacted by the activities of inventory level reduction, begun in the first quarter, with the main distribution partners, which was concluded in Europe in April and in North America in the third quarter. In North America, sales were also affected by lockdown measures which involved for the most part states with a high concentration of Premium and Prestige cars.

The improvement of the **price/mix** in the first nine months of 2020 was +1.4%, and reflects different trends between quarters:

- negative in the first quarter (-1.3%), with a channel mix impacted by the more marked fall in Replacement and a temporary fall in the Region mix because of lower sales in China;
- positive in the second and third quarters (respectively +3.3% and +2.3%), thanks to the improvement of the product mix, Region mix (with the rebound of sales in China beginning from the second quarter) and the channel mix (positive in the second quarter, neutral in the third in consideration of the more balanced trend between Original Equipment and the Replacement channel).

In the first nine months of 2020, **the impact of exchange rates** was negative at -4.1% (-1.5% in the first quarter, -4.7% in the second quarter and -6% in the third quarter) due to the high volatility of exchange rates in the emerging market (mainly Latin America and Russia) and the revaluation of the euro against the main currencies in the third quarter.

There was a marked improvement in the revenues' trend in the **third quarter.** They totaled 1,277.4 million euro with a decline at the organic level of 1.5% on a more contained fall in volumes (total volumes -3.8%, with High Value growing by 3.9% and Standard volumes at -11.9%) and an improvement of the price/mix (+2.3%) compared with the third quarter of 2019.

In particular in ***Car New Premium*** **(≥18")** Pirelli registered in the third quarter volume growth of +5.3%, higher than that of the market (+2.3%):

- reinforcing its positioning in Original Equipment (Pirelli's volumes +4.3% compared with market's +0.5%), supported by the performance in Apac (particularly in China) and North America thanks to the already mentioned broadening of the client portfolio;

- regaining market share in the Replacement channel (Pirelli volumes +6.1%, market +3.5% in the third quarter compared with Pirelli in the first quarter at -24% and the market at -18%) thanks to a greater penetration of the car dealer channel and on-line in China and a broadening of the product range in Europe.

In **Standard Car** (≤17'') the reduction of volumes in the third quarter was -11.4%, more pronounced than the market's (-8.2%), with the exception of South America where Pirelli earned market share in the Replacement channel (Pirelli volumes +2.8% compared with market's -15.7%) taking advantage of some opportunities which arose from the reduction in import flows.

Profitability

Profitability *(euro millions)*	30/09/2020	% of revenues	30/09/2019	% of revenues	Variation y/y
Adjusted Ebitda	**577.3**	**18.7%**	**978.5**	**24.2%**	**-41.0%**
Ebitda	478.5	15.5%	977.4	24.2%	-51.0%
Adjusted Ebit	**280.4**	**9.1%**	**685.0**	**17.0%**	**-59.1%**
Ebit	95.6	3.1%	597.9	14.8%	-84.0%

Adjusted Ebitda on September 30, 2020 was 577.3 million euro (-41% compared with 978.5 million euro in the same period in 2019). Adjusted ebitda includes indirect industrial costs linked to the Covid emergency for a total of 86.7 million euro, of which 78.8 million euro related to the slowdown linked to the temporary closure of some production facilities and, more generally, reduced plant utilization during the nine months (impact of the slowdown -8.2 million euro in the third quarter). These indirect costs include the benefits from social safety nets and the benefits stemming from Covid-19 cost-cutting action relative to the group's industrial costs.

Ebitda, at 478.5 million euro (977.4 million euro in the first nine months of 2019), includes direct operating costs linked to the Covid-19 emergency of 32.6 million euro born mainly for the acquisition of personal protective equipment, as well as the cost of semi-finished products which went unused - because of the sudden factory closures - as no longer suitable for production.

Adjusted Ebit was 280.4 million euro (685.0 million euro in the first nine months of 2019) and reflects the sharp fall in demand in the first half and the consequent impact of the slowdown. The profitability trend saw a marked improvement in the **third quarter** with Adjusted Ebit at 213.7 million euro (244.5 million euro in the third quarter of 2019) and a margin of 16.7% (17.7% in the third quarter in 2019).

In both the first nine months of the year and the third quarter, efficiency actions and the costs' reduction program linked to the Covid-19 emergency, contributed to the containment of the impacts of the external context (very weak demand, slowdown, exchange rate volatility and cost inflation of production factors).

In detail in the first nine months:

- The Costs' Competitiveness program generated structural efficiencies of 108.8 million euro (3.5% of revenues) offsetting the inflation of the costs of production factors (-36.3 million euro), forex impact (-34.9 million euro) and the impact of raw materials (-19.8 million euro because of the depreciation of the main currencies of the countries where the group produces). The efficiencies mainly regarded product costs (optimization of specifications and rationalization of components), organization (re-engineering of processes) and SG&A costs (strict control of general expenses);
- The costs' reduction plan linked to the Covid emergency, of 90 million euro, more than compensated for the impact of the slowdown (-78.8 million euro, equal to about 88% of the

approximately 90 million estimated for 2020). The costs' reduction actions regarded discretionary costs (SG&A), revision of marketing and communication activities, re-negotiation of contracts with suppliers, prioritization of R&D investments and efficiencies in the distribution channel;
- The impact of price/mix was positive for 21.4 million euro;
- In conclusion, the impact of volumes was negative (-354.6 million euro), amortizations (-22 million euro) and other costs (-78.7 million euro, of which -41 million non-monetary) linked to the transformation process (digitalization, R&D and cyber), the increase of credit provisions and other non-monetary costs linked to the significant reduction of inventories of finished products in the second and third quarters.

In particular in the **third quarter**, internal levers such as price/mix (14.4 million euro), efficiencies (45 million euro) and actions on costs (28.6 million euro) contributed to reducing the impact of the external context (volumes -22.4 million euro, inflation -13.5 million, slowdown -8.2 million, forex impact -18.4 million, raw materials' cost increase -5 million) and the already mentioned increase in amortizations (8 million euro) and other costs (-43.3 million euro of which -15 million non-monetary).

Ebit was positive 95.6 million euro and includes:
- Amortizations of intangible assets in the context of PPA of 86.0 million euro (in line with the first nine months of 2019);
- one-off, non-recurring, restructuring and other charges were 66.2 million euro (72.9 million euro in the first nine months of 2019) mainly relating to actions to rationalize structures, as well as the adjustment of the value of some pension funds in the in UK in the context of the completion of the buy-out operation which took place in July of 2020 (9 million euro) and the retention plan approved by the Board of Directors on February 26, 2018 for 6 million euro (5.1 million euro in the first nine months of 2019);
- Direct costs linked to the Covid-19 emergency of 32.6 million euro mainly stemming from costs born for the acquisition of personal protective equipment, as well as costs relative to semi-finished products, which went unused because of the sudden plant closures, as no longer suitable for production.

Net result and Net financial position

The **result from shareholdings** was negative 6.1 million euro, compared with +1.4 million euro in the first nine months of 2019.

The **net financial charges** amounted to 113.3 million euro compared with 75.2 million euro in the same period in 2019, a sum positively impacted by non-recurring factors linked to fiscal credits in Brazil. Excluding these extraordinary components, financial charges in the first nine months of 2019 were 175.8 million euro. Compared with this figure, financial charges in the first nine months of 2020 were lower by 62.5 million euro, mainly because of a reduction in the cost of debt and lower impacts stemming for hyperinflation in Argentina.

The cost of debt on an annual basis (calculated as the average of the last 12 months) stood at 1.99% against 2.83% on December 31, 2019.

The first nine months of 2020 saw **fiscal income** of 6.0 million euro compared with a pretax loss of 23.8 million euro with a tax rate that stood at 25%, in line with the expected tax rate for 2020. On the other hand, the first nine months of 2019 saw **fiscal charges** of 138.4 million euro compared with a pretax profit of 524.1 million euro (tax rate 26.4%).

The **net result** in the **first nine months** was -17.8 million euro compared with +385.7 million euro for the same period of 2019. The **net result** in the **third quarter** was positive 83.9 million euro, an increase of 6.6% compared with +78.7 million euro in the third quarter of 2019.

The **net financial position** was negative 4,252.5 million euro compared with -3,507.2 million euro on December 31, 2019 and -4,264.7 million euro on June 30, 2020.

On September 30, 2020 the liquidity margin stood at 1,849.8 million euro and consists of 700 million euro in unused committed credit lines and 1,115.6 million euro relative to liquid availabilities as well as financial activities at fair value booked in the income statement at 34.2 million euro.

The **liquidity margin** of 1,849.8 million euro guarantees coverage of debt maturities until the end of the first half of 2023 also thanks to the company's right to extend bank debt maturing in 2021 (242 million euro) and in 2022 (1,683 million euro) respectively to 2022 and 2024.

The **net cash flow** was negative 745.3 million euro compared with -628.9 million euro in the first nine months of 2019 (-805.8 million euro including dividends distributed in 2019). Lower investments (capex and financial investments in shareholdings) and the improvement of the management of net working capital mitigated the impact of the operational performance.

In detail, the **net cash flow from operations management** in the first nine months was negative 493.3 million euro (-252.1 million euro in the first nine months of 2019) and reflects:

- Tangible and intangible investments (Capex) of 106.1 million euro (242.3 million euro in the first nine months of 2019). The investments were mainly earmarked for High Value activities and the constant improvement of the mix and quality in all the factories;
- Increases in usage rights of 62.2 million euro stemming from the application of the IFRS 16 accounting principle and relating to new leasing contracts signed in the first nine months of 2020;
- The variation of working/other capital that absorbed 902.3 million euro in cash. This figure is a marked reduction compared with the first nine months of 2019 (-962.7 million euro) also because of the actions taken in the second and third quarters to reduce raw material and finished products inventories.

On September 30, 2020, total inventories was equal to 18.8% of revenues (figure for the last 12 months), a reduction of around two basis points compared with 20.8% on September 30, 2019 and a reduction of around 3.7 basis points compared with 22.5% on March 31, 2020.

In the **third quarter of 2020, the net cash flow** was +12.2 million euro, compared with +11.6 million euro in the third quarter of 2019 and reflects:

- The recovery of the business, with an Adjusted Ebitda getting close to the values of the third quarter of 2019;
- Reduction in investments compared with 2019 levels, in line with the year-end operating targets;
- Management of working capital/other which saw a marked increase in commercial credits (22% of sales in the first nine months, 14% in the first half) because of the recovery of sales in the third quarter and which will be received in the fourth quarter of the year. The increase in commercial credits was in part offset by the significant reduction in inventories, above all in the Car business (reduction in the quarter -1.1 million pieces).
- A decrease in financial charges and taxes paid, which offset greater restructuring/other costs.

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2020 Outlook

Data in euro billions	August 2020	FY2020
Revenues	~4.15-4.25	~4.18-4.23
Volumes	~-18%-20%	~-17%-18%
High Value Volumes	~-14%	*~ -11%*
Of which Car ≥ 18''	~ -13%	*~ -10%*
Standard Volumes	*~-26%*	*~-25%*
Price/Mix	~+2%	~ +1.5%
Exchange rates	~-4%	~-5%
Adjusted Ebit Margin	~12%-13%	~11.5%-12%
CapEx	~0.13	~ 0.14
Net cash flow before dividends *	~0.19-0.22	~ 0.19-0.22
Net financial position	~ -3.3 (no dividends)	~ -3.3 (no dividends)

**Target in the lower part of the range in case payment of EU sanction relative to the cables cartel takes place before 31/12/2020*

Pirelli has updated the 2020 outlook for the overall market, assuming an improvement in demand compared with previous indications, driven mainly by Original Equipment in Apac and North America, while taking a cautious view on Europe because of the recent introduction of new anti-Covid restrictions following the resurgence of the pandemic.

The new outlook foresees a decline of the car market in 2020 of -17% (previous indication -19%) with a fall in Original Equipment of -18% (from -23%) and of -16% in the Replacement channel (previous indication -18%). The **Car New Premium** market **(≥18'')** is confirmed as the most resilient segment: expected at -10% (previous indication -13%) compared with -18% in Car Standard (≤17'') (previous indication -20%).

Based on this scenario, Pirelli foresees a decline in volumes for the group (Car + Moto) of between around -17% and -18% (previous indication between about -18% and about -20%):

- High Value volumes at -11% (from -14%), with Car New Premium volumes (≥18'') at -10% (previous indication -13%)
- Standard at -25% (from previous indication of -26%).

The price/mix is expected now to be around +1.5% (previous target around + 2%) which reflects:

- A more positive performance in Original Equipment in the second half, in line with the recovery in car production;
- A more cautious outlook on Europe, particularly in the Replacement channel, following the recent restrictions.

The impact of exchange rates is expected to be about -5% (previous indication about -4%) following the appreciation of the euro against the main currencies in the second half of the year.

Consequently, **revenues** are now expected to be between approximately 4.18 and approximately 4.23 billion euro (previous target between approximately 4.15 and approximately 4.25 billion euro).

The targets of the “Costs’ Competitiveness Plan” and the “Covid Actions” cost containment plan are confirmed for a total of 140 million euro net.
The **Adjusted Ebit margin** is expected to be between about 11.5% and about 12% (previous target between about 12% and about 13%) because of:

- The changed external context with a worsening of exchange rates which also impact the cost of raw materials (the latter now expected at -15 million euro compared with -10 million euro)
- The increase of other costs (from -70 to -90 million euro), in part non-monetary – linked to the significant reduction of inventories of finished products in the third quarter – and the greater costs of sponsorships and lower proceeds from the sale of raw materials and services.

The target for **net cash generation** confirmed at between about 190 and about 220 million euro. The expected improvement in the management of working capital because the greater than expected reduction of inventory, in fact, will offset lower profitability. It should be noted that no economic impact is expected from the sentence of the EU Court of Justice regarding the power cables cartel (the company having already made the relative provisions in the past in its risk and charges funds). If that payment were to take place before December 31, 2020, the target for net cash generation would be confirmed in the lower part of the range.

The **Net Financial Position** confirmed at about -3.3 billion euro at the end of 2020.

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In the periodic review of the internal procedure in matters of operations with related parties, the Board of Directors – with the unanimous opinion of the Committee for Operations with Related Parties – confirmed without modification the Procedure for Operations with Related Parties last approved on November 6, 2017, reserving to carry out a subsequent reassessment of the same in light of modifications to the Consob regulation which will be adopted by the Supervisory Authority in implementation of changes to the European directive on shareholders (cd. “*Shareholders’ rights directive II*”). The Procedure is published on the Company’s website www.pirelli.com. In conclusion, the Board of Directors took stock of the resignation from his role as a member of the Compliance Supervisory Board (“CSB”) tendered by Mr. Maurizio Bonzi, and decided not to proceed with his substitution reducing the number of members of the CSB from four to three.

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Significant events after the end of the quarter

On **October 28, 2020,** Pirelli announced that the sentence of the EU Court of Justice - which confirmed the prior decisions of the EU Tribunal and EU Commission with regard to the investigation into a cartel in the power cables market - will have no economic impact on the company. As already announced, the company has already made the opportune provisions in its risks and charges funds for the potential liabilities relating to these proceedings. From the financial point of view, should the fine be paid by December 31, 2020, the target for the Net Cash Flow announced to the market on August 5 (Net Cash Flow between approximately +190 and approximately +220 million euro), would be respected in the lower part of the range. It should be remembered that in 2014 the EU Commission had, among other things, sentenced Prysmian, and Pirelli jointly and severally with the latter, to the payment of a monetary fine of 67,310,000 euro and, in this regard, Pirelli had already deposited in favor of the EU Commission a bank guarantee of 33,655,000 euro plus interest. Since 2014, it should be noted, there has been a case brought by Pirelli pending before the Milan Court of First Instance to obtain a declaration that Prysmian has an obligation to hold Pirelli fully relieved of any claim related to the cartel, including but not limited to, the fine issued by the EU Commission.

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Conference call

The results through September 30, 2020 will be presented today, November 11, 2020, at 6.30 pm in a conference call with the participation of the Executive Vice Chairman and CEO of Pirelli & C. SpA, Marco Tronchetti Provera, and the top management. Journalists will be able to follow the presentation by telephone, without the possibility of asking questions, by calling **+39 02 805 88 27.** The presentation will also be webcast – in real time – at www.pirelli.com in the Investors section, where slides can also be consulted.

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The report for the nine months through September 30, 2020 will be available to the public today at the Company's legal headquarters, as well as being published on the Company's website (www.pirelli.com) and on the eMarket Storage mechanism (www.emarketstorage.com).

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The Manager Responsible for the preparation of the company accounting documents for Pirelli & C. S.p.A., Dr Francesco Tanzi, declares in accordance with paragraph 2 of article 154 bis of the Testo Unico della Finanza that the accounting information contained in the present press release complies with the accounting books and records.

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Pirelli – Financial data as at 30 September 2020

(in millions of euro)	1/1 - 09/30/2020	1/1 - 09/30/2019
Net sales	**3.093,8**	**4.036,4**
EBITDA adjusted (°)	**577,3**	**978,5**
% of net sales	18,7%	24,2%
EBITDA (°°)	**478,5**	**977,4**
% of net sales	15,5%	24,2%
EBIT adjusted	**280,4**	**685,0**
% of net sales	9,1%	17,0%
Adjustments: - amortisation of intangible assets included in PPA	(86,0)	(86,0)
- non-recurring, restructuring expenses and other	(66,2)	(72,9)
- income from Brazilian tax credits	-	71,8
- COVID-19 direct costs	(32,6)	-
EBIT	**95,6**	**597,9**
% of net sales	3,1%	14,8%
Net income/(loss) from equity investments	(6,1)	1,4
Financial income/(expenses) (°°)	(113,3)	(75,2)
- of which financial income from Brazilian tax credits	-	*100,6*
Net income/(loss) before tax	**(23,8)**	**524,1**
Tax income/(expenses)	6,0	(138,4)
Tax rate %	25,0%	26,4%
Net income/(loss)	**(17,8)**	**385,7**
Eanings/(loss) per share (in euro per share)	(0,02)	0,37
Net income/(loss) adjusted	115,2	380,3
Net income/(loss) attributable to owners of the Parent Company	(23,5)	372,7

(°) Adjustments refers to one-off, non recurring and restructuring expenses to the amount of euro 60.2 million (euro 67.8 million for first nine months of 2019), expenses relative to the retention plan approved by the Board of Directors on February 26, 2018 to the amount of euro 6.0 million (euro 5.1 million for first nine months of 2019), and COVID-19 direct costs to the amount of euro 32.6 million. For first nine months of 2019 it had also included income from Brazilian tax credits to the amount of euro 71.8 million.

(°°) The item includes the impacts deriving from the application of the accounting standard IFRS 16 - Leases to the amount of euro +77.6 million on EBITDA (euro +77.8 million in first nine months of 2019) and euro -16.6 million on financial expenses (euro -18.0 million in first nine months of 2019).

Pirelli – Balance sheet data as at 30 September 2020

(in millions of euro)	09/30/2020	12/31/2019	09/30/2019
Fixed assets related to continuing operations	**8.908,8**	**9.469,8**	**9.436,7**
Inventories	824,7	1.093,8	1.103,5
Trade receivables	949,1	649,4	976,2
Trade payables	(808,4)	(1.611,5)	(1.146,7)
Operating working capital related to continuing operations	**965,4**	**131,7**	**933,0**
% of net sales (*)	22,0%	2,5%	17,6%
Other receivables/other payables	50,8	81,0	230,6
Net working capital related to continuing operations	**1.016,2**	**212,7**	**1.163,6**
% of net sales (*)	23,2%	4,0%	21,9%
Net invested capital held for sale	-	-	0,8
Net invested capital	**9.925,0**	**9.682,5**	**10.601,1**
Equity	**4.403,9**	**4.826,6**	**4.742,4**
Provisions	1.268,6	1.348,7	1.378,5
Net financial (liquidity)/debt position	**4.252,5**	**3.507,2**	**4.480,2**
Equity attributable to owners of the Parent Company	4.306,3	4.724,4	4.650,4
Investments in tangible and intangible assets (CapEx)	106,1	390,5	242,3
Increases in rights of use	62,2	51,2	25,7
Research and development expenses	143,5	232,5	173,2
% of net sales	4,6%	4,4%	4,3%
Research and development expenses - High Value	135,2	215,7	160,0
% of sales High Value	6,1%	6,1%	5,9%
Employees (headcount at end of period)	30.154	31.575	31.724
Industrial sites (number)	19	19	19

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

Financial statement

(in millions of euro)	1Q		2Q		3Q		cumulative at 09/30	
	2020	2019	2020	2019	2020	2019	2020	2019
EBIT adjusted	141,1	219,2	(74,4)	221,3	213,7	244,5	280,4	685,0
Amortisation and depreciation (excluding PPA amortisation)	103,1	96,5	98,1	99,1	95,7	98,0	296,9	293,6
Investments in tangible and intangible assets (CapEx)	(56,6)	(78,0)	(24,8)	(89,7)	(24,7)	(74,6)	(106,1)	(242,3)
Increases in rights of use	(22,9)	(3,2)	(24,1)	(14,0)	(15,2)	(8,5)	(62,2)	(25,7)
Change in working capital / other	(861,2)	(836,0)	131,9	10,1	(173,0)	(136,8)	(902,3)	(962,7)
Operating net cash flow	**(696,5)**	**(601,5)**	**106,7**	**226,8**	**96,5**	**122,6**	**(493,3)**	**(252,1)**
Financial income / (expenses)	(32,5)	(48,1)	(40,6)	38,1	(40,2)	(65,2)	(113,3)	(75,2)
Reversal of financial income from tax credits in Brazil	-	-	-	(99,8)	-	(0,8)	-	(100,6)
Taxes paid	(31,4)	(30,1)	(22,4)	(45,9)	(16,2)	(37,4)	(70,0)	(113,4)
Cash Out for non-recurring, restructuring expenses and other	(20,7)	(16,0)	(28,2)	(17,9)	(42,4)	(7,4)	(91,3)	(41,3)
Dividends paid to minorities	-	-	-	(8,9)	-	-	-	(8,9)
Differences from foreign currency translation / other	27,6	-	(19,5)	(19,8)	14,5	(0,2)	22,6	(20,0)
Net cash flow before dividends, extraordinary transactions and investments	**(753,5)**	**(695,7)**	**(4,0)**	**72,6**	**12,2**	**11,6**	**(745,3)**	**(611,5)**
(Acquisition) / Disposals of investments	-	(17,2)	-	(0,2)	-	-	-	(17,4)
Net cash flow before dividends paid by the Parent	**(753,5)**	**(712,9)**	**(4,0)**	**72,4**	**12,2**	**11,6**	**(745,3)**	**(628,9)**
Dividends paid by the Parent Company	-	-	-	(176,9)	-	-	-	(176,9)
Net cash flow	**(753,5)**	**(712,9)**	**(4,0)**	**(104,5)**	**12,2**	**11,6**	**(745,3)**	**(805,8)**

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

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

- **EBITDA:** is equal to the EBIT but which excludes the depreciation and amortisation of property, plant and equipment and intangible assets. The EBITDA is used to measure the ability to generate earnings, excluding the impacts deriving from investments;
- **EBITDA adjusted:** is an alternative measure to the EBITDA which excludes non-recurring, restructuring and one-off expenses, Covid-19 direct costs, and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBITDA margin:** is calculated by dividing the EBITDA by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency, excluding the impacts deriving from investments;
- **EBITDA margin adjusted:** is calculated by dividing the EBITDA adjusted by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency, excluding the impacts deriving from investments, operating costs attributable to non-recurring, restructuring and one-off expenses, Covid-19 direct costs, and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBIT:** is an intermediate measure which is derived from the net income/(loss) but which excludes the net income/(loss) from discontinued operations, taxes, financial income, financial expenses and net income/(loss) from equity investments. The EBIT is used to measure the ability to generate earnings, including the impact arising from 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:** this is calculated by dividing the EBIT by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency;
- **EBIT margin adjusted:** this is calculated by dividing the EBIT adjusted by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency excluding the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring, restructuring and one-off expenses, Covid-19 direct costs, and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **Net income/(loss) adjusted;** this is calculated by excluding the following items from the net income/(loss) related to continuing operations;
    - 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 related to continuing operations:** this measure is constituted of the sum of the financial statement items, *"Property, plant and equipment", "Intangible assets", "Investments in Associates and Joint Ventures", "Other financial assets at fair value through other Comprehensive Income"* and *"Other financial assets at fair value through the Income Statement".* Fixed assets related to continuing operations represents non-current assets included in the net invested capital;
- **Operating working capital related to continuing operations:** this measure is constituted by the sum of the items, *"Inventories", "Trade receivables"* and *"Trade payables";*
- **Net working capital related to continuing operations:** this measure is constituted by the operating working capital, and other receivables and payables, and the derivative financial instruments not included in the net financial position. The measure represents short-term assets and liabilities included in Net Invested Capital, and is used to measure short-term financial stability;
- **Net invested capital held for sale:** this measure is constituted by the difference between *"Assets held for sale"* and *"Liabilities held for sale";*
- **Net invested capital:** this measure is constituted by the sum of (i) fixed assets related to continuing operations, (ii) net working capital related to continuing operations, and (iii) net invested capital assets held for sale. Net invested capital is used to represent the investment of financial resources;
- **Provisions:** this measure is constituted by the sum of *"Provisions for liabilities and charges (current and non-current)"*, "*Employee benefit obligations (current and non-current)*" and "*Provisions for deferred taxes*". The item provisions represents the total amount of liabilities due to obligations of a probable but uncertain nature;
- **Net financial debt:** this is calculated pursuant to the CONSOB Communication dated July 28, 2006, and in compliance with ESMA/2013/319 Recommendations. Net financial debt represents borrowings from banks and other financial institutions net of cash and cash equivalents, other financial assets at fair value through the Income Statement, current financial receivables (included in the Financial Statements under *"Other receivables"*) and, current derivative financial instruments included in the net financial position (included in the Financial Statements under current assets as *"Derivative financial instruments"*);
- **Net financial (liquidity)/debt position:** this measure represents the net financial debt less the *"Non-current financial receivables"* (included in the Financial Statements under *"Other receivables")* and non-current derivative financial instruments included in the net financial position (included in the Financial Statements under non-current assets as *"Derivative financial instruments"*). Total net financial position is an alternative measure to net financial debt which includes non-current financial assets;
- **Operating net cash flow:** this is calculated as the change in the net financial position relative to operations management;
- **Net cash flow before dividends,extraordinary transactions and investments:** this is calculated by adding the change in the net financial position due to financial and tax management, to the operating net cash flow;
- **Net cash flow before dividends paid by the Parent company:** this is calculated by adding the change in the net financial position due to extraordinary transactions and the management of investments, to net cash flow before dividends and extraordinary transactions/investments;
- **Net cash flow:** this is calculated by adding the change in the net financial position due to the payment of dividends by the Parent company, to net cash flow before dividends paid by the Parent company;
- **Investments in tangible and intangible assets (CapEx):** this is calculated as the sum of investments (increases) in intangible assets, and investments (increases) in property, plant and equipment excluding any increases relative to the rights of use;
- **Increases in Rights of Use:** this is calculated as the increases in the rights of use relative to lease contracts;
- **Impact of depreciation on investments:** is calculated by dividing the investments (increases) in property, plant and equipment with the depreciation for the period. The ratio of investments to depreciation is used to measure the ability to maintain or restore amounts for tangible fixed assets.

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