PRESS RELEASE

PIRELLI: CONTAINS COVID-19 EFFECTS, ADJUSTED EBIT POSITIVE 66.7 MILLION

EFFICIENCIES AND COST REDUCTIONS, IN LINE WITH YEAR'S TARGETS, LIMITED COVID-19 IMPACT ON HALF YEAR RESULTS

CASH ABSORPTION SUBSTANTIALLY ZERO IN THE 2nd QUARTER THANKS TO SIGNIFICANT REDUCTION OF INVENTORIES

The Pirelli & C. S.p.A. Board of Directors approved the 30 June 2020 consolidated results

- Revenues: 1,816.4 million euro, down 31.6% compared to 30 June 2019 (-28.5% the organic variation) due to the strong reduction in demand and foreign exchange volatility, while the price mix improves

- Adjusted Ebit: 66.7 million euro thanks to the contribution of efficiencies and cost containment actions that limited the impact of the reduction in demand and the slowdown (440.5 million euro in the first half of 2019)

- Total net result: -101.7 million euro (+307 million euro in the first half of 2019)

- Net cash flow: -757.5 million euro (-817.4 million euro in the first half of 2019, -640.5 million euro net of dividends distributed in 2019)

- Net financial position: -4,264.7 million euro substantially unchanged compared to -4,261 million euro as at 31 March 2020

- Liquidity Margin: 2,174.1 million euro as at 30 June 2020, the maturities on financial debt guaranteed for approximately 3 years

2020 TARGETS

- Main operational drivers confirmed: volumes, Price/Mix, efficiencies and cost cutting
- Revenues expected between about 4.15-4.25 billion euro (previous indication around 4.3-4.4 billion euro) as a consequence of greater exchange rate volatility
- Adjusted ebit margin expected at around 12%-13% (previous indication around 14%-15%) impacted by exchange rates, raw materials and increases in other costs, predominantly non-monetary
- Investments confirmed at around 130 million euro
- Cash generation expected between about 190 and 220 million euro (previous indication around 230-260 million euro)
- Net financial position confirmed at about -3.3 billion euro

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- Angelos Papadimitriou coopted to Board of Directors

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Milan, 5 August 2020 - The Board of Directors of Pirelli & C. Spa met today and approved the results as at 30 June 2020.

In the first half of 2020, the tyre sector was also strongly impacted by the Covid-19 emergency globally and by the related lockdown measures, with a general worsening of the economic conditions, a decrease in consumption and production. The demand for car tyres in the first half recorded a decline of 28% of volumes, more marked in the second quarter (-36%) due to the spread of the pandemic. The experience gained in China, where production and commercial activities have returned to normal in recent months, enabled Pirelli to respond promptly to the profound change of scenario at a global level, defining an action plan communicated to the market in April.

This plan, previously outlined to the financial community and whose first benefits are already visible in the first half of the year, envisages a series of actions intended to:

- guarantee the health and safety of its employees by adopting all the necessary prevention measures;
- protect profitability and cash flow generation through cost containment and remodelling of investment programmes;
- reinforce the financial structure. The signing of a new "sustainable" banking line for 800 million euro (over 5 years) and, in general, the optimisation of the financial structure by extending the maturities on debt is included as part of this operation;
- launch the recovery through the gradual reopening of the plants, collaborate with the sales network (for example in the adoption of health standards and in the digitisation of services), simplify the product range with greater focus on Speciality products and ≥19 inch rim products.

Pirelli's results in the first half of 2020 are characterised by:

- **revenues** of 1,816.4 million euro, declining by 31.6% compared to the first half of 2019 (-28.5% the organic variation) due to the aforementioned decrease in demand. The **High Value revenues** were 70.8% of the total (+3.5 percentage points compared to 67.3% in the first half of 2019);
- **profitability (adjusted Ebit)** positive for 66.7 million euro (440.5 million in the first half of 2019). This figure reflects the negativity of the second quarter (Adjusted Ebit -74.4 million euro) due to the sharp drop in demand and the impact of the slowdown;
- **Total net result** of -101.7 million euro, with a second quarter negative for 140.2 million euro. The adjusted net result (excluding non-recurring and restructuring charges and others, direct costs related to Covid-19 and the amortization of intangible assets included in the PPA) was equal to -13.4 million euro;
- **net cash flow** of -757.5 million euro compared to -817.4 million in the first half of 2019 (-640.5 excluding the dividends distributed in 2019). Lower investments (CapEx and financial investments in equity investments) and improvement in the management of net working capital mitigated the impact of the decreased operating performance. The cash absorption in the second quarter of the year was substantially zero (-4 million euro), mainly related to the significant reduction of inventories;
- The **Net Financial Position** as at 30 June 2020 was negative for 4,264.7 million euro (-3,507.2 as at December 2019, substantially unchanged compared to 4,261.0 million euro as at 31 March 2020);
- **liquidity margin** of 2,174.1 million euro, with maturities on debt guaranteed for approximately 3 years also thanks to the right of the company to extend the bank debt with due date 2021 (for 253 million euro) and 2022 (for 1,747 million euro), to 2022 and 2024 respectively.

Cost competitiveness Plan and actions to combat Covid-19 in line with estimates

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

- the "cost competitiveness plan" (cost of the product, manufacturing, organisation and SG&A), contributes for approximately 160 million euro, 110 million euro of benefits net of inflation (whose impact is confirmed at -50 million euro);

- the "Covid Actions" cost containment plan, including short-term actions on SG&A, marketing and communication, manufacturing and R&D, contributes for approximately 120 million, 30 million euro net of the productive slowdown whose impact is confirmed at -90 million euro).

In the first half of 2020, in line with the forecasts, the gross benefits of the two plans were 45% of the expected efficiencies for 2020, for 126 million euro overall (the net benefits approximately 32 million euro) of which:

- approximately 64 million euro deriving from the Competitiveness Plan (the benefits net of inflation approximately 41 million euro, equal to -23 million euro)
- approximately 62 million euro deriving from the "Covid Actions" (effect of approximately -9 million net of the impact of the slowdown that, at end of June, stands at -71 million euro).

Sales

Revenue (*millions of euro*)	30/06/2020	% of total	30/06/2019	% of total	Variation y/y	Variation y/y organic
High Value	1,285.7	70.8%	1,787.6	67.3%	-28.1%	-27.8%
Standard	530.7	29.2%	867.2	32.7%	-38.8%	-29.9%
Total	**1,816.4**	**100%**	**2,654.8**	**100%**	**-31.6%**	**-28.5%**

Revenues totalled 1,816.4 million euro, with a decline of 31.6% compared to the first half of 2019. Excluding the exchange rate effect and the adoption of the IAS 29 accounting standard to take account of high inflation in Argentina (for an overall impact of -3.1%), the organic change in revenues was equal to -28.5%.

Revenue variants			30/06/2020
Volumes			-29.5%
	o/w High Value	*-24.7%*	
	o/w Standard	*-35.4%*	
Price/Mix			+1.0%
Exchange rate/IAS 29 Argentina			-3.1%
Total variations			-31.6%

High Value revenues, equal to 1,285.7 million euro, registered a drop of 28.1% compared to the same period of 2019, due to the general decrease in demand following the implementation of lockdown measures in the main High Value markets. The incidence of High Value revenues on total sales grew by 3.5 percentage points to 70.8% compared to 67.3% in the first half of 2019.

The trend of **overall volumes** (-29.5% in the first half of 2020) reflects the decrease in demand (Car market -28.4%, motorcycle market -19%) which in particular concerned the **Standard** segment (Pirelli volumes -35.4%) and to a lesser extent, the **High Value** segment (Pirelli volumes -24.7%).

Car New Premium volumes **(≥18 inches)** decreased by 24% (substantially in line with the market, equal to -23.5%). Performances per channel in Car New Premium differed:

- in Original Equipment Pirelli recorded a drop in volumes of 26% (market -31.4%) thanks to the diversification of the customer portfolio, also following new contracts in North America and APac, already started in the second half of 2019;
- in the Replacement channel, Pirelli recorded a drop in volumes of 24% (market -18%) due to the reduction in inventory levels, started in the first quarter, with the main distribution partners in Europe and North America. In the second quarter in particular, the decline in volumes (-29%) was more in line with that of the market (-26%), thanks to the performance of Europe - where

the de-stocking activity ended in April - and of APac where Pirelli increased its market share in China. On the other hand, the de-stocking activity continues in North America, where sales were affected by the lockdown measures that most affected those countries with a high presence of Premium and Prestige cars.

The reduction was more marked in the Car Standard segment (-35% in the first half of the year, -50% in the second quarter) compared to the market (-29% in the first half of the year, -36% in the second quarter), due to high exposure in Latam, where the decline in sales of products with smaller rim size/profitability and the progressive exit from less profitable mass market channels continues.

The improvement of the price/mix (+1.0%) reflects a different trend between the quarters:

- negative in the first quarter (-1.3%) with a worsening channel mix (due to a more marked decline in Replacement than in Original Equipment), and a temporary drop of the Region mix due to reduced sales in China;
- positive in the second quarter (+3.3%) thanks to the improvement of the channel mix, Region mix (with the recovery of sales in China), and product mix.

The competitive pressure on prices was substantially unchanged during the half-year period, in line with the previous quarters.

Negative foreign exchange impact: -3.1% in the first half of the year, -4.7% in the second quarter due to the strong volatility of the emerging market currencies, principally Latin America and Russia.

Profitability

Profitability (*millions of euro*)	30/06/2020	% of revenues	30/06/2019	% of revenues	Variation y/y
Adjusted Ebitda	**267.9**	**14.7%**	**636.1**	**24.0%**	**-57.9%**
Ebidta	201.7	11.1%	677.9	25.5%	-70.2%
Adjusted Ebit	**66.7**	**3.7%**	**440.5**	**16.6%**	**-84.8%**
Ebit	(56.8)	(3.1%)	425.0	16.0%	-133.6%

The **Adjusted Ebitda** as at 30 June 2020 was 267.9 million euro (-57.9% compared to 636.1 million euro of the corresponding 2019 period). The Adjusted Ebitda includes indirect costs related to the COVID-19 emergency for a total of 83.6 million euro, of which 70.6 million for slowdowns related to the temporary closure of some production plants during the half-year. These indirect costs include the benefits for social safety nets and benefits stemming from Covid-19 cost cutting actions related to the group's industrial costs.

Ebitda, at 201.7 million euro (677.9 million euro in first half 2019), also includes direct operating costs linked to the Covid-19 emergency of 26.4 million euro relative to the costs sustained for the acquisition of personal protective materials as well as costs linked to unusable semi-finished components – resulting from sudden factory closures – as they were no longer suitable for production.

The **Adjusted Ebit** was 66.7 million euro (440.5 million euro in the first half of 2019) with an adjusted Ebit margin of 3.7% (16.6% in the same period of 2019). This figure reflects the negativity of the second quarter (-74.4 million euro) due to the sharp drop in demand and the strong impact of the slowdown. In the half-year, the efficiency actions and the cost reduction programme linked to the Covid-19 emergency helped to contain the impacts of the external scenario (marked weakness of demand, pressure on prices, slowdown, exchange rate volatility and inflation of the cost of production factors).

In detail:

- the Cost Competitiveness programme generated structural efficiencies of 63.8 million euro (3.5% of revenues) offsetting the inflation of the cost of production factors (-22.8 million euro), the exchange rate impact (-16.5 million euro) and the impact of raw materials (-14.8 million euro due to the depreciation of the main currencies in the group's production countries). The

efficiencies mainly concerned the cost of the product (optimisation of specifications and rationalisation of components), organisation (re-engineering of processes) and SG&A costs (strict control of overheads);

- the cost reduction plan linked to the Covid emergency, equal to 61.7 million euro in the first half of the year, almost entirely offset the impact of the slowdown (-70.6 million euro, equal to 80% of the 90 million estimated for 2020). The cost reduction actions concerned discretionary costs (SG&A), review of marketing and communication activities, renegotiation of agreements with suppliers, prioritisation of investments in R&D and efficiencies on the distribution channel;
- price/mix impact positive for 7 million euro (21.9 million in the second quarter);
- Lastly, a negative impact of volumes (-332.2 million euro), of depreciation (-13.8 million euro) and of other costs (-35.6 million euro) linked to the transformation process (digitalisation, R&D and cyber), to the increase of provisions for credits and other non-monetary costs connected to the significant reduction in inventories of finished products in the second quarter.

Ebit was equal to -56.8 million euro (425.0 million euro in the first half of 2019) and includes:

- depreciation of intangible assets identified in PPA for 57.3 million euro (in line with the first half of 2019);
- one-off and restructuring charges for 35.7 million euro (26.8 million in the first half of 2019) mainly related to structure rationalisation;
- charges related to the retention plan approved by the Board of Directors on 26 February 2018 for 4.1 million euro (3.2 million euro in the first half of 2019);
- direct costs linked to the Covid-19 emergency of 26.4 million euro, which include the costs incurred for the purchase of staff protection equipment, as well as costs relative to unusable semi-finished goods – resulting from sudden plant closures – no longer suitable for production.

Net result and Net financial position

The **result from equity investments** was negative for 4.6 million euro, compared to +2.1 million euro in the first half of 2019.

Net financial charges were 73.1 million euro compared to 10 million euro for the same period in 2019, a value that had been positively impacted by the non-recurring effect linked to tax credits in Brazil. Excluding this extraordinary component, the financial charges in the first half of 2019 were 109.8 million euro. Compared with this item, the financial charges in the first half of 2020 decreased by 36.7 million euro, mainly due to a reduction in the cost of debt and reduced impacts deriving from the hyperinflation in Argentina.

The cost of debt on an annual basis (calculated as the average of the last twelve months) stands at 2.22% against 2.83% on 31 December 2019.

The first half of 2020 shows **tax income** of 32.8 million euro against a pre-tax loss of 134.5 million euro with a tax rate of 24.4%, in line with the expected tax rate for the 2020 financial year. In contrast, the first half of 2019 registered **tax income** of 110.1 million euro against pre-tax earnings of 417.1 million euro (tax rate 26.4%).

The **net result** amounted to -101.7 million euro compared to +307.0 million euro of the corresponding 2019 period.

The ***adjusted* net result** (excluding non-recurring and restructuring costs and others, direct costs related to Covid-19 and the amortization of intangible assets included in the PPA) was -13.4 million euro which compares with +255.9 million euro in the corresponding 2019 period.

The **net financial position** is negative for 4,264.7 million euro compared to 3,507.2 million euro as at 31 December 2019, and 4,261 million euro as at 31 March 2020.

At 30 June 2020, the liquidity margin amounted to 2,174.1 million euro and is made up of 700 million euro of unused *committed* credit lines, and of 1,455.2 million euro relating to cash and cash equivalents as well as financial assets at *fair value* recognised in the income statement for 18.9 million euro.

The liquidity margin of 2,174.1 million euro guarantees the coverage of the maturities on debt to banks and others lenders for the next 3 years, also thanks to the right of the company to extend the bank debt due in 2021 for 253 million euro and in 2022 for 1,747 million euro to 2022 and 2024 respectively.

The **net cash flow** is negative for 757.5 million euro compared to -817.4 million euro in the first half (640.5 million the figure excluding the dividends distributed during 2019). The smaller investments (CapEx and financial investments in equity investments) and the improvement in the management of net working capital mitigated the impact of the operating performance. Net cash flow in the **second quarter** of 2020 was almost zero (-4 million euro) thanks to the positive contribution of working capital (131.9 million euro) which offset investments, financial and tax charges and restructuring costs.
In more detail, the **net cash flow from operational management** in the first half of 2020 was negative for 589.8 million euro (-374.7 million euro in the first half of 2019) and reflects:

- tangible and intangible investments (CapEx) for 81.4 million euro (167.7 million euro in the first half of 2019). The investments are mainly intended for *High Value* activities and for the constant improvement of the mix and quality of all the factories;
- increases in rights of use for 47.0 million euro deriving from the application of the IFRS 16 principle and relating to the new *leasing* contracts signed during the first half of 2020;
- the change in working capital/other which absorbed cash for 729.3 million euro. This figure is down sharply compared to the first half of 2019 (-825.9 million euro) also due to the actions taken in the second quarter to reduce inventories by 175 million euro in order to rebalance the level of inventories of raw materials and finished products for the new market scenario. The decrease is mainly linked to the significant reduction in inventories of Car finished products (for over 2 million units, -15% compared to 31 March), partly anticipating the expected reduction in the third quarter. To this decrease is added that of motorcycle finished products (approximately 200,000 units, -7% compared to March).

The overall incidence of inventories at 30 June 2020 is equal to 21.4% of revenues (data for the last 12 months), down by approximately one percentage point compared to 22.3% on 30 June 2019 and 22.5% of 31 March 2020.

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2020 forecasts

Data in euro billions	April 2020	FY2020
Revenues	~4.3-4.4	~4.15-4.25
Volumes	~-18%-20%	~-18%-20%
High Value Volumes	~-14%	*~ -14%*
Standard Volumes	*~-26%*	*~ -26%*
Price/Mix	~+2%	~ +2%
Exchange rates	~-2%	~-4%
Adjusted Ebit Margin	~14%-15%	~12%-13%
CapEx	~0.13	~ 0.13
Cash flow net of dividends	~0.23-0.26	~ 0.19-0.22
Net financial position	~3.3 (no dividends)	~ 3.3 (no dividends)

In a context characterized by growing exchange rate and raw material volatility, Pirelli has updated the targets that communicated on April 3, confirming the main operational drivers:

- volumes in decline by ~18%-20%, with High Value volumes at ~-14% (Car ≥18'' ~-13% in line with the market) and Standard volumes at ~-26%
- Price/Mix at around ~+2%
- Net efficiencies plan at 110 million euro;
- The "Covid Actions" cost containment plan at 120 million euro, 30 million euro net of slowdown.

The expectations for 2020 are:

- **Revenues** between around 4.15 and 4.25 billion euro (previous indication around 4.3 and 4.4 billion euro), as a result of exchange rate impacts, now estimated at about -4% (previous indication ~-2%);
- **Adjusted Ebit Margin** at between around 12% and around 13% (previous indication around 14% and around 15%). The difference compared with the prior estimates is due to:
  - The increase in the cost of raw materials including the impact of exchange rates (impact on Ebit -10 million euro including the depreciation of the main currencies of the countries where the group produces; previous indication +15 million euro)
  - The greater impact of exchange rates (from around -2% to around -4% on revenues)
  - The increase of other costs (from -50 million euro to -70 million euro) mainly for non-monetary items (provisions for credits booked in the second quarter and other costs linked to the reduction of inventories of finished products beginning from the second quarter).
- **Investments** confirmed at around 130 million euro mainly for plant management and mix and quality improvements;
- **Net Financial Position** confirmed at around -3.3 billion euro with net cash generation at around 190-220 million euro (previous indication around 230 -260 million euro) assuming dividends are not distributed.

Update of 2020-2022 Industrial Plan targets
In order to have greater visibility on the macroeconomic scenario in light pf the Covid-19 emergency, Pirelli will update the targets of the 2020-2022 industrial plan in the first quarter of 2021, and not in the fourth quarter of 2020 as previously announced. The date for the targets' presentation will be communicated by the end of the year together with the calendar of company events.

Long Term Incentive plan 2020-2022
Taking the radical changes in the macroeconomic scenario into account, the Board of Directors has mandated the Remuneration Committee to prepare a review proposal for the Long Term Incentive 2020-2022 ("**LTI**") plan, for the part regarding 'Net Cash Flow', aligning the relative target to the new guidance today communicated to the market and the targets of the Industrial Plan for the years 2021 and 2022, which will be announced in the first quarter of 2021. The review will enable the maintaining of the full alignment between the interests of shareholders and management in an LTI plan which sees the confirmation of the targets of relative *Total Shareholders Return* (compared with *tier one peers*) and Pirelli's positioning in selected sustainability indicators at the global level.

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Angelos Papadimitriou co-opted to the Board
The Board of Directors of Pirelli proceeded today with the co-option of Angelos Papadimitriou, replacing professor Carlo Secchi, who resigned as of today, as communicated on July 31, 2020.
Angelos Papadimitriou - who has declared not to be in possession of the independence requirements pursuant to the TUF and the Self-Regulatory Code and that he does not hold any share in the Company - has been qualified by the Board as executive director, as he is General Management of the Company.
The Board also appointed the new Director as a member of the Strategies Committee, increasing the number of its components from seven to eight.
The curriculum vitae of Angelos Papadimitriou is available to the public on the website www.pirelli.com.
In relation to the positions previously held by professor Carlo Secchi within the Board committees, the Board of Directors resolved: (i) as far as the Related Party Transactions Committee is concerned, to appoint Marisa Pappalardo as Chairman and Domenico De Sole as new member; (ii) for the Remuneration Committee, to appoint Marisa Pappalardo as new member and (iii) referring to the Audit, Risks, Sustainability and Corporate Governance Committee, to reduce the number of its members from six to five.

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Significant events after the half-year end

On **23 July 2020** the Pirelli Board of Directors, in line with what was previously anticipated to the market on 15 July 2020, on the proposal of the Executive Deputy Chairman and CEO, Marco Tronchetti Provera and his direct report, constituted the office of General Manager co-CEO, entrusted to Angelos Papadimitriou with effective date 1st August 2020. In order to maximise operational efficacy, the General Manager co-CEO is assigned the executive levers and the general coordination of the support functions necessary for the implementation of the integrated business model and the achievement of business objectives.

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Bond Issues

In conformity with the provisions of the Italian Stock Exchange, it should be recalled that in September 2020 the bond loan placed by Pirelli & C. S.p.A. in the Eurobond market in March 2018, and guaranteed by Pirelli Tyre S.p.A. for an overall nominal amount of 200 million euro, will fall due.

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Conference call

The results as at 30 June 2020 will be illustrated today, 5 August 2020, at 6.30 pm CET during a conference call with the participation of the Executive Deputy Chairman and CEO of Pirelli & C. SpA, Marco Tronchetti Provera, and the top management. Journalists will be able to follow the presentation by telephone, but without the possibility of asking questions, by telephoning **+39 02 805 88 27.** The presentation will also be available via webcasting – in real time – on the website www.pirelli.com in the Investors section, where it will also be possible to consult the slides.

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The half-year financial report as at 30 June 2020 will be available to the public on August 6 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 June 2020

(in millions of euro)	1H 2020	1H 2019
Net sales	**1.816,4**	**2.654,8**
EBITDA adjusted (°)	**267,9**	**636,1**
% of net sales	14,7%	24,0%
EBITDA (°°)	**201,7**	**677,9**
% of net sales	11,1%	25,5%
EBIT adjusted	**66,7**	**440,5**
% of net sales	3,7%	16,6%
Adjustments: - amortisation of intangible assets included in PPA	(57,3)	(57,3)
- non-recurring, restructuring expenses and other	(39,8)	(30,0)
- income from Brazilian tax credits	-	71,8
- COVID-19 direct costs	(26,4)	-
EBIT	**(56,8)**	**425,0**
% of net sales	(3,1%)	16,0%
Net income/(loss) from equity investments	(4,6)	2,1
Financial income/(expenses) (°°)	(73,1)	(10,0)
of which financial income from Brazilian tax credits	-	*99,8*
Net income/(loss) before tax	**(134,5)**	**417,1**
Tax income/(expenses)	32,8	(110,1)
Tax rate %	24,4%	26,4%
Net income/(loss)	**(101,7)**	**307,0**
Eanings/(loss) per share related to continuing operations (in euro per share)	(0,10)	0,30
Net income/(loss) adjusted	(13,4)	255,9
Net income/(loss) attributable to owners of the Parent Company	(103,3)	297,9

(°) Adjustments refer to one-off and restructuring expenses amounting to euro 35.7 million (euro 26.8 million in 1H 2019), expenses relative to the retention plan approved by Board of Directors on 26 February 2018 and amounting to euro 4.1 million (euro 3.2 million in 1H 2019) and COVID-19 direct costs for euro 26.4 million. In 1H 2019 they also included income from Brazilian tax credit amounting to 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 52.8 million on EBITDA (euro 51.7 million in H1 2019) and euro - 11.1 million on financial expenses (euro - 12.0 million in H1 2019).

Pirelli – Balance sheet data as at 30 June 2020

(in millions of euro)	06/30/2020	12/31/2019	06/30/2019
Fixed assets related to continuing operations	**9.067,7**	**9.469,8**	**9.475,2**
Inventories	961,5	1.093,8	1.165,1
Trade receivables	627,9	649,4	862,1
Trade payables	(858,4)	(1.611,5)	(1.200,3)
Operating working capital related to continuing operations	**731,0**	**131,7**	**826,9**
% of net sales (*)	16,3%	2,5%	15,8%
Other receivables/other payables	145,0	81,0	243,7
Net working capital related to continuing operations	**876,0**	**212,7**	**1.070,6**
% of net sales (*)	19,5%	4,0%	20,5%
Net invested capital held for sale	-	-	0,8
Net invested capital	**9.943,7**	**9.682,5**	**10.546,6**
Equity	**4.404,1**	**4.826,6**	**4.663,7**
Provisions	1.274,9	1.348,7	1.391,1
Net financial (liquidity)/debt position	**4.264,7**	**3.507,2**	**4.491,8**
Equity attributable to owners of the Parent Company	4.305,5	4.724,4	4.577,5
Investments in tangible and intangible assets (CapEx)	81,4	390,5	167,7
Increases in rights of use	47,0	51,2	17,2
Research and development expenses	95,0	232,5	124,1
% of net sales	5,2%	4,4%	4,7%
Research and development expenses - High Value	89,6	215,7	114,6
% of sales High Value	7,0%	6,1%	6,4%
Employees (headcount at end of period)	30.521	31.575	31.599
Industrial sites (number)	19	19	19

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

Statement of cash flows

(in millions of euro)	1Q		2Q		1 H	
	2020	2019	2020	2019	2020	2019
EBIT adjusted	141,1	219,2	(74,4)	221,3	66,7	440,5
Amortisation and depreciation (excluding PPA amortisation)	103,1	96,5	98,1	99,1	201,2	195,6
Investments in tangible and intangible assets (CapEx)	(56,6)	(78,0)	(24,8)	(89,7)	(81,4)	(167,7)
Increases in rights of use	(22,9)	(3,2)	(24,1)	(14,0)	(47,0)	(17,2)
Change in working capital / other	(861,2)	(836,0)	131,9	10,1	(729,3)	(825,9)
Operating net cash flow	**(696,5)**	**(601,5)**	**106,7**	**226,8**	**(589,8)**	**(374,7)**
Financial income / (expenses)	(32,5)	(48,1)	(40,6)	38,1	(73,1)	(10,0)
Reversal of financial income from tax credits in Brazil	-	-	-	(99,8)	-	(99,8)
Taxes paid	(31,4)	(30,1)	(22,4)	(45,9)	(53,8)	(76,0)
Cash Out for non-recurring and restructuring expenses / other	(20,7)	(16,0)	(28,2)	(17,9)	(48,9)	(33,9)
Other dividends paid	-	-	-	(8,9)	-	(8,9)
Differences from foreign currency translation / other	27,6	-	(19,5)	(19,8)	8,1	(19,8)
Net cash flow before dividends, extraordinary transactions and investments	**(753,5)**	**(695,7)**	**(4,0)**	**72,6**	**(757,5)**	**(623,1)**
(Acquisition) / Disposals of investments	-	(17,2)	-	(0,2)	-	(17,4)
Net cash flow before dividends paid by Parent Company	**(753,5)**	**(712,9)**	**(4,0)**	**72,4**	**(757,5)**	**(640,5)**
Dividends paid by Parent Company	-	-	-	-	-	(176,9)
Net cash flow	**(753,5)**	**(712,9)**	**(4,0)**	**(104,5)**	**(757,5)**	**(817,4)**

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:** this is calculated by dividing the EBITDA by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency, excluding the impacts deriving from investments;
- **EBITDA margin adjusted:** this is calculated by dividing the EBITDA adjusted by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency, excluding the impacts 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 investment
- **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;
- **Net operating working capital related to continuing operations:** this measure is constituted by the sum of the items, *"Inventories", "Trade receivables"* and *"Trade payables";*
- **Net working capital related to continuing operations:** this measure is constituted by the operating working capital, and other receivables and payables, and the derivative financial instruments not included in the net financial position. This measure represents short-term assets and liabilities included in the net invested capital, and is used to measure short-term financial stability;
- **Net invested capital assets held for sale:** this measure is constituted by the difference between *"Assets held for sale"* and *"Liabilities held for sale"*;
- **Net invested capital:** this measure is constituted by the sum of (i) fixed assets (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 not certain 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 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 flows before dividends and extraordinary transactions/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 flows 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 the rights of use:** this is calculated as the increases in the rights of use relative to lease contracts;

Impact of depreciation on investments: this is calculated by dividing 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 assets.