



# PIRELLI, GLOBAL HIGH VALUE

9M 2017 RESULTS - 6 NOVEMBER, 2017



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The APIs presented herein are [EBIT, EBIT margin, EBITDA, EBITDA margin, net income and net income margin.

In addition, this Presentation includes certain measures that have been adjusted by us to present operating and financial performance net of any non-recurring events and non-core events. The adjusted indicators are EBITDA adjusted, EBITDA adjusted without start up costs, EBIT, EBIT adjusted, EBIT adjusted without start up costs,, net income adjusted.

In order to facilitate the understanding of our financial position and financial performance, this Presentation contains other performance measures, such as Fixed Assets related to continuing operations, Provisions, Operating Working Capital related to continuing operations, Net Working Capital related to continuing operations, Net Financial (liquidity) / debt Position.

These measures are not indicative of our historical operating results, nor are they meant to be predictive of future results.

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# KEY MESSAGES\_



## Pirelli back to the Financial Market as:

- › The **only Consumer Player** focused on **High Value** products at **global** level
  - › **Well placed in an attractive market**, which should **outgrow** the Standard market **4X** in the **long term**
  - › With a **different game than European full-liners** in a **healthy sector** with **high barriers**
- 



## 9M 2017 Results – High Value strategy bearing the first fruits:

- › **Robust growth**: +9% Top line, **High Value at 58%** of total revenues, +2pp YoY
  - › Unparalleled **price/mix** improvement: **+6.5%**, **2x peers average**
  - › **Solid internally driven profitability increase**: EBIT adj. w/o start-up costs: **+10% in 9M, +15% in 3Q**
- 



## 2017 Outlook - Well on-track to 2020 Targets:

- › Increasing **High Value** weight on **EBIT adjusted w/o start-up costs**: **83%**, **+2pp YoY**
- › **Deleveraging underway**: Net Financial Position / EBITDA Adj. w/o start-up costs **<3x** (4.6x in 2016y.e.)

# AGENDA\_

RECAP OF PIRELLI STRATEGY

9M 2017 RESULTS

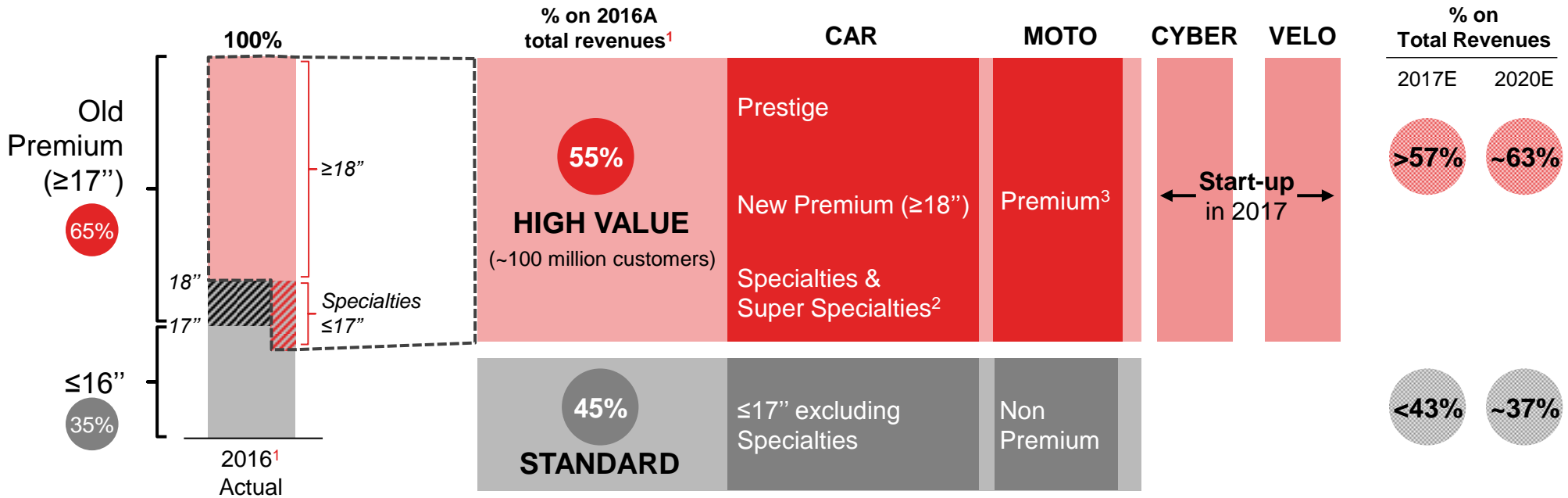
FULL YEAR 2017 OUTLOOK

APPENDIX

# HIGH VALUE: OUR NEW DISTINCTIVE FOCUS\_\_

FROM FOCUS ON PREMIUM...

...TO A NARROWER FOCUS ON "HIGH VALUE"

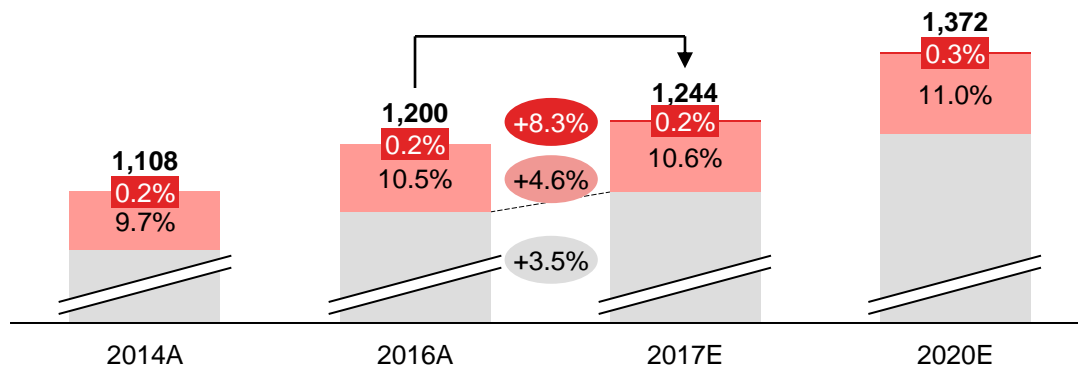


**The Only Tyre Company Focused On Serving Consumers Only**

<sup>1</sup> weight on total consumer business carve-out revenues as at 31<sup>st</sup> December 2016; <sup>2</sup> including motorsport & Specialties ≤17"; <sup>3</sup> Radial, Custom Touring, Off Road and Sport Touring X-ply with speed index ≥H

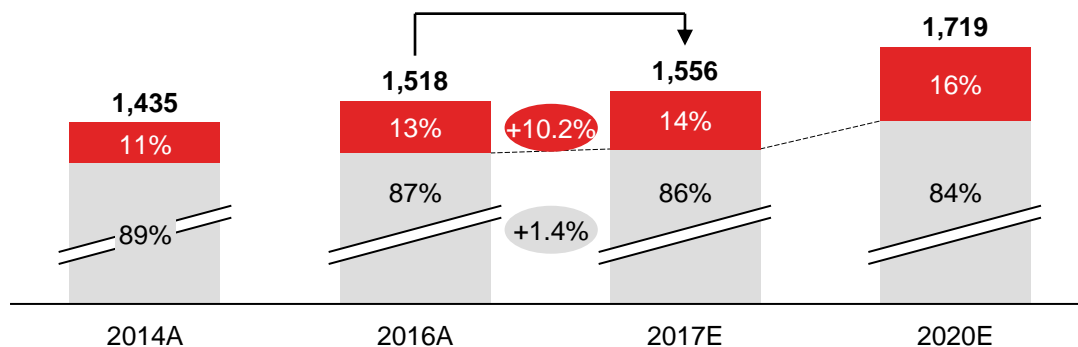
# ATTRACTIVE TYRE MARKET: ≥18" OUTGROWING STANDARD ~4x ON LONG-TERM SUSTAINED BY PREMIUM & PRESTIGE CAR PARC EXPANSION

CAR PARC  
(million vehicles)



	CAGR 14A-16A	CAGR 16A-20E	
Total	+4.1%	+3.4%	
Prestige	+12.5%	+7.8%	
Premium	+8.2%	+4.5%	
Standard	+3.6%	+3.3%	

TYRE MARKET  
(million tyres)



	CAGR 14A-16A	CAGR 16A-20E	
Total	+2.9%	+3.1%	
≥18" New Premium	+13.3%	+9.2%	~4x
≤17" Standard	+1.6%	+2.2%	

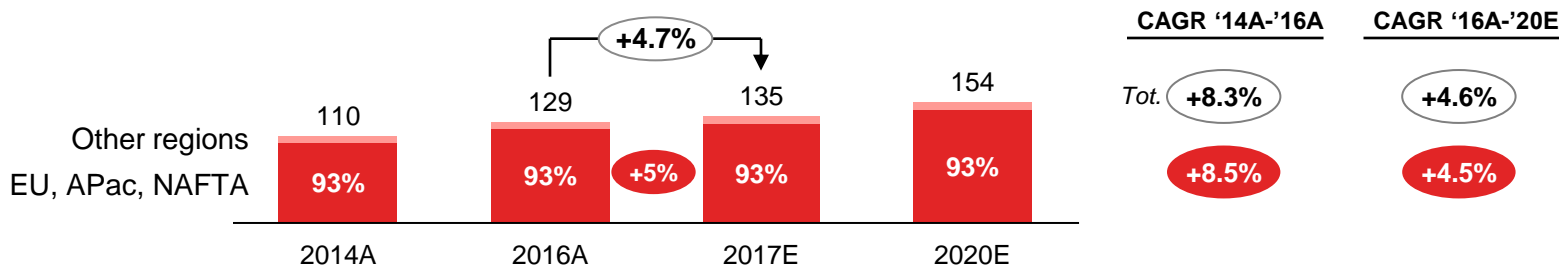
Source: Company elaborations based on third party data relative to car market and on data provided by local associations of tyre producers

# PIRELLI WELL PLACED IN HIGH VALUE MARKETS (EU, APAC & NAFTA) TO KEEP OUTPERFORMING

## PRESTIGE & PREMIUM CAR PARC



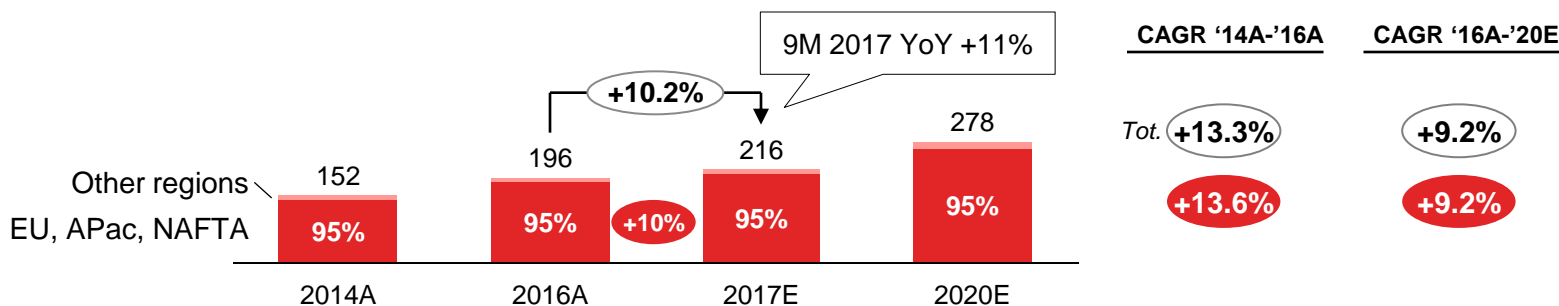
(million vehicles)



## O.E. + REPLACEMENT ≥18" TYRE MARKET



(million tyres)

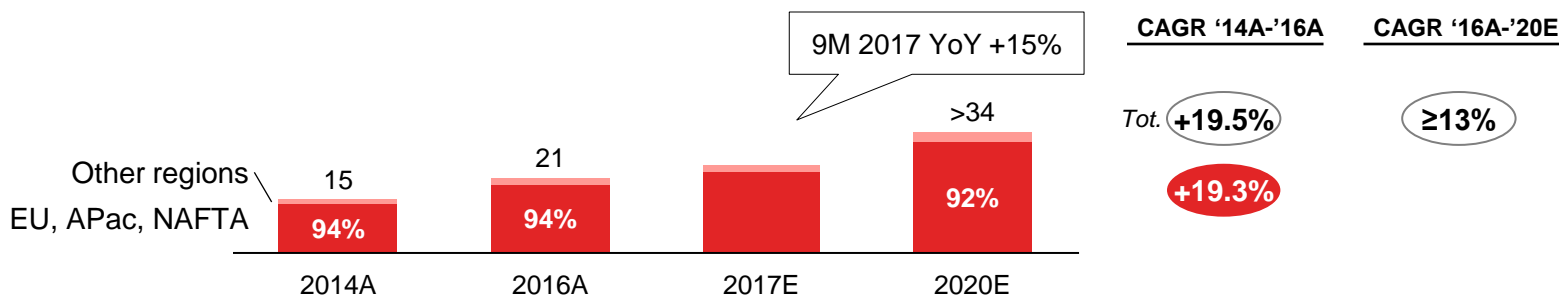


## O.E. + REPLACEMENT ≥18" PIRELLI VOLUMES



(million tyres)

≥18" ~85-90% of High Value Car Volumes



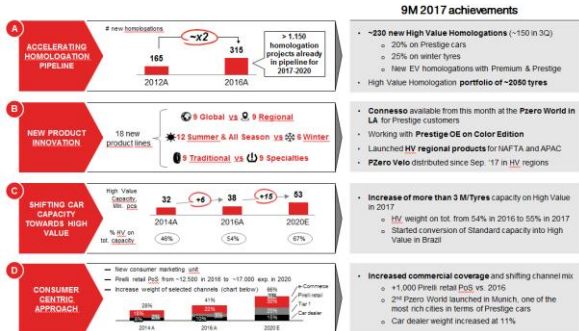
Source: Company elaborations based on third party data relative to car market and on data provided by local associations of tyre producers



# PIRELLI STRATEGY BASED ON 3 PILLARS\_

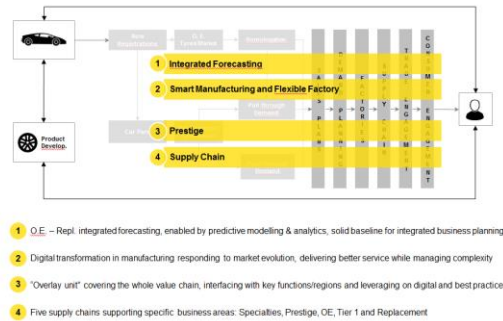
1

## HIGH VALUE FOCUS



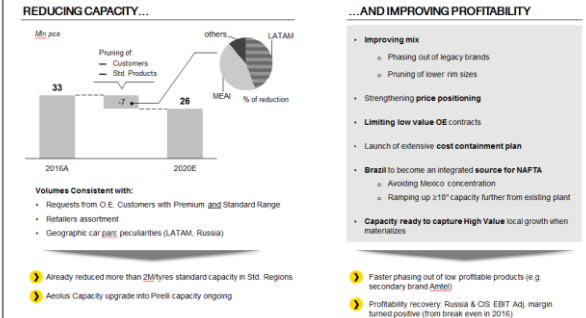
2

## TRANSFORMATION PROGRAM



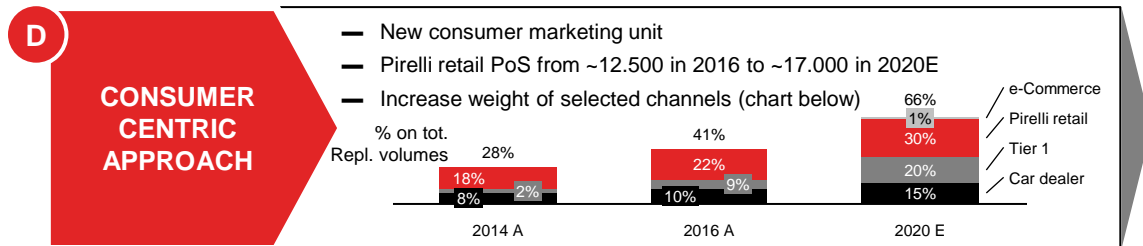
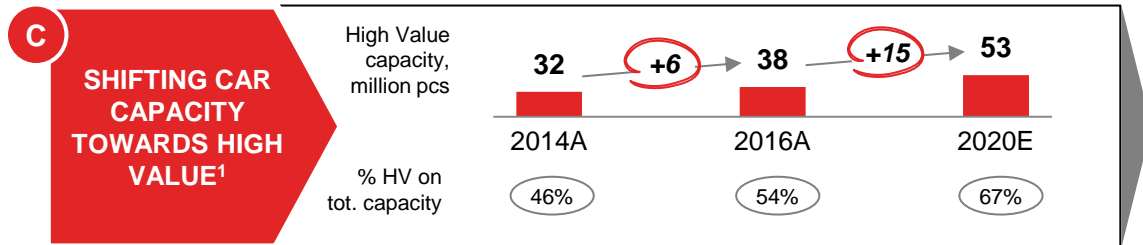
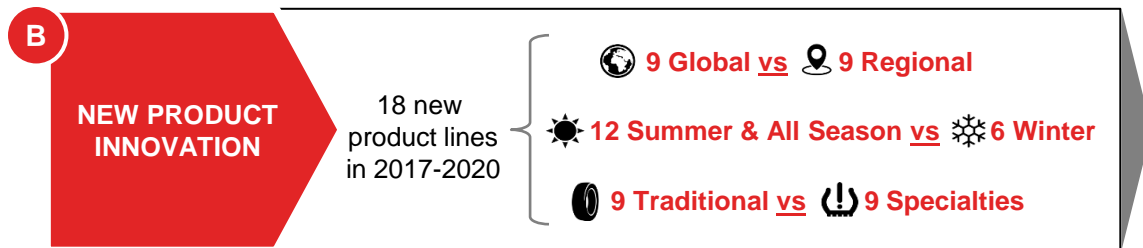
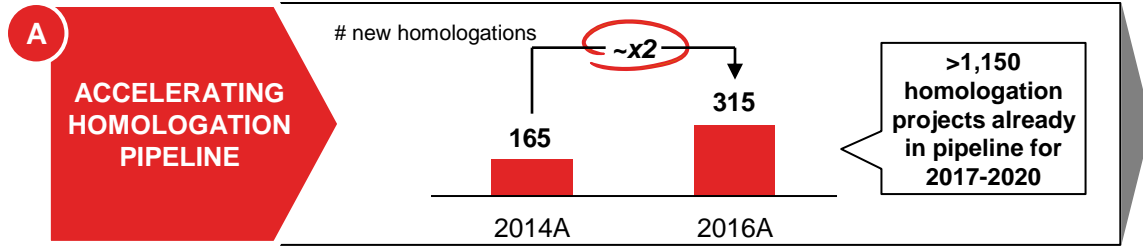
3

## STANDARD REDUCTION





# PILLAR 1: HIGH VALUE FOCUS AND CURRENT ACHIEVEMENTS\_



- 9M 2017 achievements**
- ~230 new High Value Homologations (~150 in 3Q)
    - 20% Prestige
    - 25% Winter
    - New EV homologations with Premium & Prestige
  - ~2,050 High Value homologations portfolio (o/w 86% marked)

- Regional: 2 new products for NAFTA and LatAm
- Super-specialties: Connesso available from this month at the PZero World in LA for Prestige customers
- Super-specialties: Working with **Prestige O.E. on Color Ed.**
- Velo: **PZero Velo** distributed since 3Q '17 in HV regions

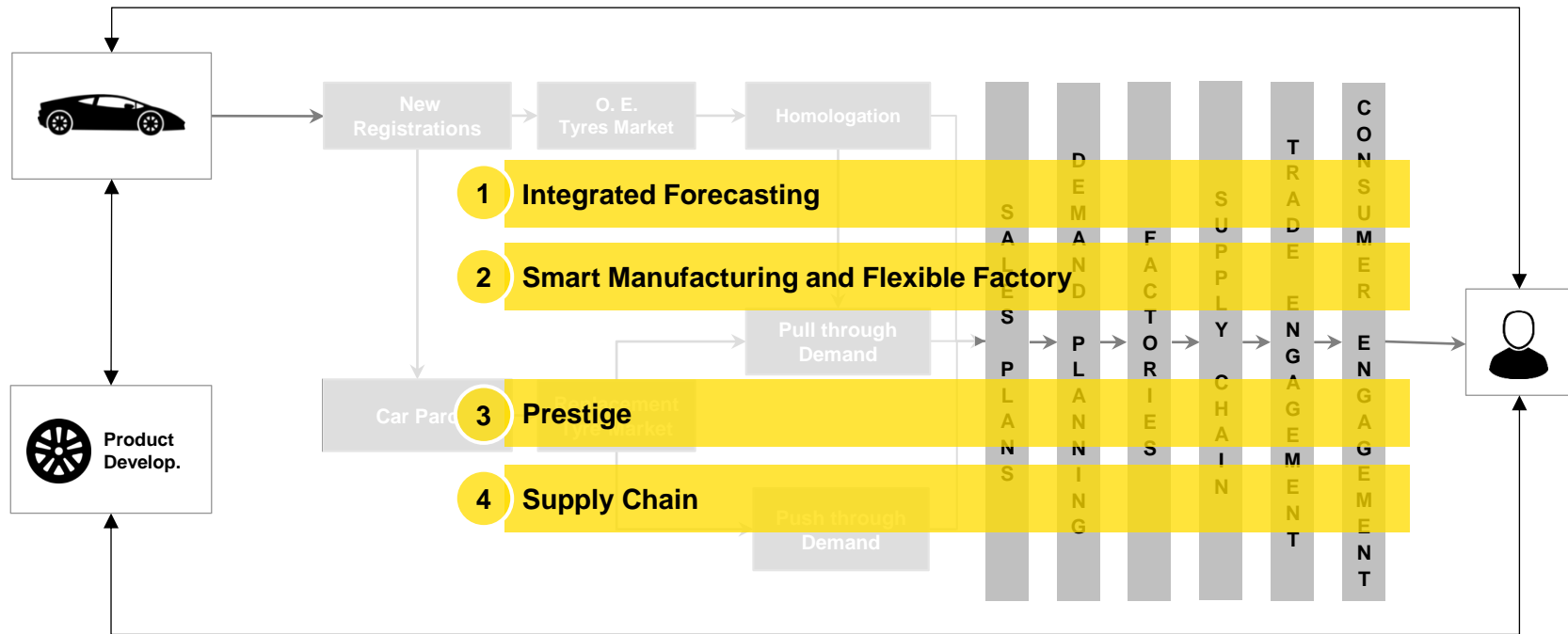
- High Value capacity **increase of >3 million tyres** in 2017 FY
  - HV weight on tot. from 54% in 2016 to 55% in 2017
  - Started conversion of Standard capacity into High Value in Brazil

- Increased commercial coverage** and shifting channel mix
  - +1,000 Pirelli retail PoS vs. 2016
  - 2<sup>nd</sup> Pzero World launched in Munich, one of the richest cities in terms of Prestige cars
  - Increasing focus on Car dealer

<sup>1</sup> Note: More details on Pirelli capacity in appendix section

# PILLAR 2: TRANSFORMATION PROGRAM WITH 4 KEY INITIATIVES\_

2



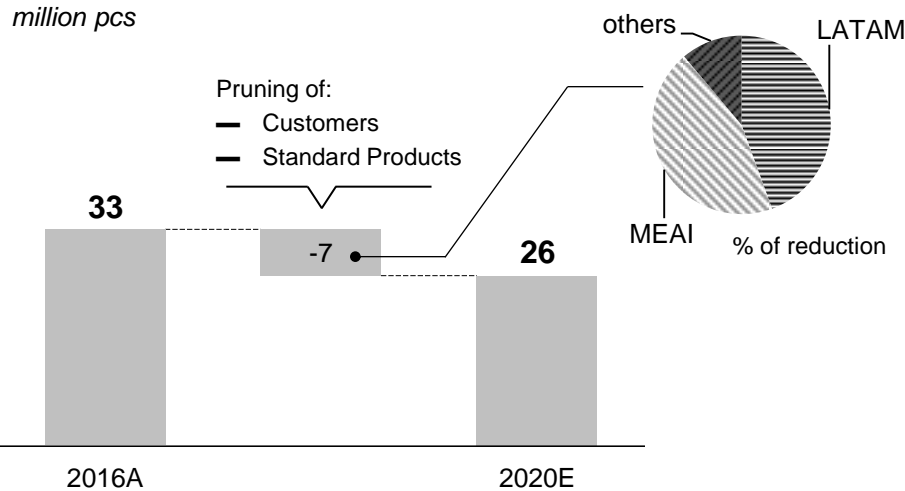
- 1 New integrated management of O.E. and Replacement along the whole vehicle life-cycle, supported by predictive / forecasting tools, to optimize investments in capacity and in stock
- 2 Use of IoT<sup>1</sup> data to optimize process and labour yields
- 3 Convergence of all key levers to optimize Prestige performance in a specific Business Unit
- 4 Five supply chains supporting specific business areas: Specialties, Prestige, O.E., Tier 1 and Replacement

<sup>1</sup> Internet of Things

# PILLAR 3: STANDARD CAPACITY REDUCTION AND PROFITABILITY IMPROVEMENT UNDERWAY\_

3

## REDUCING CAPACITY...



### Volumes Consistent with:

- Requests from O.E. Customers with Premium and Standard Range
- Retailers assortment
- Geographic car parc peculiarities (LatAm, Russia)

## ...AND IMPROVING PROFITABILITY

- **Improving mix**
  - Phasing out of legacy brands
  - Pruning of lower rim sizes
- **Strengthening price positioning**
- **Limiting low value O.E. contracts**
- **Launch of extensive cost containment plan**
- **Brazil to become an integrated source for NAFTA**
  - Avoiding Mexico concentration
  - Ramping up  $\geq 18$ " capacity further from existing plant
- **Capacity ready to capture High Value local growth when it materializes**

## 9M 2017 achievements

- Ongoing reduction of >2 million tyres Standard capacity in Standard Regions before 2017 year end
- Consolidation and ongoing conversion of Aeolus capacity into Pirelli brand
- Faster phasing out of low profitable products (e.g. secondary brand Amtel)
- Profitability recovery: Russia & CIS EBIT Adj. margin turned positive (from break even in 2016)

# AGENDA\_

RECAP OF PIRELLI STRATEGY

9M 2017 RESULTS

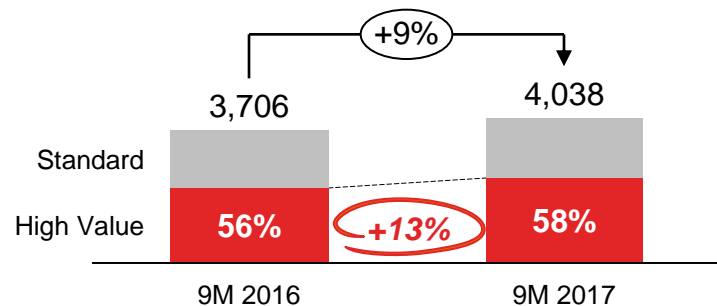
FULL YEAR 2017 OUTLOOK

APPENDIX

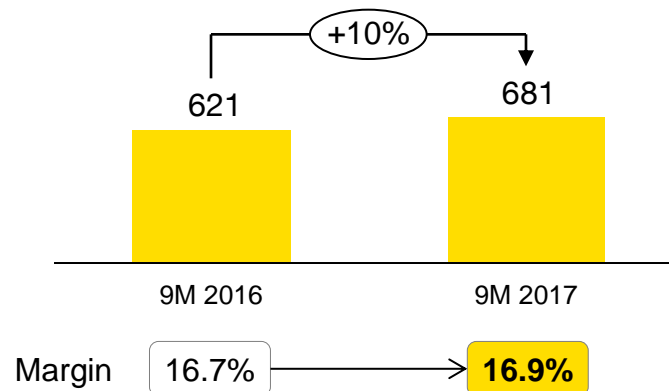
# 9M 2017 RESULTS: HIGHLIGHTS

€ million

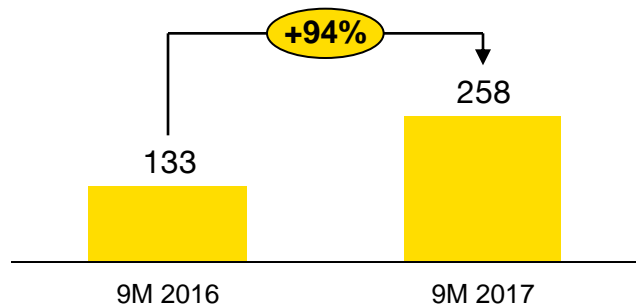
## REVENUES



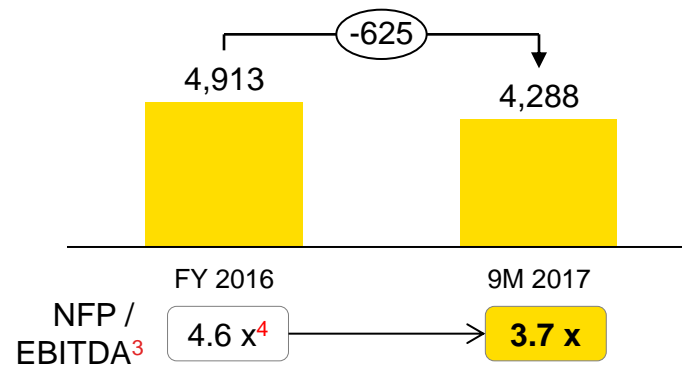
## EBIT ADJ.<sup>1</sup> w/o start-up costs<sup>2</sup>



## NET INCOME ADJ.



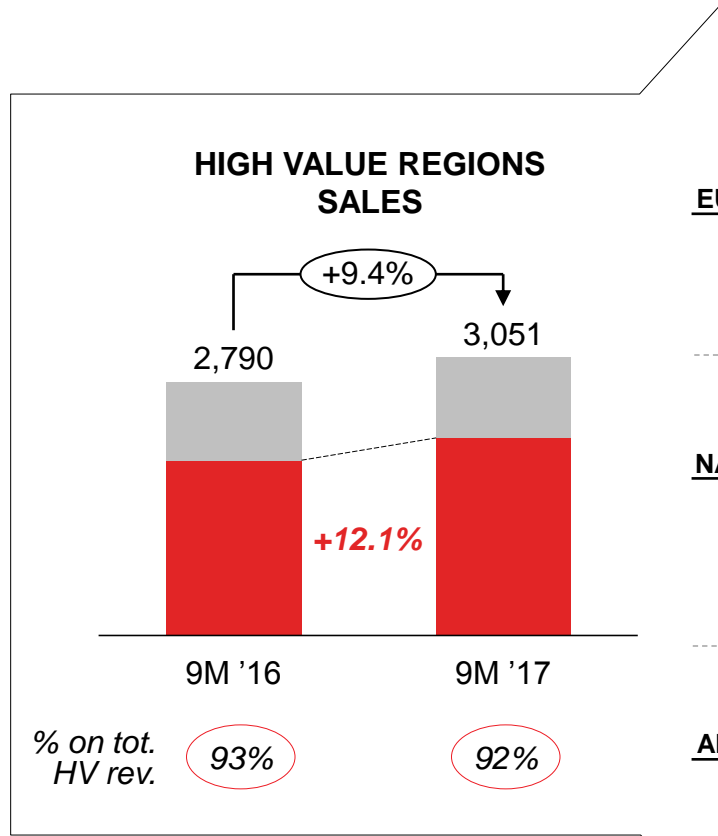
## NET FINANCIAL POSITION



<sup>1</sup> before amortization of PPA, non-recurring items & restructuring costs; <sup>2</sup> Aeolus Car, Velo, Cyber & digital transformation; <sup>3</sup> 12 month trailing EBITDA adjusted w/o start-up costs; <sup>4</sup> 2016 ratio calculated using the NFP relative to the sole Consumer business equal to €4,961 million

# 9M 2017 PERFORMANCE BY HIGH VALUE REGIONS\_

€ million



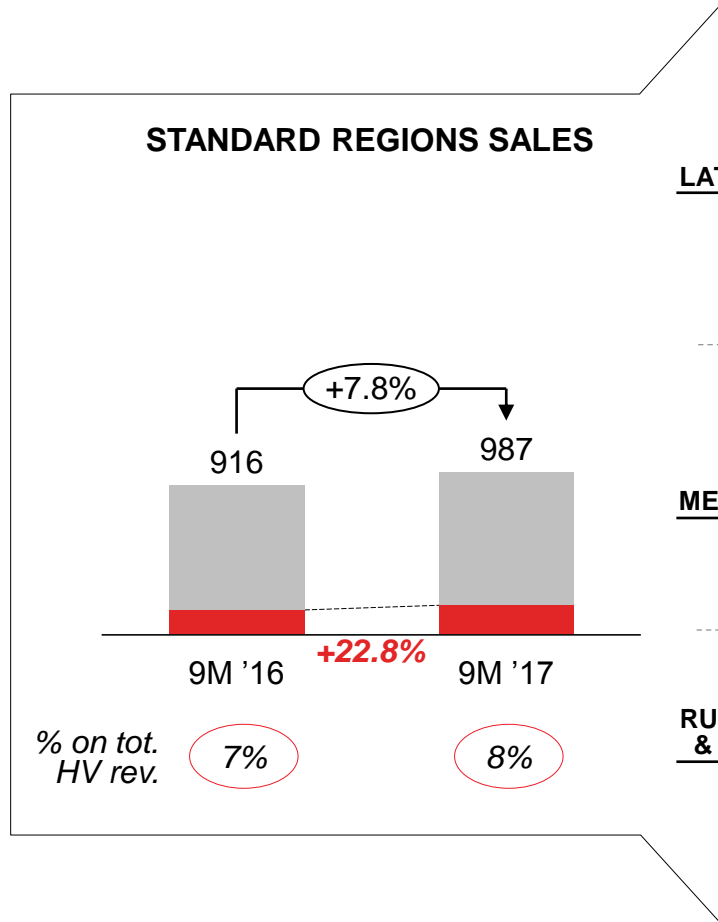
	SALES		Δ	EBIT	KEY HIGHLIGHTS
	9M16A	9M17A	YoY %	Adj. margin <sup>1</sup>	
<u>EUROPE</u>	1,591 (43%)	1,698 (42%)	+6.7% <b>+10.8%</b>	Mid-teens	<ul style="list-style-type: none"> <li>Strengthen High Value position, <b>with market share increase in ≥18" and Specialties</b></li> <li><b>Proactive reduction to Standard segment</b></li> </ul>
<u>NAFTA</u>	693 (19%)	756 (19%)	+9.1% <b>+9.2%</b>	Twenties	<ul style="list-style-type: none"> <li>Sound performance, despite O.E. market slowdown</li> <li>Increasing High Value sales, with <b>products introduction</b> (all-season) and further <b>retail penetration</b></li> </ul>
<u>APAC</u>	506 (14%)	597 (15%)	+17.9% <b>+20.2%</b>	Twenties	<ul style="list-style-type: none"> <li>Strong High Value performance driven by <b>pull-through effect</b> (especially on run-flat), on both Car Premium and Prestige brands</li> </ul>

■ High Value    ■ Standard  
   Weight on tot. revenues

<sup>1</sup> before amortization of PPA, non-recurring items and restructuring costs

# 9M 2017 PERFORMANCE BY STANDARD REGIONS

€ million



	SALES		Δ YoY %	EBIT Adj. margin <sup>1</sup>	KEY HIGHLIGHTS
	9M16A	9M17A			
<b>LATAM</b>	612 16%	682 17%	+11.5%  <b>+33.4%</b>	Mid-single digit	<ul style="list-style-type: none"> <li>Accelerated exit from low profitable products within the Standard segment</li> <li><b>Increased exports to North America</b></li> <li>Car market slow-down in Argentina</li> </ul>
<b>MEAI</b>	190 5%	186 4%	-2.2%  <b>+21.1%</b>	Mid-teens	<ul style="list-style-type: none"> <li>Reduction to low profitable segments and <b>strong High Value growth with market share gain in ≥18"</b></li> <li>Currency volatility in the area (especially in Turkey)</li> </ul>
<b>RUSSIA &amp; C.I.S</b>	114 3%	119 3%	+4.4%  <b>+9.3%</b>	Low-teens	<ul style="list-style-type: none"> <li><b>Mix improvement</b> (accelerated phase-out of legacy brands) drove the strong profitability increase</li> </ul>

■ High Value    ■ Standard  
   Weight on tot. revenues

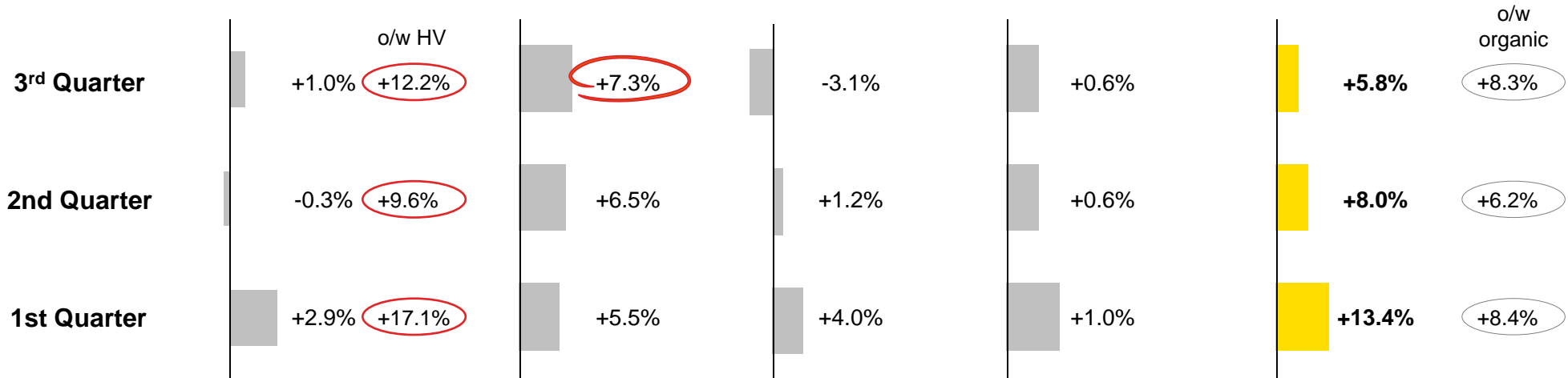
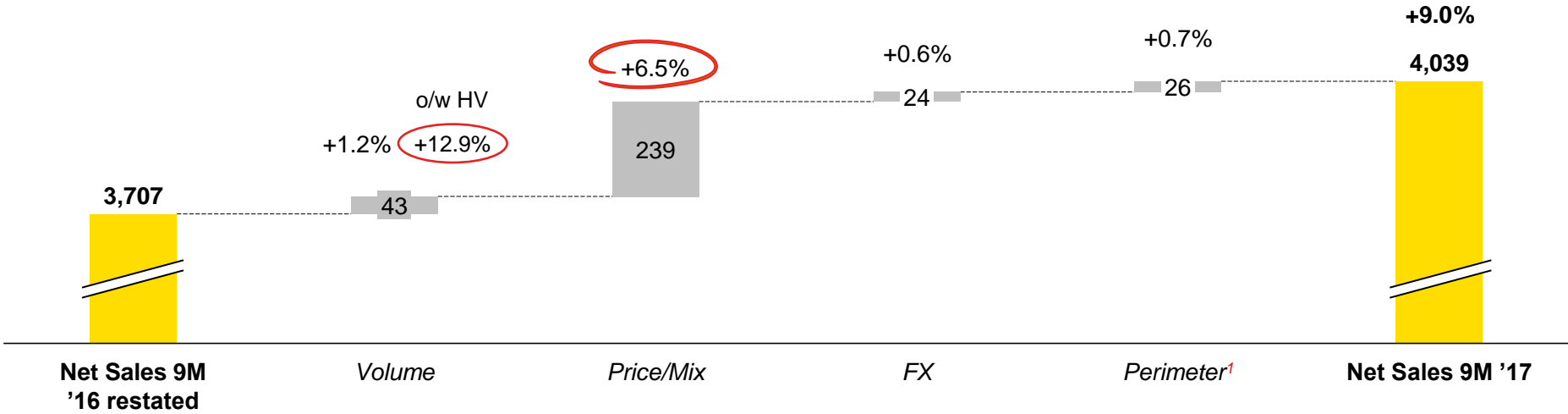
<sup>1</sup> before amortization of PPA, non-recurring items and restructuring costs

# 9M 2017 NET SALES BRIDGE

€ million

o/w organic

+7.7%



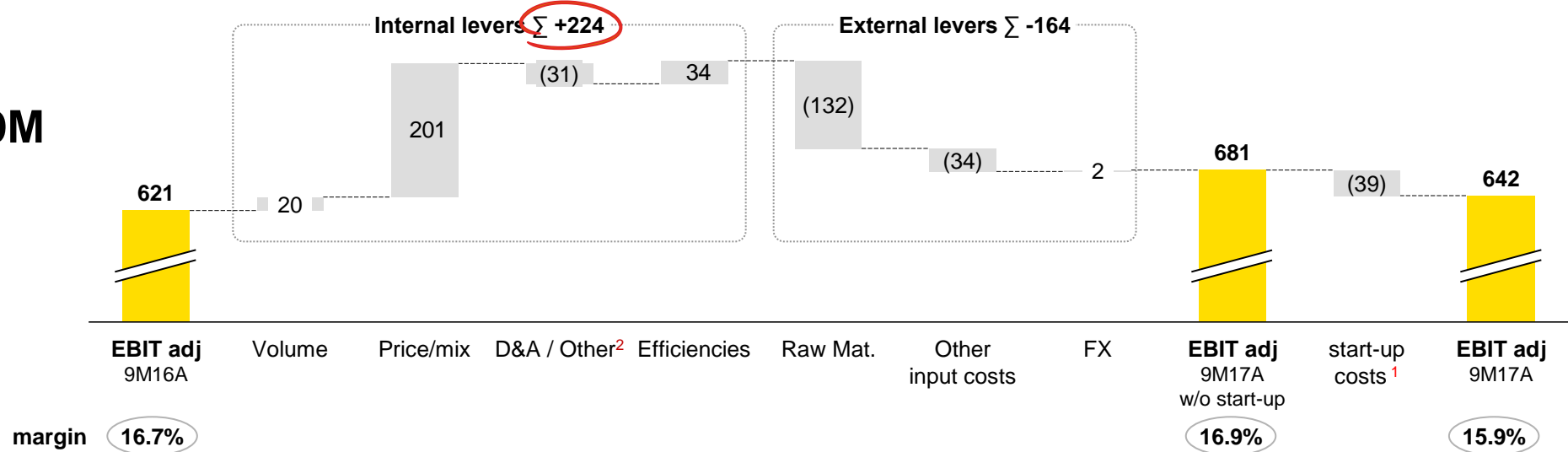
<sup>1</sup> Aeolus Car



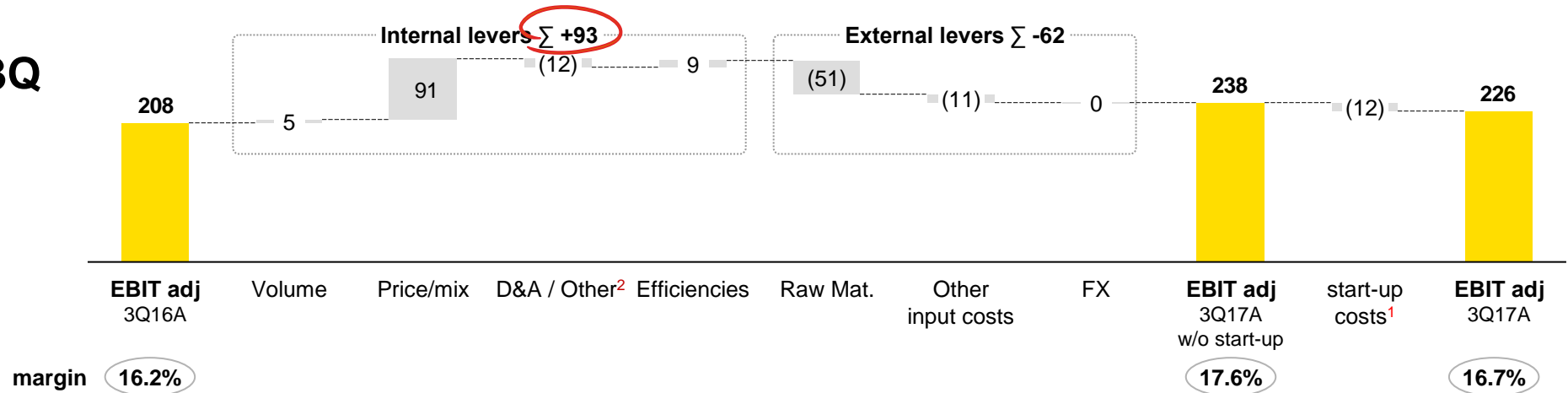
# 9M / 3Q 2017 OPERATING PERFORMANCE

€ million

## 9M



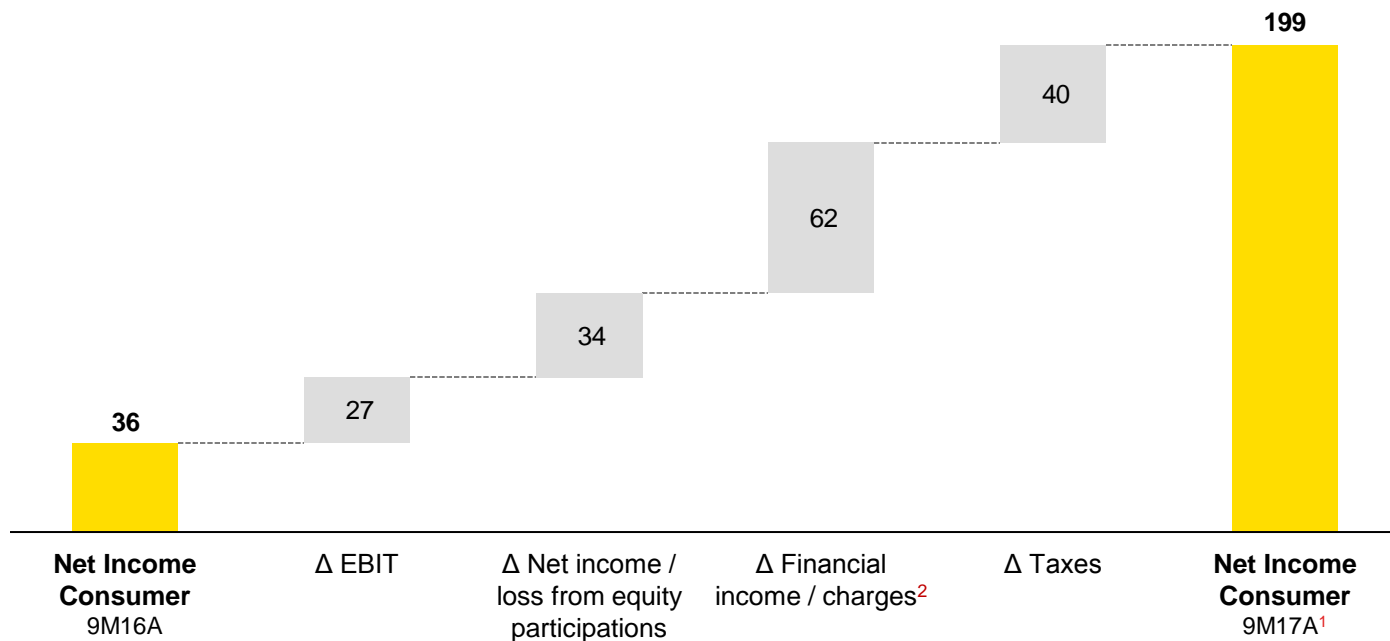
## 3Q



<sup>1</sup> Aeolus Car, Velo, Cyber & digital transformation; <sup>2</sup> Other costs related to high value development

# 9M 2017 NET INCOME BRIDGE

€ million

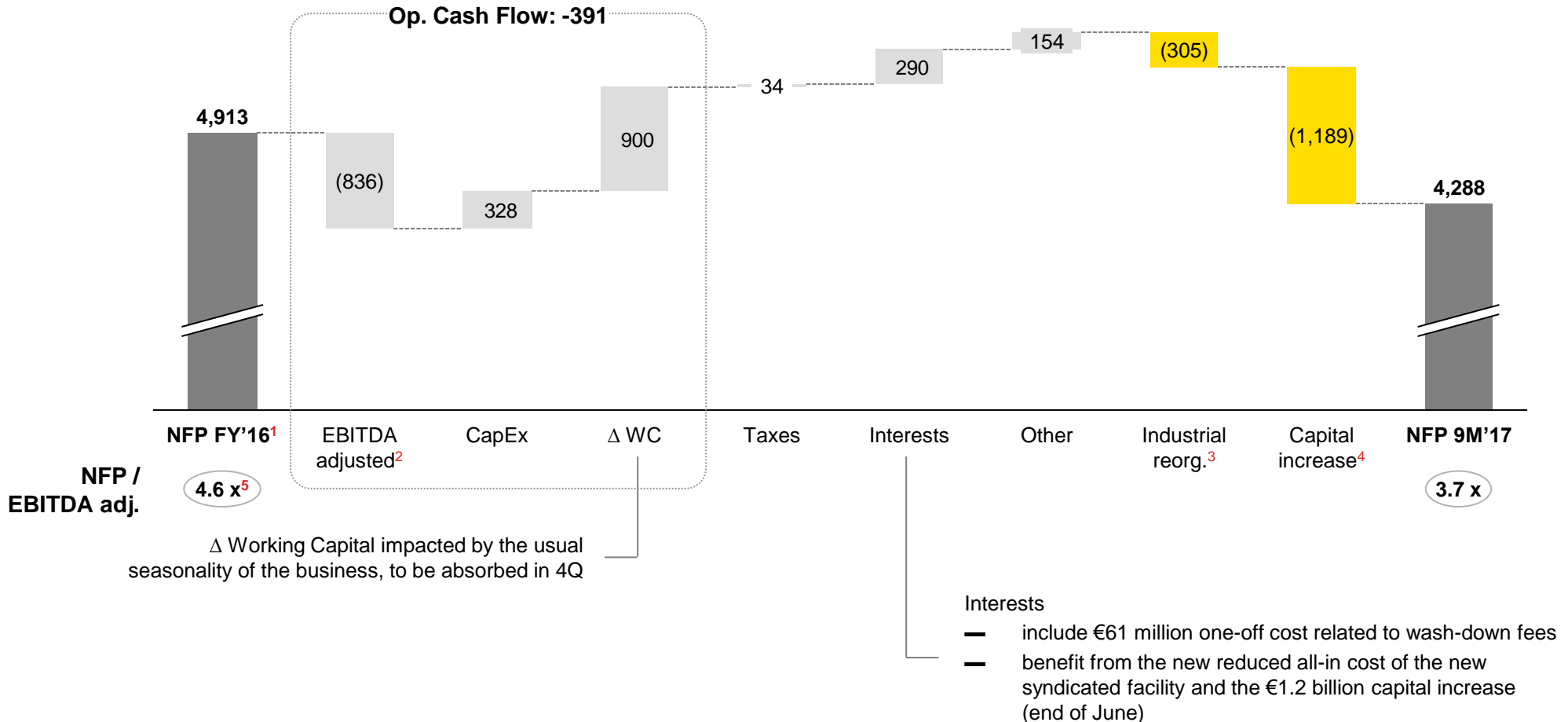


	<u>9M '16</u>	<u>9M '17</u>
<b>Net Income</b>	<b>35.8</b>	<b>198.9</b>
PPA amortization	+ 78.4	+ 80.9
Non recurring / restr. costs	+ 28.6	+ 20.2
Non recurring fin. expenses	+ 25.4 <sup>1</sup>	+ 61.2 <sup>2</sup>
Deferred tax assets recognition		- 60.1
<b>Tax impact on adjustment</b>	<b>- 35.6</b>	<b>- 43.6</b>
<b>Net income adjusted</b>	<b>132.6</b>	<b>257.5</b>

<sup>1</sup> U.S. private placement early redemption fees; <sup>2</sup> Wash down fee BBC financing

# 9M 2017 CASH FLOW AND NET FINANCIAL POSITION

€ million

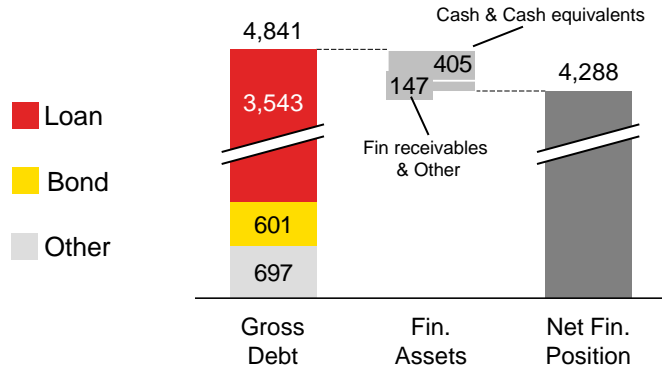


<sup>1</sup> reported; <sup>2</sup> before D&A (incl. amortization of PPA), non-recurring items and restructuring costs; <sup>3</sup> Industrial reorg: partial debt push down to Prometeon ; <sup>4</sup> Capital Increase made by Marco Polo; <sup>5</sup> 2016 ratio calculated using the NFP relative to the sole Consumer business equal to €4,961 million

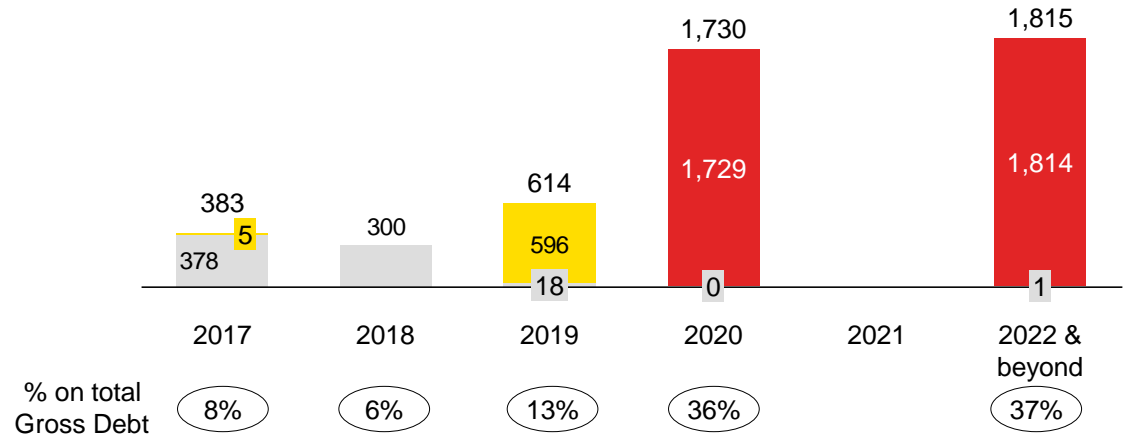
# CURRENT CAPITAL STRUCTURE (SEPTEMBER 2017)

€ million

## NET FINANCIAL POSITION



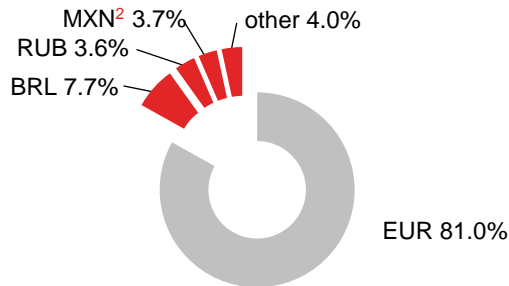
## GROSS DEBT MATURITY



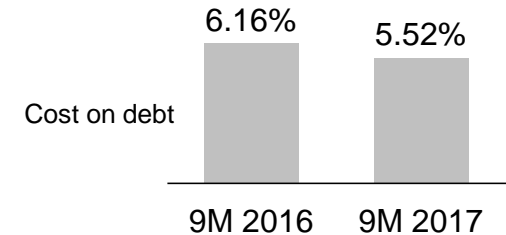
## LIQUIDITY PROFILE

Liquidity position	405
Total committed lines not drawn	558
<b>Liquidity margin<sup>1</sup></b>	<b>964</b>

## BREAK-DOWN BY CURRENCY



## COST OF DEBT



<sup>1</sup> covers ~ 2.4 years of forthcoming maturities; <sup>2</sup> Mexican peso

# AGENDA\_

RECAP OF PIRELLI STRATEGY

9M 2017 RESULTS

FULL YEAR 2017 OUTLOOK

APPENDIX

# FY 2017 OUTLOOK

€ million

	2016A	2017E
<b>Revenues</b> <i>High Value weight</i>	4,976 55%	~+9% YoY >57%
<b>Adjusted EBIT w/o start-up<sup>1</sup></b> <i>High Value weight</i>	844 81%	~930 ~83%
<b>Adjusted EBIT<sup>2</sup></b>	844	~880
<b>Net financial position / Adjusted EBITDA w/o start-up costs<sup>3</sup></b>	4.6X	<3X
<b>CapEx on Revenues</b>	6.8%	~9% (~7% on average in '17-20)

- Romania / Mexico further expansions
- Brazil upgrade to High Value
- Upgrading and reshaping of China ex Aeolus

<sup>1</sup> EBIT adjusted excluding PPA amortization, non recurring, one-off, extraordinary items and start-up costs; <sup>2</sup> EBIT adjusted excluding PPA amortization, non recurring, one-off and extraordinary items;

<sup>3</sup> EBITDA adjusted excluding non recurring, one-off, extraordinary items and start-up costs

# AGENDA\_

RECAP OF PIRELLI STRATEGY

9M 2017 RESULTS

FULL YEAR 2017 OUTLOOK

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# 9M 2017 RESULTS HIGHLIGHTS

€ million

	9M '16 restated	9M '17	Δ YoY	3Q '16 restated	3Q '17	Δ YoY
<b>Revenues</b>	<b>3,706.5</b>	<b>4,038.5</b>	+9.0%	<b>1,279.6</b>	<b>1,353.2</b>	+5.8%
<i>Organic Growth</i> <sup>1</sup>			+7.7%			+8.3%
High Value Revenues	2,076.6	2,344.0	+12.9%	705.7	782.3	+10.8%
% on total Revenues		58%	+2 p.p.	55%	58%	+3 p.p.
<b>EBITDA adjusted w/o start-up costs</b> <sup>2</sup>	<b>801.4</b>	<b>865.7</b>	+8.0%	<b>271.5</b>	<b>298.9</b>	+10.1%
<b>Margin</b>	21.6%	<b>21.4%</b>	-0.2 p.p.	21.2%	<b>22.1%</b>	+0.9 p.p.
EBITDA adjusted <sup>3</sup>	<b>801.4</b>	<b>836.3</b>	+4.4%	<b>271.5</b>	<b>289.9</b>	+6.8%
<b>Margin</b>	21.6%	20.7%	-0.9 p.p.	21.2%	21.4%	+0.2 p.p.
<b>EBIT adjusted w/o start-up costs</b> <sup>2</sup>	<b>620.7</b>	<b>681.2</b>	+9.7%	<b>207.5</b>	<b>238.2</b>	+14.8%
<b>Margin</b>	16.7%	<b>16.9%</b>	+0.2 p.p.	16.2%	<b>17.6%</b>	+1.4 p.p.
EBIT adjusted <sup>3</sup>	<b>620.7</b>	<b>642.2</b>	+3.5%	<b>207.5</b>	<b>226.0</b>	+8.9%
<b>Margin</b>	16.7%	15.9%	-0.8 p.p.	16.2%	16.7%	+0.5 p.p.
<b>EBIT</b>	<b>513.7</b>	<b>541.1</b>	+5.3%	<b>172.2</b>	<b>222.9</b>	+29.4%
<b>Margin</b>	13.9%	13.4%	-0.5 p.p.	13.5%	16.5%	+3.0 p.p.
Results from Equity Investments	(52.7)	(18.6)		(3.9)	(5.7)	
Financial Income / (Charges)	(351.6)	(289.9)		(99.2)	(63.5)	
<b>EBT</b>	<b>109.4</b>	<b>232.6</b>		<b>69.1</b>	<b>153.7</b>	
<i>Tax Rate</i>	<i>n.m.</i>	14.5%		38.9%	14.6%	
<b>Net Income (Consumer)</b>	<b>35.8</b>	<b>198.9</b>		<b>42.2</b>	<b>131.3</b>	
<b>Net Income adjusted (Consumer)</b>	<b>132.6</b>	<b>257.5</b>		<b>67.4</b>	<b>98.5</b>	

## 3Q Highlights

Sound top-line growth sustained by:

- Strengthening High Value
- Strong price/mix (+7.3%)
- Volume growth +1.0% on total, +12.2% on High Value, -5.8% on Standard given the accelerated exit from low profitable products

- EBIT adj. improvement, with internal levers which more than compensated for rising raw mat. costs, inflation and other costs related to business development
- EBIT margin adj. w/o start-up at 17.6% (+1.4pp YoY)

- Decreasing financial charges, thanks to lower margin on 2016 financing
- 9M /3Q 2017 Tax rate impacted by detection of deferred tax assets

<sup>1</sup> Excl. FX / perimeter; <sup>2</sup> Aeolus Car, Velo, Cyber & digital transformation; <sup>3</sup> before amortization of PPA, non-recurring items & restructuring costs;



# 9M PIRELLI BALANCE SHEET\_

€ million

	31/12/2016 Carve-out	31/12/2016 Reported	30/09/2017
<b>Fixed assets related to continuing operations</b>	<b>9,168</b>	<b>10,299</b>	<b>9,147</b>
Inventories	874	1,056	969
Trade receivables	680	679	1,038
Trade payables	(1,281)	(1,499)	(1,067)
<b>Operating net working capital related to continuing operations</b>	<b>274</b>	<b>236</b>	<b>940</b>
Other receivables / payables	19	(311)	147
<b>Net Working Capital related to continuing operations</b>	<b>293</b>	<b>(74)</b>	<b>1,087</b>
<b>Net invested capital held for sale</b>	<b>-</b>	<b>-</b>	<b>(1)</b>
<b>Total net invested capital</b>	<b>9,460</b>	<b>10,225</b>	<b>10,233</b>
<b>Equity</b>	<b>2,633</b>	<b>3,275</b>	<b>4,160</b>
<b>Provisions</b>	<b>1,866</b>	<b>2,037</b>	<b>1,785</b>
<b>Net Financial Position</b>	<b>4,961</b>	<b>4,913</b>	<b>4,288</b>
<b>Total financing and shareholders' equity</b>	<b>9,460</b>	<b>10,225</b>	<b>10,233</b>

# 9M PIRELLI GROUP CASH FLOW\_\_

€ million

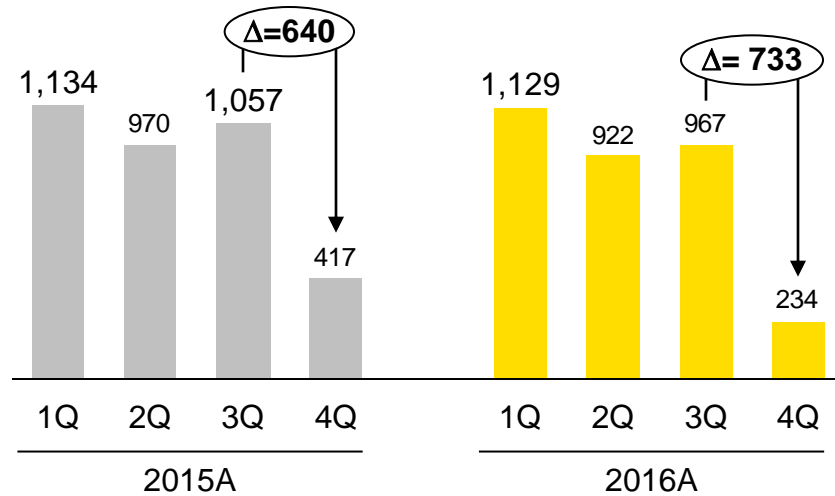
	9M '16 restated	9M '17
EBIT adjusted <sup>1</sup>	620.7	642.2
Depreciation & Amortization (excl. amort. PPA)	180.7	194.1
Capital expenditures	(221.9)	(327.6)
Change in working capital / other	(777.5)	(900.1)
<b>Operating Cash Flow</b>	<b>(198.0)</b>	<b>(391.4)</b>
Financial income / expenses	(351.6)	(289.9)
Fiscal charges	(73.6)	(33.7)
<b>Net operating cash flow</b>	<b>(623.2)</b>	<b>(715.0)</b>
Financial investments / disinvestments	5.9	(2.5)
Partial purchase from Dasa of Pneucac shares	-	(15.4)
Asset disposals	16.1	-
Cash-out for non recurring items & restructuring costs	(35.4)	(23.3)
Impact of deferred taxation on PPA amortization & recognition of tax assets	(21.9)	(83.2)
Financial expenses already included in acquisition debt	122.2	-
Dividend paid to minorities	-	(12.9)
Minorities	-	(5.5)
Exchange rates difference / other	(89.5)	(11.1)
<b>Net cash flow before extraordinary operations</b>	<b>(625.8)</b>	<b>(868.9)</b>
Industrial reorganization	118.7	304.6
Variation of Bidco NFP from 1/1 to 31/5/2016	(134.3)	-
Capital increase subscribed by Marco Polo	-	1,189.4
<b>Net cash flow</b>	<b>(641.4)</b>	<b>625.1</b>

<sup>1</sup> before amortization of PPA, non recurring items and restructuring costs

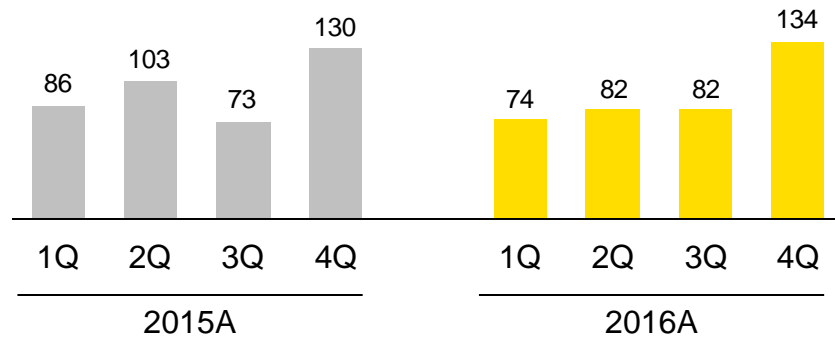
# 2015-2016 NET INVESTED CAPITAL SEASONALITY: PIRELLI GROUP REPORTED DATA

€ million

## SEASONALITY OF NET OPERATING WORKING CAP<sup>1</sup> THROUGH QUARTERS



## SEASONALITY OF CAPEX THROUGH QUARTERS



<sup>1</sup> Net operating working capital defined as Inventories + Trade receivables - Trade payables

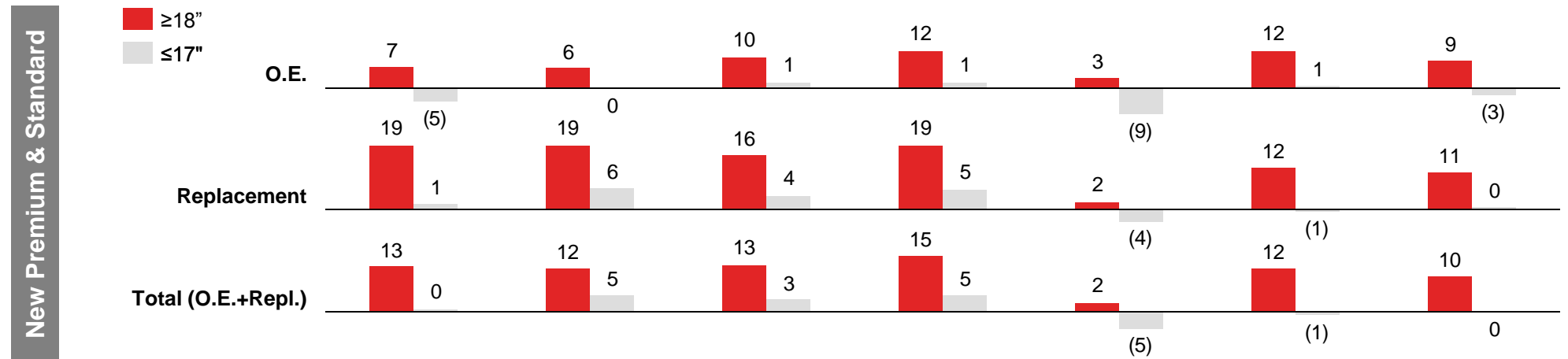
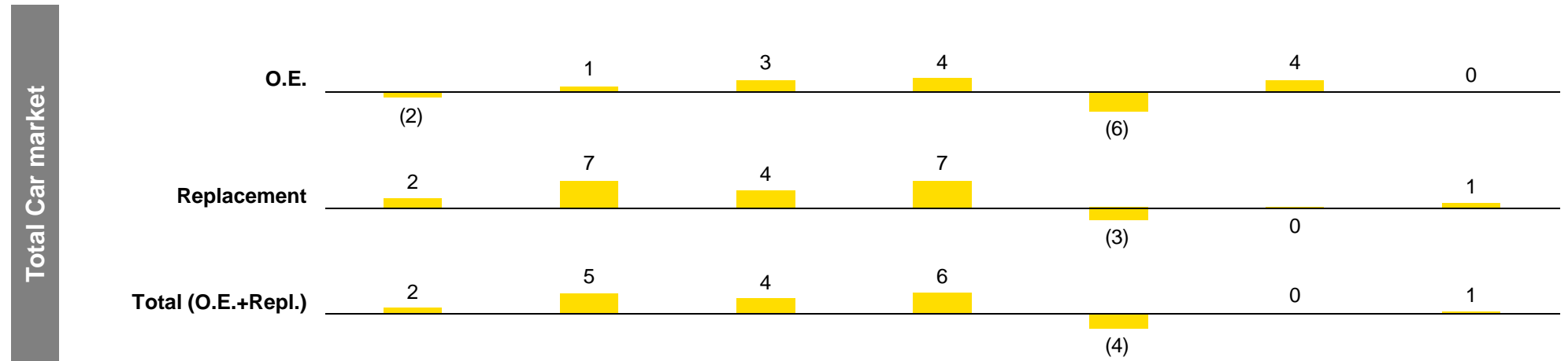
## COMMENTARY

Example based on former perimeter (Consumer + Industrial) only for illustration purposes

- **4Q lowest level of working capital, consistent with the wider Industry: high volumes of collections linked especially to Winter sales in high seasonal regions like Europe and Russia**
- **Net working capital decline in 2016 mainly due to inflation effect** (raw materials price increase in 4Q 2016 inflating payables more than revenues - time lag - and stocks - fewer days outstanding):
  - Management of working capital driven by the implementation of global credit insurance programs covering insolvency risk
  - **Inventory terms gradually improved in recent years** following the implementation of several cost-saving measures (e.g. efficiency improvement and scrap reduction) while **accounts payable remained rather stable**

# KEY CAR MARKET TRENDS: EUROPE<sup>1</sup>

Market trend  
Δ% YoY

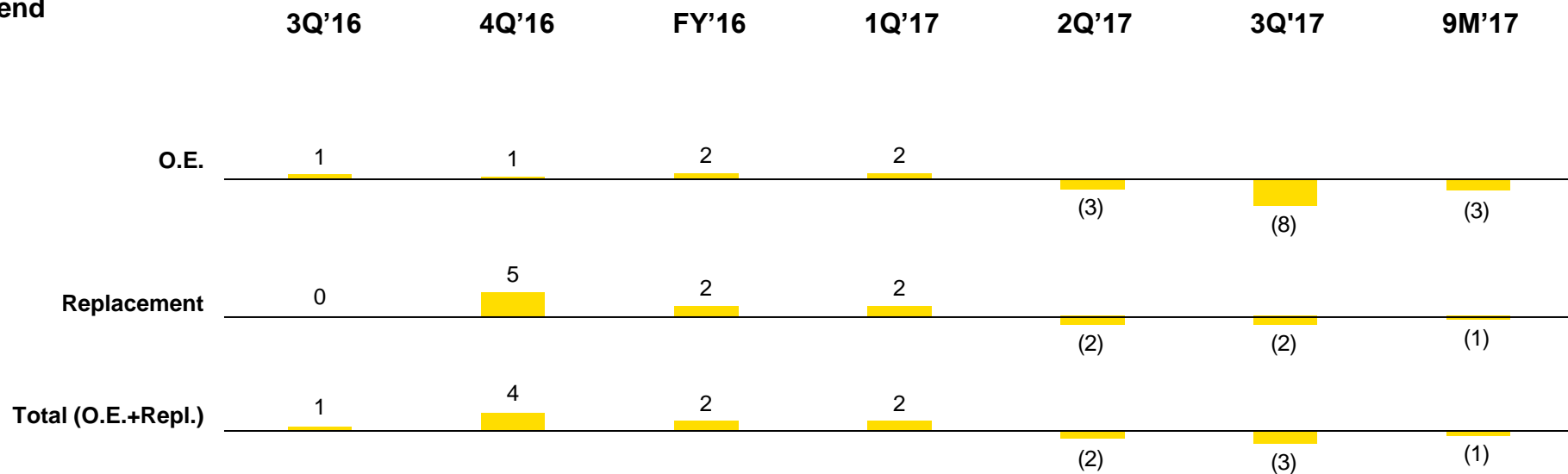


Source: Pirelli tyre market estimates based on main data provider for the Region; <sup>1</sup> Russia & Turkey included

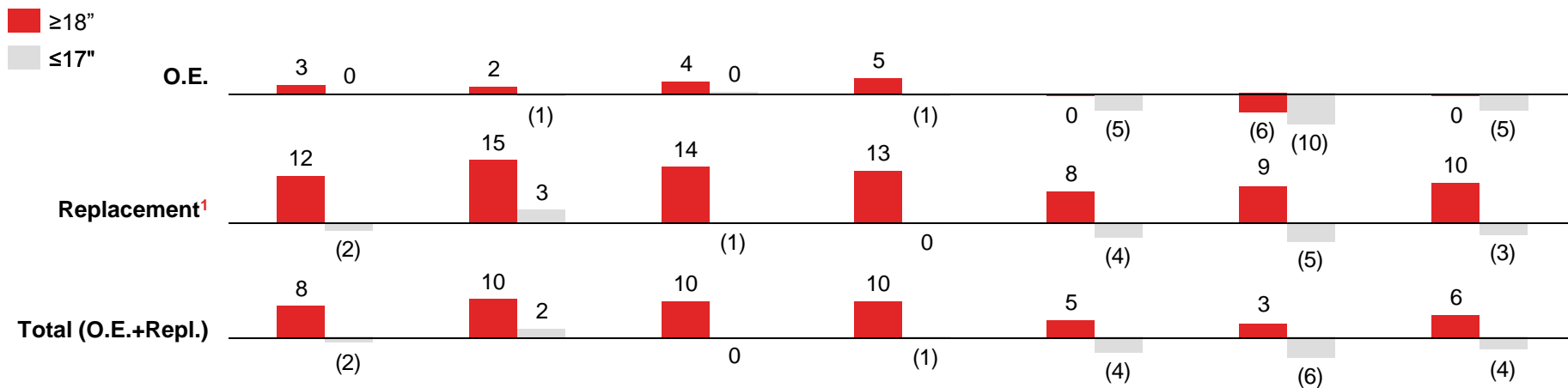
# KEY CAR MARKET TRENDS: NAFTA

Market trend  
Δ% YoY

Total Car market



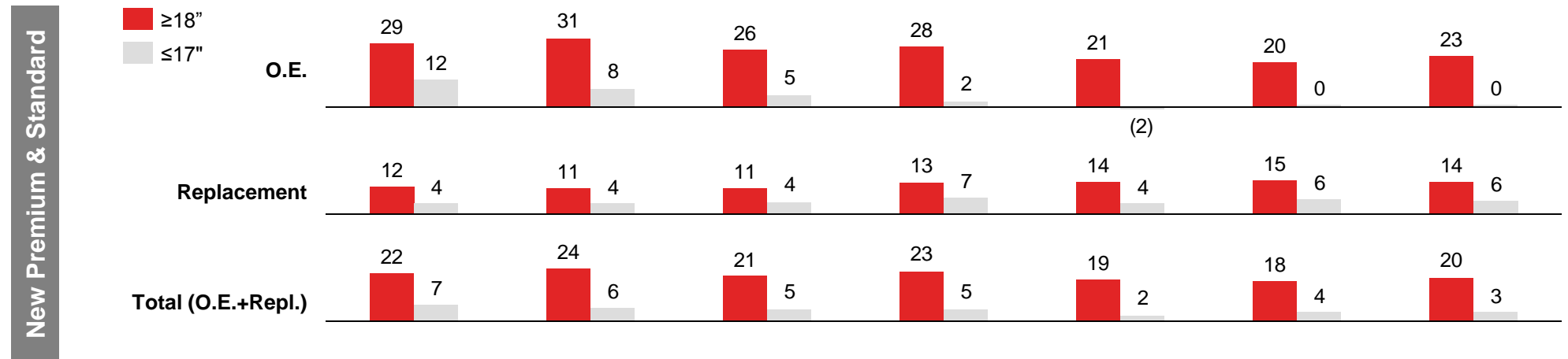
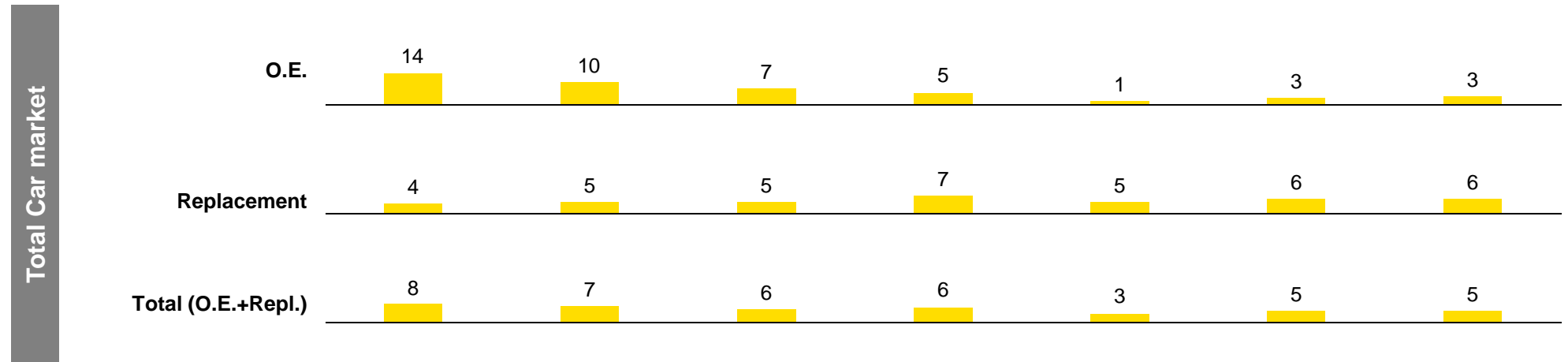
New Premium & Standard



Source: Pirelli tyre market estimates based on main data provider for the Region; <sup>1</sup> NAFTA Replacement includes imports

# KEY CAR MARKET TRENDS: APAC

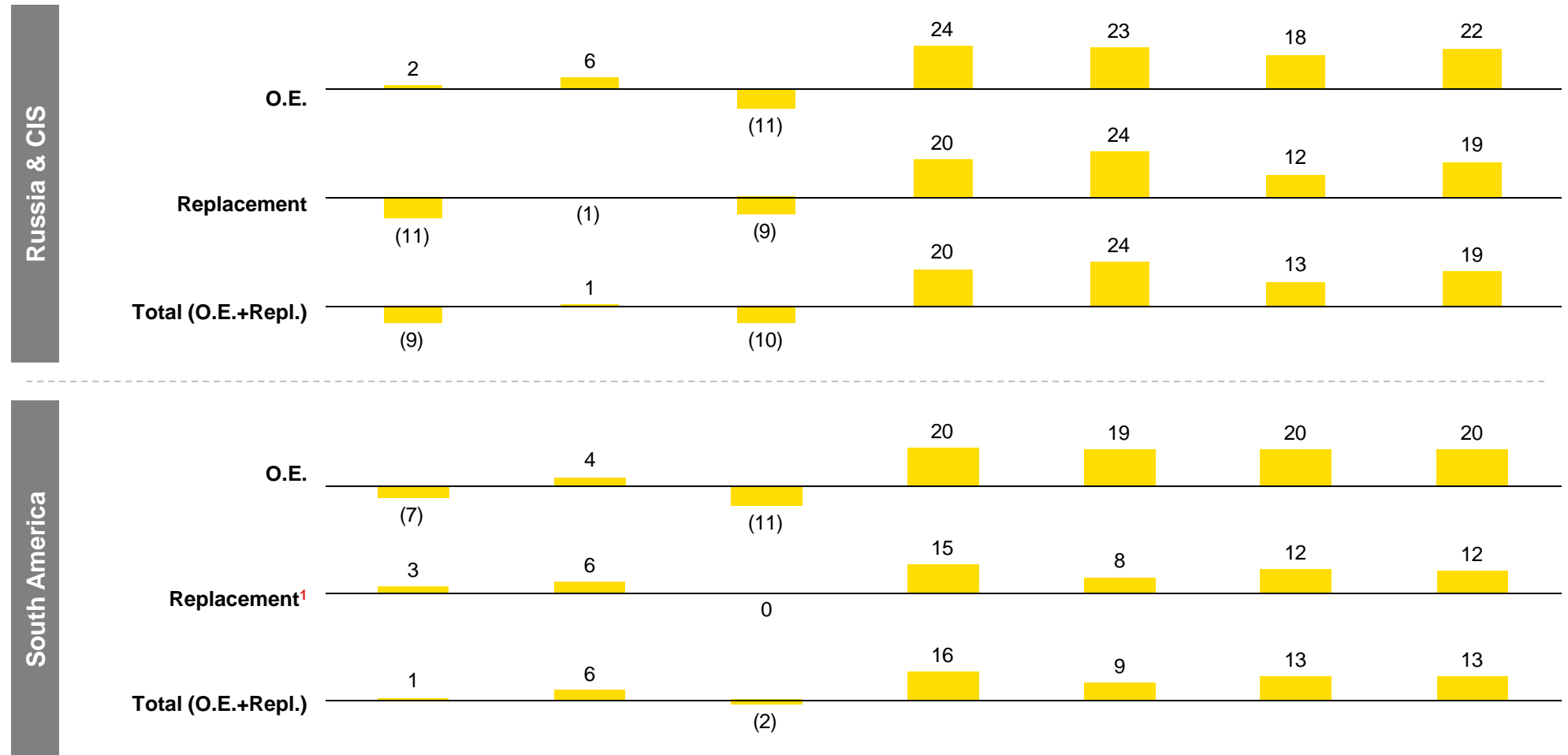
Market trend  
Δ% YoY



Source: Pirelli tyre market estimates based on main data provider for the Region

# KEY MARKET TRENDS: RUSSIA & CIS AND SOUTH AMERICA

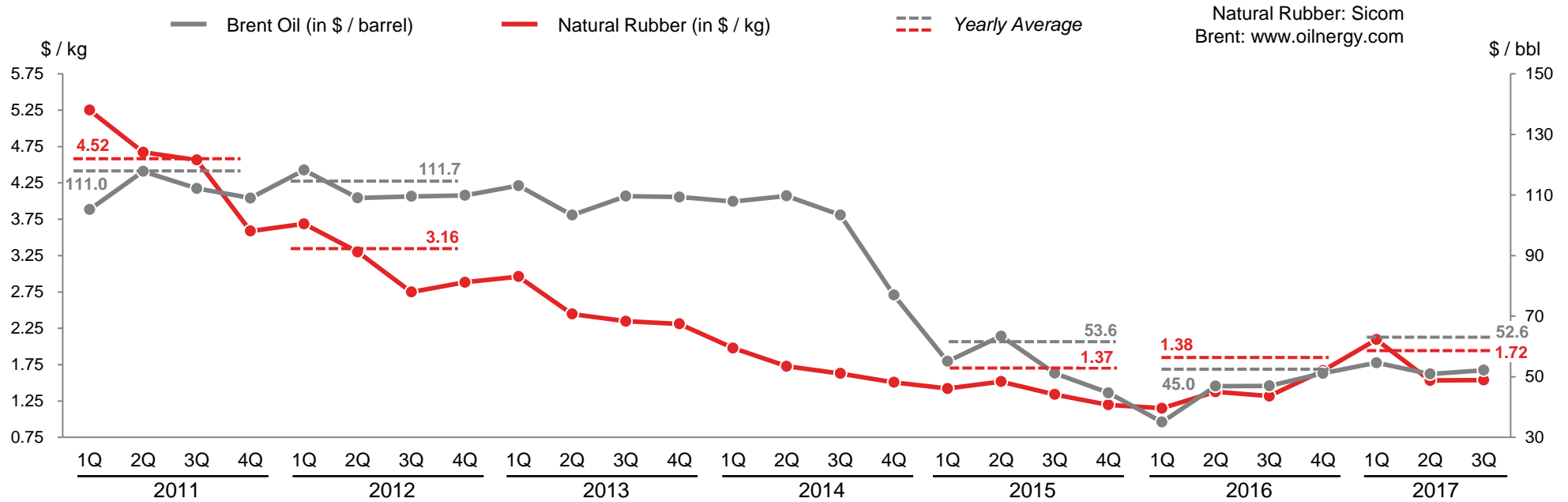
Market trend  
Δ% YoY



Source: Pirelli tyre market estimates based on main data provider for the Region; <sup>1</sup> South America Replacement restated to include Brazilian imports

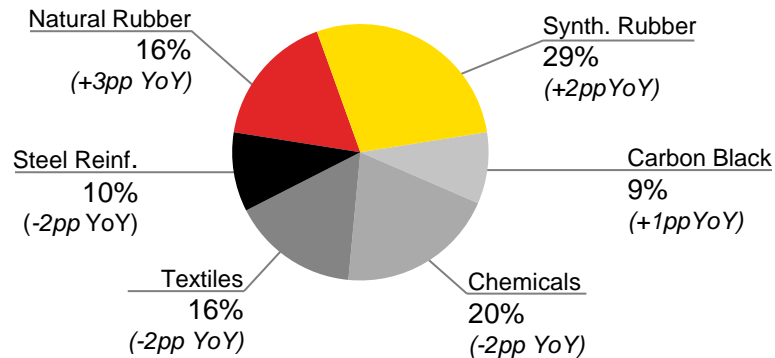
# RAW MATERIAL COSTS TREND AND MIX

## MAIN RAW MATERIALS PRICE TREND



## 9M 2017 MIX (BASED ON PURCHASING COST)

**35%**  
 Raw mat. costs  
 on sales





# PILLAR 1: SHIFTING CAR CAPACITY TOWARDS HIGH VALUE

## PRODUCTION SPLIT

2016A

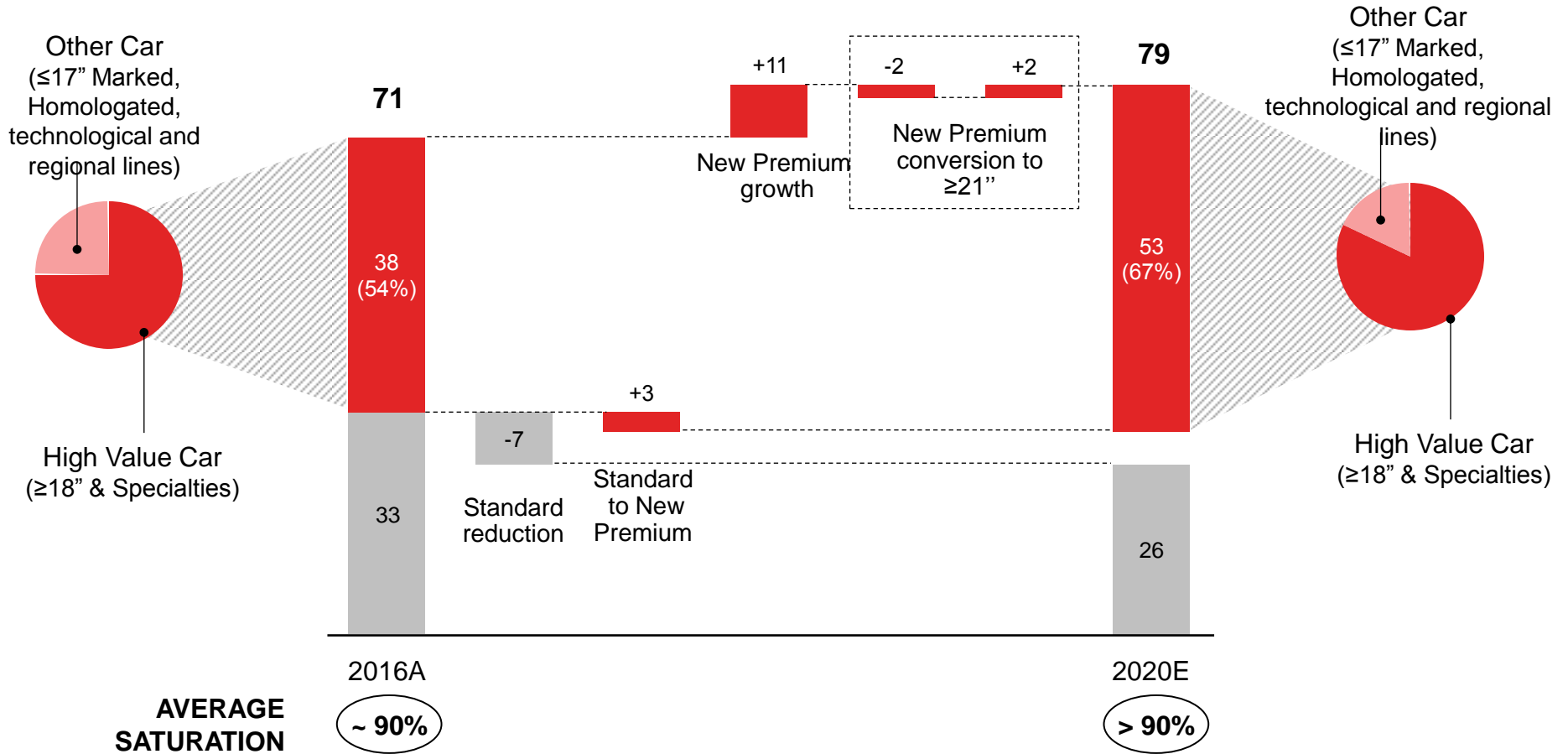
## CAR CAPACITY

Mln pieces

Capacity ≥18"    Capacity ≤17"

## PRODUCTION SPLIT

2020E



Note: rounding might occur

