



SPAFID CONNECT

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Oggetto : PIRELLI & C. S.P.A. BOARD APPROVES
RESULTS FOR YEAR TO 31 DECEMBER
2017

Testo del comunicato

Vedi allegato.



PRESS RELEASE

PIRELLI & C. S.P.A. BOARD APPROVES RESULTS FOR YEAR TO 31 DECEMBER 2017

2017 results in line with guidelines of 2017-2020 industrial plan

- Revenues: +7.6% to 5,352.3 million euro (4,976.4 million in 2016), +7.9% organic growth
- Marked growth in High Value segment: revenues +11.8%, equal to 57.5% of sales (55.3% in 2016). Weight on adjusted Ebit before start-up costs rises to around 83% (81% in 2016)
- Price/mix strong improvement: +6.9% in 2017 and +7.8% in fourth quarter
- Adjusted Ebit before start-up costs: +9.7% to 926.6 million euro (844.3 million in 2016), with a margin on revenues increasing to 17.3% (17.0% in 2016). In the fourth quarter margin at 18.7% (17.6% in fourth quarter 2016)
- Net income for continuing operations: +60.5% to 263.3 million euro (164.0 million in 2016)
- Net financial position at 3,218.5 million euro (4,912.8 in 2016, 4,960.7 for Consumer activities alone)
- Ratio NFP/Adjusted Ebitda before charges and start-up costs improves to 2.7 times (4.6 times in 2016)
- Apac and Nafta confirmed as most profitable areas
- Investments in R & D in 2017 at 221.5 million euro (4.1% of sales) of which 199.9 million euro for High Value activities (6.5% of High Value revenues)
- 2017 saw significant results in sustainability, plan targets updated in line with High Value strategy

2018 FORECASTS

- 2018 revenues expected to grow by 6% or more, or about +10% excluding forex effects, with weight of High Value at about 60% (57.5% in 2017)
- Adjusted Ebit before non-recurring and restructuring charges and start-up costs estimated at over 1 billion euro (926.6 million euro in 2017), with High Value segment accounting for 83% or more (about 83% in 2017)
- Adjusted Ebit before non-recurring charges foreseen at about 1 billion euro (876.4 million in 2017)
- Ratio between net financial position and adjusted Ebitda before non-recurring and restructuring charges and before start-up costs estimated at end 2018 at about 2.3 times (2.7 times in 2017)

As a consequence of the assignment by Pirelli & C. S.p.A. to Marco Polo International Italy of the shares of TP Industrial Holding, the company into which the Industrial assets of Pirelli were conferred, the Industrial business is qualified as a "discontinued operation". The result for the period of the discontinued operation was reclassified in the accounts under the heading "results for disposed operating activities". The comparative data for 2016 have been restated.

Milan, 26 February 2018 - The Board of Directors of Pirelli & C. S.p.A. reviewed and approved results for the 12 months which ended on December 31, 2017 which show growth of the main economic indicators.

The results for 2017 were in line with the guidelines set out in the Industrial Plan for 2017-2020. In particular: Pirelli's strengthening in *High Value* with the progressive reduction of exposure to the standard segment, the consequent improvement of the price/mix component, further reinforcement of partnerships with *Prestige* and *Premium* car makers, increased *High Value* production capacity, extension of the distribution network coverage in Europe, Nafta, Apac and LatAm and the continual development of business programs that intercept the new needs of the end customer (such as *Cyber* and *VeLo*). These are accompanied by plans for the company's digital transformation and the conversion of Aeolus brand production to the Pirelli brand in the Jiaozou Aeolus Car plant.

Sales

Revenues (millions of euro)	31/12/2017	% of total	31/12/ 2016	% of total	Variation y/y	Variation y/y Organic
High Value	3,078.1	57.5%	2,753.8	55.3%	+11.8%	+13.4%
Standard	2,274.2	42.5%	2,222.6	44.7%	+2.3%	+2.3%
Total	5,352.3	100%	4,976.4	100%	+7.6%	+7.9%

Revenues totaled 5,352.3 million euro, with an increase of 7.6% compared with 4,976.4 million euro for 2016, driven by the positive performance of the *High Value* segment. Organic growth was 7.9% and excludes forex impact (-0.7%) and the consolidation of Jiaozou Aeolus Car (+0.4%), the conversion of which to the Pirelli brand continues with the aim of accelerating development in China. The lower growth compared with the 2017 target of ~+9% (about -1.5 percentage points) is due to the greater impact of forex (about -0.7 pp.) and the acceleration of the reduction of exposure to the standard segment (about -0.8 p.p.).

Revenue variants	31/12/ 2017
Volumes	+1.0%
	<i>of which High Value +12.5%</i> <i>of which Standard - 5.3%</i>
Price/Mix	+6.9%
Perimeter variation	+0.4%
Forex	-0.7%
Total variations	+7.6%

The revenue trend benefitted from the strong growth, 6.9%, of the **price/mix** component which is confirmed the highest level among competitors in particular thanks to the improvements of the sales mix and price increases. In the fourth quarter the price/mix was 7.8%.

High Value revenues grew 11.8% to 3,078.1 million euro, compared with 2,753.8 million euro in 2016 (organic growth +13.4%). As a percentage of total sales, **High Value** rose to 57.5% of the total compared with 55.3% in 2016, which as a percentage of Adjusted Ebit before start-up costs it rose to 83% from 81% in 2016.

Volumes in the High Value segment posted significant growth, 12.5%, which involved all *Regions*. In particular, volumes of New Premium Car tyres, above 18 inches, grew 15.4%, reaching levels above the market trend (+10.5%). Total volumes grew 1.0% as a result of significant High Value volume growth and the 5.3% decrease in standard volumes as a result of the strategy of progressively reducing exposure to the less profitable segment mainly in Russia, Latam, Meai and Europa.

Profitability

Profitability (millions of euro)	31/12/2017	%/revenues	31/12/ 2016	%/revenues	Variation y/y
Adjusted Ebitda before non-recurring and restructuring charges and before <i>start-up costs</i>	1,175.1	22.0%	1,082.3	21.7%	+8.6%
Adjusted Ebitda before non-recurring and Restructuring charges	1,137.7	21.3%	1,082.3	21.7%	+5.1%
Adjusted Ebit before non-recurring restructuring charges and before <i>start-up costs</i>	926.6	17.3%	844.3	17.0%	+9.7%
Adjusted Ebit before non-recurring and Restructuring charges and PPA amortizations	876.4	16.4%	844.3	17.0%	+3.8%

Adjusted Ebitda before non-recurring and restructuring charges and start-up costs on 31 December 2017 was 1,175.1 million euro, an increase of 8.6% compared with 1,082.3 million euro in 2016.

Adjusted Ebit before non-recurring and restructuring charges and before start-up costs grew by 9.7% to 926.6 million euro (**in line with 2017 target of around 930 million euro**) compared with 844.3 million euro in 2016, with **High Value** which reached a weight of 83% up from 81% in 2016. The improvement is linked to the effect of internal levers such as price/mix, volumes and efficiencies which more than offset the increase of raw material costs, cost inflation (in particular in emerging markets), greater amortizations and other costs linked to business development.

The **adjusted Ebit margin before non-recurring** charges was 17.3%, an increase compared with 17.0% in 2016. In the fourth quarter of 2017, in particular, the margin on revenues was 18.7%, an increase of 1.1 percentage points from 17.6% in the same quarter of 2016. In 2017, costs relative to new start-up programs, such as the consolidation of Jiaozou Aeolus Car where the conversion to the Pirelli continues, and the launch of the new activities Cyber and Velo, was 50.2 million euro. Adjusted ebit before non-recurring and restructuring charges and amortizations of intangible assets identified in the context of PPA was 876.4 million euro (**in line with 2017 target of around 880 million euro**), an increase of 3.8% compared with 844.3 million euro in 2016.

Performance by geographic area

Revenues (millions of euro)	31/12/2017	% of total 31/12/2017	% of total 31/12/2016	Variation y/y	Variation y/y organic
Europe	2,238.0	41.7%	42.0%	+6.9%	+7.5%
NAFTA	983.9	18.4%	18.8%	+5.3%	+7.4%
APac	806.2	15.1%	14.3%	+13.1%	+14.3%
Latam	915.7	17.1%	16.6%	+11.1%	+7.4%
Russia & CIS	159.6	3.0%	3.3%	-2.1%	-14.6%
MEAI	248.9	4.7%	5.0%	-0.1%	+5.6%
Totale	5,352.3	100%	100%	+7.6%	+7.9%

At the geographic level in 2017, **Europe** registered organic revenue growth of 7.5% (+6.9% including forex effects and variations in perimeter) underpinned by the strengthening of *High Value* (organic growth +12.8%). Profitability was at the *mid-teens* level and discounts the impact of start-up costs, but showed marked improvement in the second quarter (*high teens*) as a consequence of mix improvement and the implementation of price increases. **Nafta** posted an Ebit margin at the *twenties* level, with organic revenue growth of 7.4% (+5.3% including forex effects) thanks to the good performance of *High Value* (organic growth +7.8%) as a consequence of the introduction of *all season* products and thanks to the greater penetration of the retail channel. **Apac**, together with Nafta, saw the highest level of profitability of all the macro-areas, staying at the *twenties* level. Organic revenues in the Apac area, above all due to the performance of *High Value*, increased by 14.3% compared with 2016. Including negative forex effects and the variation in the perimeter resulting from the consolidation of Jiaozou Aeolus Car organic revenue growth was +13.1%. *High Value* revenues grew by 18.3% (organic growth +21.4%). **Meai** registered profitability at *mid-teens* levels, a slight increase compared with 2016, with organic revenues growing 5.6% and stable (-0.1%) including forex effects. The focus on *High Value* continues with organic revenue growth of 23.3% (+19.3% net of forex). **Russia** saw an improvement in profitability to the *low teens* level compared with *low single digit* margins in 2016. Total revenues fell 2.1%, while at the organic level revenues contracted by 14.6%. This dynamic reflects the strategic focus on more profitable segments, with the progressive reduction of production and sales of products not labelled Pirelli. Profitability in the **Latam** area grew to *high single-digit* levels mainly as a result of the continued actions of improvement and reconversion of the mix. During 2017 revenues grew by 11.1% (+7.4% at the organic level excluding forex effects and variations in the perimeter). This performance reflects the continued focus on mix, with the progressive reduction of sales in the *standard* segment, the destination of production for export to North America in consideration of the growing demand of *High Value* products and the contraction of the car market in Argentina.

Net result and net financial position

The **result from equity investments** was negative for 6.9 million euro, a marked improvement compared with -20.0 million euro on al 31 December 2016.

The **net profit from related to continuing operations (Consumer)** on 31 December 2017 was 263.3 million euro, an increase of 60.5% compared with 164.0 million euro on 31 December 2016. The result reflects, as well as the improvement of the operating result and the result from shareholdings, also **lower net financial charges** of 64.7 million euro (362.6 million euro in 2017 compared with 427.3 million euro in 2016, which were impacted also by 25.4 million euro linked to the extinction of the US Private Placement bond loan). The reduction of financial charges was mainly linked to the decline of the cost of debt (5.36% on 31

December 2017 against 5.82% in 2016) thanks to the capital increase underwritten by Marco Polo in the month of June and the refinancing of debt carried out at the end of the first half of the year.

The **net result of disposed operational activities**, which refers to the Industrial business, was negative 87.6 million euro (-16.4 million euro in 2016) in particular because of the accounting effect of the differences in exchange rates on the date of assignment (negative for a total 80.2 million euro and mainly attributable to the Egyptian subsidiary).

The **net cash flow from operations** on 31 December 2017 was positive 772.1 million euro (+771.5 million euro in 2016). The figure reflects higher investments of 147.1 million euro (498.4 million euro compared with 342.3 million euro in 2016) which were offset by the improved operating performance and a careful management of working capital. The investments were mainly aimed at the increase of *High Value* capacity in Europe and in the Nafta area, to the strategic reconversion of Standard capacity into *High Value* in Brazil (Bahia and Campinas), to the transformation of production from Aeolus branded products to Pirelli branded products in the new Car plant in Jiaozuo and the constant improvement of the mix and of quality in all factories. In the fourth quarter of 2017 the net cash flow from operations was positive for 1,163.5 million euro, compared with 969.6 million in 2016.

The **cash flow before extraordinary operations** on 31 December 2017 was positive for 200.3 million euro compared with 336.2 million euro in 2016. The **total cash flow** was positive for 1,694.3 million euro (+418.2 million euro in 2016), and includes the positive effect of 304.6 million euro deriving from the reorganization of the *Industrial* segment and the capital increase underwritten by Marco Polo International Italy of 1,189.4 million euro.

The **net financial position** on 31 December 2017 was negative 3,218.5 million euro (-4,912.8 million euro on 31 December 2016, 4,960.7 million euro for the Consumer activities) also thanks to the positive contribution deriving from the capital increase of about 1.2 billion euro which took place in June. The net financial position/ Adjusted ebitda before charges and start-up costs ratio was 2.7 times (**2017 target below 3 times**), a decrease compared with 4.6 times on 31 December 2016.

In 2017 investments in Research & Development totaled 221.5 million euro, equal to 4.1% of total sales, of which 199.9 million euro destined to *High Value* activities (6.5% of *High Value revenues*).

The net result for the **Parent Company** was positive 170.9 million euro, an increase of 149.5% compared with 68.5 million euro in 2016. In line with what is already known to the market, the Board of Directors will propose to shareholders that no dividend be distributed and carry forward the year's entire profit.

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2018 Forecasts

Forecast data for end 2018

<i>(in milioni di euro)</i>	2017	2018
Revenues	5,352.3	≥+6% (y/y) ~+10% net of forex
<i>Weight of High Value on revenues</i>	57.5%	~ 60%
Adjusted ebit before non-recurring and restructuring charges and start-up costs	926.6	>1,000
<i>Weight of High Value on Adjusted Ebit</i>	~ 83%	≥ 83%
<i>Start-up costs</i>	50	~ 40
Adjusted Ebit before non-recurring and Restructuring charges and PPA amortization	876.4	~1,000
Net financial position / Adjusted Ebitda before non-recurring and restructuring charges and before start-up costs	2.7X	~2.3X
CapEx on revenues	9.1%	~8%

The forecast data for 2018 are in line with the path of growth outlined in the 2017-2020 industrial plan, with a strategy centered on the further reinforcement of High Value and confirm the expected operational performances notwithstanding greater forex volatility.

On the basis of 2017 data, Pirelli expects for the end of 2018 the following forecast data:

- Revenue growth equal to or higher than 6% compared with 5.352.3 billion euro in 2017, equal to about +10% excluding the effect of forex volatility, mainly in the euro-dollar exchange;
- Growing weight of the High Value component, which will be equal to about 60% of total revenues at the end of 2108 (57.5% in 2017);
- Adjusted Ebit before non-recurring and restructuring charges and before start-up costs expected to be above 1 billion euro, compared with 926.6 million euro in 2017, with the High Value accounting for 83% or above (about 83% in 2017);
- Start-up costs declining to about 40 million euro (50 million in 2017);
- Adjusted Ebit before non-recurring and restructuring charges and amortizations identified in the context of PPA expected at about 1 billion euro, compared with 876.4 million euro at the end of 2017;
- Ratio between net financial position and Adjusted Ebitda before non-recurring and restructuring charges and before start-up costs at about 2.3 times, compared with 2.7 times in 2017;
- Capex at about 8% of revenues (9.1% in 2017).

2017 Sustainability Performance and Plan “2017-2020 with selected 2025 targets”

In 2017 significant improvements were achieved in terms of environmental, social and economic performance.

Pirelli achieved significant results in the environmental, social and economic context in 2017. Compared with 2016, Pirelli registered a 4% reduction in the specific consumption of energy, a 14% diminution of water drawing, a more than 4% reduction in specific CO2 emissions, and a 5% increase in the use of electricity from renewable sources of the total used, which brings the weight of renewable to 43%

compared with 38% in 2016. With regard to waste, 93% was sent for recovery, underlining the effectiveness of the move towards the goal of “zero waste to landfill”, that is all waste destined for recovery.

Of primary importance was the investment in the “culture of health and safety in the workplace” and in training, with the indicator of accident frequency falling by 18% in 2017 from 2016 and an investment in training that reached an average of 8 days per employee, thus exceeding for the fifth consecutive year the target of an average of 7 days per capita foreseen for years in the company’s Plans.

In 2017, further, Green Performance tyres accounted for 42% of total tyre sales (up from 40% in 2016).

With regard to the drafting of Pirelli’s policy for the sustainable management of natural rubber, in 2017 multi-stakeholder consultations were of particular importance. These included consultations with Pirelli’s main suppliers of natural rubber, international NGOs, rubber merchants and producers, automotive clients and multi-lateral international organizations.

In January 2018, Pirelli, thanks to actions already taken aimed at the sustainable management of the entire value chain, was declared the world Leader in Sustainability in the Auto Components sector (with a score of 83 compared with a sector average of 42) and a Gold Class Company in the 2018 Sustainability Yearbook edited by RobecoSAM – the company responsible for evaluations for inclusion in the Dow Jones sustainability indices– which looked at 2,479 companies belonging to 60 different industrial sectors. The result obtained by Pirelli is the result of an assessment carried out by RobecoSAM in 2017, when Pirelli participated on a voluntary basis because it was not at the time a listed company and therefore for eligible for inclusion in the indices.

In February 2018 Pirelli also received third party attestation regarding the full compliance of its model for the management of purchasing processes with the requirements of the ISO 20400 “Sustainable Procurement Guidance” standard.

Sustainability plan updated in line with Pirelli’s High Value strategy

To integrate the group’s Industrial Plan and in line with the company’s evolution and focus on High Value, in 2017 Pirelli adapted the new Sustainability Plan “2017-2020 with selected targets to 2025”. Some quantitative targets - of processes and products – to 2020 utilize 2009 as the year of reference to allow the appreciation of long term numeric trends.

In particular, in terms of **product** performance:

- for car products (compared with 2009): reduction of average rolling resistance by 20% and by 14% for High Value products; improved of performance on wet surfaces by 15% and noise reduction by 15%;
- for moto products (compared with 2009): reduction of average rolling resistance by 10%, improved of 40% of performance on wet surfaces and 30% for duration;
- for Velo products: braking performance +5% and on wet surfaces +10% compared with 2017 (year of Pirelli Velo’s launch)

Revenues from *Green Performance* products, in turn, at the of 2020 will represent 50% of total sales, and more than 65% of those of High Value products;

In terms of the environmental efficiency of process (in 2020 compared with 2009):

- reduction by 17% of specific CO2 emissions ;
- reduction of 19% of specific consumption of energy and increase of use of renewables;
- reduction of 66% of specific water drawing;
- rate of waste sent to recovery $\geq 95\%$

Pirelli's commitment to Research & Development – as demonstrated by, among other things, the launch of PIRELLI CONNESSO™ - is directed towards future mobility (connected, autonomous, electric and shared) and towards the development of raw materials with low environmental impact, with the progressive increase of materials from renewable sources and the simultaneous reduction and/or substitution of materials derived from fossils. For specific product segments, Pirelli foresees, by 2025 and compared with 2017, the doubling of the weight of **renewable materials** used and the reduction by 30% of raw materials derived from fossils.

Pirelli, in addition, will continue to protect the values and model of **employment governance** which distinguishes it: from the valuing of diversity to dialogue and sharing of goals, with maximum attention to safety in the workplace, business ethics, as well as welfare and the engagement of its employees. In line with the High Value strategy, a further strengthening of digital and cross-functional culture is foreseen, with investment able to ensure a level of training of at least an average of 7 days per employee per year. In pursuit of the company's "Zero injuries at work" philosophy, Pirelli also foresees a further reduction of the index of injury frequency of 87% by 2020 compared with 2009.

In 2018 it is also foreseen that Pirelli's Policy on the sustainable management of the natural rubber supply chain will be implemented (adopted during 2017) through the preparation of a manual to be submitted for consultation to important stakeholders and accompanied by training in the field.

In conclusion, **Corporate Governance** inspired by the best international practice, together with the inclusion of sustainability targets in the annual and long term systems of management evaluation and motivation, constitute a solid foundation for Pirelli's enduring development.

New LTI Plan

The Board of Directors of Pirelli, in line with that which was announced during the IPO, approved the adoption of a new 3-year 2018-2020 monetary incentive plan (LTI Plan) – destined to all management (about 290 people) – correlated to the targets for the period 2018/2020 contained in the 2017/2020 industrial plan.

The LTI (*Long Term Incentive*) Plan was approved – also in accordance with article 2389 of the civil code – at the proposal of the Remuneration Committee and with the favourable opinion of the Board of Statutory Auditors, in relation to the subjects for whom this opinion is requested. In the part linked to *Total Shareholder Return*, the LTI Plan will be submitted for approval at the Shareholders' meeting called to approve results for the 12 months ended on 31 December 2017.

The LTI Plan, in line with the mechanisms of variable retribution adopted at the international level, is also based on the performance of Pirelli shares (*Total Shareholder Return*) allowing in this way the alignment of management and shareholder interests.

The LTI Plan – as in the past totally self-financed, in so far as the relative charges are included in the economic figures of the industrial plan – includes an *on/off* condition, represented by the company's deleveraging (*Net Financial Position/Ebitda Adjusted* ratio below 2 times on 31 December 2020) and the following targets:

- *Group Return on Sales (ROS)*, with a weight at target of 30% of the LTI premium;
- *Group "absolute" Total Shareholder Return*, with a weight at target of 40% of the LTI premium;
- *Group "relative" Total Shareholder Return compared with a selected panel of peers, with a weight at target of 20%* of the LTI premium;
- Position of Pirelli on the *Dow Jones Sustainability World Index* ATX Auto Components sector, with a weight at target of 10% of the LTI premium.

The LTI Plan terminates on 31 December 2020 and sets in the second quarter of 2021 the date of the eventual payment of the medium/long term incentive matured, on condition that, on 31 December 2020, the relationship as an employee of the participant has not ended.

The participants in the LTI plan include, among others, the Executive Vice Chairman and Chief Executive Officer of Pirelli & C., Marco Tronchetti Provera, the *Executive Vice President and Chief Financial Officer*, Francesco Tanzi; the *Executive Vice President and Chief Planning and Controlling Officer*, Maurizio Sala; the *Executive Vice President and Strategic Advisor Technology*, Maurizio Boiocchi; the *Executive Vice President and Chief Commercial Officer Roberto Righi*; the *Senior Vice President Manufacturing*, Francesco Sala; the *Executive Vice President Business Unit Prestige & Motorsport & COO Region Europe*, Andrea Casaluci and the *Executive Vice President Pirelli Digital*, Luigi Staccoli. The LTI plan also applies to senior managers and Executives of the Group (including board member Giovanni Tronchetti Provera) and can be also extended to those who, during the course of the 3-year period, assume, either through internal career growth or new hiring, an Executive position.

The LTI Plan is also aimed at retention. In the event that the employee relationship ends before the end of the 3-year period, with the exception of natural circumstances, the recipient's ceases to participate in the LTI Plan and as a consequence the LTI premium will not be provided, not even pro-quota. In the case of Board Members holding particular roles to whom specific attributions are delegated (it is the case of the Executive Vice Chairman and Chief Executive Officer Mr. Marco Tronchetti Provera) who cease in the role because their mandate has been completed and are not subsequently nominated, not even as board members, pro-quota payment of the LTI premium is foreseen.

For further information on the functioning of the LTI Plan, one may refer to the Remuneration Report which will be submitted (for the part relative to Policy in relation to Pirelli remuneration for 2017) for a consultative vote of the Shareholders' meeting called to approve results for the year ended 31 December 2017, as well as the illustrative report and the information document relative to the LTI Plan which will be made available to the public, under the conditions and modes called for by prevailing law, and also regulation.

Call of shareholders' meeting

The Board of Directors has decided to call (sole call on 15 May 2018) the Shareholders' meeting to approve 2017 results. The Shareholders' meeting will also be called upon to decide with regard to increase to 15 of the number of board members, through the nomination of a board member indicated by minority shareholders (as announced to the market during the IPO) and regarding the renewal of the board of statutory auditors, which expires as its mandate will be completed.

Further, the Shareholders' meeting will be called upon to express itself via a consultative vote on the remuneration Policy, as well as to approve, for the part regarding Total Shareholder Return, the adoption of the LTI Plan. In conclusion, the Shareholders' meeting will be called upon to express itself on the renewal of the insurance Policy covering the managerial risks of Board Members and Auditors (c.d. D&O).

More information on the above will be available in the illustrative reports of the Board of Directors meeting which also contain the single deliberative proposals of the Shareholders' meeting.

Events after 31 December 2017

On **10 January 2018** Pirelli launched the operation for the disposal of ordinary shares held in Mediobanca reserved for "qualified investors" in Italy and foreign institutional investors through an accelerated *bookbuilding* procedure. On 11 January 2018 Pirelli announced that it had successfully concluded the

disposal of 15,753,367 ordinary shares of Mediobanca – corresponding to approximately 1.8% of company capital with voting rights and representing the entire stake held directly by Pirelli in Mediobanca - to “qualified investors” in Italy and foreign institutional investors. The total net proceeds for Pirelli deriving from the operation amounted to approximately 152.8 million di euro.

On **22 January 2018** Pirelli placed with international institutional investors a bond loan for a nominal value of 600 million euro, 5-year duration and fixed rate. The issue, with a yield 110 basis points above the reference rate, facilitates the optimization of debt by lengthening maturities and reducing its cost. As evidence of investors’ confidence in Pirelli, the loan closed with orders totaling 2.4 billion euro from approximately 280 international investors. The effective yield at maturity is 1.479% and the bonds will be listed on the Luxembourg stock exchange. Further, during the first weeks of January, Pirelli began an operation to modify the economic conditions of the group’s main bank lines – regarding a total notional amount of 4.2 billion euro, including a revolving line in the amount of 700 million euro – which will reduce the applied interest margin by 30 basis points.

On **23 February 2018** Pirelli International Plc (a company controlled by Pirelli) decided to proceed to exercise its option for the early reimbursement and subsequent cancellation of the “*Pirelli International PLC €600,000,000 1.750 per cent. Guaranteed Notes due 18 November 2019*” bond loan, listed on the Luxembourg stock exchange with maturity on 18 November 2019 (the “**Notes 2019**”). The early reimbursement, which regards the totality of the Notes 2019 and which answers to the announced goal of constantly optimizing the group’s financial structure, will take place through the exercise of the “*Make Whole Issuer Call*” foreseen in the loan’s prevailing *Terms and Conditions*. The conclusion of the operation is expected by 31 March 2018.

Conference call

The results for the year ended 31 December 2017 will be illustrated today, 26 February 2018, at 15:00 via 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 dialing **+39 02 805 88 27**. The presentation will also be accessible through webcasting – in real time – at www.pirelli.com in the Investors section, where the slides can also be consulted.

The Manager indicated for the preparation of the company accounting documents of Pirelli & C. S.p.A., Mr. Francesco Tanzi, declares that 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 correspond to the documentary results, books and accounting texts.

Pirelli Press Office – Tel. +39 02 64424270 – pressoffice@pirelli.com
Pirelli Investor Relations – Tel. +39 02 64422949 – ir@pirelli.com

www.pirelli.com

ALTERNATIVE PERFORMANCE INDICATORS

This document, in addition to the financial measures as 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 Group operations and must not be considered as alternatives to those required by IFRS.

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

- **EBITDA adjusted:** the (EBITDA adjusted) is equal to the EBIT and excludes the amortisation of intangible and depreciation of tangible assets as well as non-recurring and restructuring expenses;
 - **EBITDA adjusted without start-up costs:** the EBITDA adjusted without start-up costs is equal to the EBITDA adjusted but excludes the contribution of the start-up costs (equal to a total amount of euro 37.4 million) represented by the Cyber™ and Velo activities, and by costs for the conversion of Aeolus brand Car products, as well as costs sustained for the digital transformation of the Company;
 - **EBIT:** EBIT is an intermediate measure, which is derived from the net income but which excludes taxes, financial income, financial expenses and the results from investments;
 - **EBIT adjusted:** the EBIT adjusted is an intermediate measure, which is derived from the EBIT and which excludes the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, as well as operational costs attributable to non-recurring and restructuring expenses.
 - **EBIT adjusted without start-up costs:** the EBIT adjusted without start-up costs is equal to the EBIT adjusted but excludes the contribution to the start-up costs (equal to the total amount of euro 50.2 million) represented of the Cyber and Velo activities, and by the costs for the conversion of Aeolus brand Car products, as well as the costs sustained for the digital transformation of the Company;
 - **Net income (loss) related to continuing operations (Consumer) adjusted:** the adjusted net income related to continuing operations is calculated by adjusting the net income (loss) related to assets in operation for the following items:
 - o the amortisation of intangible assets related to assets detected as a consequence of Business Combinations, and operational costs due to non-recurring and restructuring expenses;
 - o non-recurring costs/income recognised under financial income and expenses;
 - o non-recurring costs/income recognised under taxes, as well as the tax impact related to the adjustments referred to in the previous points;
- Fixed assets related to continuing operations:** this measure is constituted by the sum of the items *"Property, plant and equipment"*, *"Intangible fixed assets"*, *"Investments in associates and joint ventures"* and *"Other financial assets"*;
- **Provisions:** this measure is constituted by the sum of *"Provisions for liabilities and charges (current and non-current)"*, *"Employee benefit obligations"* and *"Provisions for deferred taxes"*;
 - **Operating working capital related to continuing operations:** this measure is constituted by the sum of *"Inventory"*, *"Trade receivables"* and *"Trade payables"*;
 - **Net working capital related to continuing operations:** this measure consists of the operating working capital and other receivables and payables not included in *the "Net financial liquidity/(debt) position"*;
 - **Net financial (liquidity)/debt position:** this measure is represented by the gross financial debt less cash and cash equivalents as well as financial receivables.

Pirelli & C. Group

(In millions of euro)	12/31/2017	12/31/2016 *	12/31/2016 Carve out (**)
Net sales	5.352,3	4.976,4	4.976,4
EBITDA adjusted without start-up costs	1.175,1	1.082,3	1.082,3
% of net sales	22,0%	21,7%	21,7%
EBITDA adjusted	1.137,7	1.082,3	1.082,3
% of net sales	21,3%	21,7%	21,7%
EBIT adjusted without start-up costs	926,6	844,3	844,3
% of net sales	17,3%	17,0%	17,0%
EBIT adjusted	876,4	844,3	844,3
% of net sales	16,4%	17,0%	17,0%
Adjustment: - amortisation of intangible assets included in PPA	(109,6)	(104,6)	(104,6)
- non-recurring and restructuring expenses	(93,2)	(53,2)	(53,2)
EBIT	673,6	686,5	686,5
% of net sales	12,6%	13,8%	13,8%
Net income (loss) from equity investments	(6,9)	(20,0)	(20,0)
Financial income/(expenses)	(362,6)	(427,3)	(427,3)
Net income (loss) before tax	304,1	239,2	239,2
Tax expenses	(40,8)	(75,2)	(75,2)
Tax rate % on net income (loss) before tax	(13,4%)	(31,4%)	(31,4%)
Net income (loss) related continuing operations (Consumer)	263,3	164,0	164,0
Earnings/(loss) per share related to continuing operations (in euro per share)	0,31	0,22	0,22
Net income (loss) related to continuing operations (Consumer) adjusted	386,8	296,6	296,6
Net income (loss) related to discontinued operations (Industrial)	(87,6)	(16,4)	
Total net income (loss)	175,7	147,6	
Net income attributable to the Parent Company	176,4	135,1	
Fixed assets related to continuing operations	9.121,0	10.299,2	9.167,6
Inventories	940,7	1.055,6	874,0
Trade receivables	652,5	679,3	680,1
Trade payables	(1.673,6)	(1.498,5)	(1.280,5)
Operating working capital related to continuing operations	(80,4)	236,4	273,6
% of net sales	(1,5%)	n.a.	5,5%
Other receivables/other payables	(42,2)	(310,7)	19,0
Net working capital related to continuing operations	(122,6)	(74,3)	292,6
% of net sales	(2,3%)	n.a.	5,9%
Net invested capital held for sale	60,7	-	-
Net invested capital	9.059,1	10.224,9	9.460,2
Equity	4.177,0	3.274,9	2.633,4
Provisions	1.663,6	2.037,2	1.866,1
Net financial (liquidity)/debt position	3.218,5	4.912,8	4.960,7
Equity attributable to the Parent Company	4.116,7	3.134,1	
Investments in property, plant and equipment and intangible assets	489,4		372,2
Research and development expenses	221,5		208,6
% of net sales	4,1%		4,2%
Research and development expenses - High Value	199,9		191,0
% on sales Premium	6,5%		6,9%
Employees (headcount at end of period)	30.189		29.787
Industrial sites (number)	19		19

(*) on the basis of IFRS 5 accounting principle: a) the economic comparative figures at 12/31/2016 related to the Industrial business have been reclassified in the item "Net income (loss) related to discontinued operations"; b) balance sheet comparative figures at 12/31/2016 have not been restated and consequently include the figures related to the Industrial business

(**) the figures refer to the "Carve out" Consolidated Financial Statements at 12.31.2016 of the Consumer Business included in the Registration Document, prepared for the listing of Pirelli Group and released on 09.15.2017.

Cashflow statement

(In millions of euro)	1 Q		2 Q		3 Q		4 Q		Cumulative at 12/31	
	2017	2016 Restated	2017	2016 Restated	2017	2016 Restated	2017	2016 Restated	2017	2016 Restated
Adjusted operating income (loss)	205,0	203,6	211,2	209,6	226,0	207,5	234,2	223,6	876,4	844,3
Amortisation and depreciation	65,4	57,9	64,8	58,8	63,9	64,0	67,2	57,3	261,3	238,0
Investments in property, plant and equipment	(98,3)	(70,0)	(117,4)	(77,8)	(111,9)	(74,1)	(161,8)	(120,4)	(489,4)	(342,3)
Change in working capital/other	(892,2)	(783,8)	123,9	70,1	(131,8)	(63,8)	1.023,9	809,0	123,8	31,5
Operating net cash flow	(720,1)	(592,3)	282,5	260,7	46,2	133,6	1.163,5	969,5	772,1	771,5
Financial income/(expenses)	(77,0)	(133,7)	(149,4)	(118,7)	(63,5)	(99,2)	(72,7)	(75,7)	(362,6)	(427,3)
Taxes paid	(45,7)	(26,7)	(6,1)	(33,2)	(65,1)	(35,6)	(18,6)	(8,9)	(135,5)	(104,4)
Financial (investments) / disinvestments	(1,7)	(5,2)	(0,8)	11,1	-	-	-	(12,6)	(2,5)	(6,7)
Disposal of real estate	-	-	-	-	-	16,1	-	75,0	-	91,1
Disposal of investments	-	-	-	-	-	-	25,7	109,0	25,7	109,0
Partial acquisition of minority interest Pneuc - Brazil	-	-	-	-	(15,4)	-	-	-	(15,4)	-
Dividends approved to non-controlling interests	-	-	-	-	(12,9)	-	-	-	(12,9)	-
Cash Out for non-recurring and restructuring expenses	(11,9)	(17,7)	(4,6)	(9,4)	(6,8)	(8,3)	(40,5)	(13,9)	(63,8)	(49,3)
Disposal of minority equity investments	(5,5)	-	-	-	-	-	-	-	(5,5)	-
Financial expenses included in the acquisition debt	-	-	-	122,2	-	-	-	-	-	122,2
Reversal of Bidco Facility costs post-merger / other adjustments of refinancing included in financial expenses/income	-	-	-	-	-	-	-	23,0	-	23,0
Differences from foreign currency translation/other	(19,8)	(62,7)	2,4	(25,7)	6,3	(1,1)	11,8	(103,4)	0,7	(192,9)
Net cash flow before extraordinary	(881,7)	(838,3)	124,0	207,0	(111,2)	5,5	1.069,2	962,0	200,3	336,2
Industrial reorganization	269,3	59,3	35,3	37,9	-	21,5	-	(71,8)	304,6	46,9
Change NFP Bidco from 01/01 to 05/31	-	-	-	(134,3)	-	-	-	-	-	(134,3)
Industrial to Cinda	-	-	-	-	-	-	-	266,0	-	266,0
Bidco Facility costs post-merger / adjustments of refinancing	-	-	-	-	-	-	-	(23,0)	-	(23,0)
Share capital increase subscribed by Marco Polo	-	-	1.189,4	-	-	-	-	-	1.189,4	-
Aeolus Car NFP impact	-	-	-	-	-	-	-	(73,6)	-	(73,6)
Net cash flow	(612,4)	(779,0)	1.348,7	110,6	(111,2)	27,0	1.069,2	1.059,6	1.694,3	418,2

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