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Testo del comunicato

Vedi allegato.

PIRELLI

PRESS RELEASE

Board of Pirelli & C. S.p.A. has approved the consolidated results to 31 December 2018

TOTAL NET PROFIT: + 152% TO 442.4 MILLION EURO (175.7 MILLION AS AT 31 DECEMBER 2017)

THE BOARD WILL PROPOSE FOR THE SHAREHOLDERS' MEETING THE DISTRIBUTION OF A DIVIDEND OF 0,177 EURO FOR EVERY SHARE, EQUIVALENT TO A TOTAL DIVIDEND OF 177 MILLION EURO

Results for the 12 months ended 31 December 2018

- Revenues at 5,194.5 million euro, +3.7% at the organic level

- High Value Revenues: +10.3% at organic level thanks to strengthening in all Regions. Weight on total sales rises to 63.7% from 57.5% on 31 December 2017

- High Value Volumes: +11%, with volumes of 'New Premium' Car (≥18 inches) +14.3%

- Price/mix: +6.8% underpinned by the growing weight of High Value and improved product and channel mix (price/mix +8.1% in fourth quarter)

- Adjusted Ebit before start-up costs: +8.2% to 1,002.7 million euro, with a Ebit margin adjusted before start-up costs at 19.3% (17.3% in 2017), thanks to High Value which reached a weight of over 83%

- Adjusted Ebit: +9% at 955 million euro (876.4 million euro on 31 December 2017), with a Ebit margin adjusted of 18.4% (16.4% on 31 December 2017, 20.1% in fourth quarter 2018)

- Total net profit: +152% to 442.4 million euro (175.7 at 31 December 2017)

- Net financial position: negative 3,180.1 million euro, an improvement compared 4,038.3 million euro on 30 September 2018 and 3,218.5 million on 31 December 2017. The Net Financial Position at the end of 2018 includes approximately 140 million euro consisting of advances on financial investments in the JV in China and the slowdown/restructuring in Brazil to be recouped between now and 2020. Consequently the Net Financial Position/Adjusted Ebitda before start-up costs reached 2.49x (2.7x in 2017, 2.35x the 2018 target)

- Investments of 463.4 million euro (489.4 million euro in 2017) mainly destined to the growth of High Value and the improvement of mix and quality

- Research & Development expenditure: 219 million euro in 2018 (4.2% of sales), of which 202.9 million euro for High Value activities (6.1% of revenues in the segment)

- Further improvement of environmental, social and economic results: Pirelli global leader in sustainability in the Automobiles & Components sector in the Dow Jones World and Europe indices

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As a result of the assignment in March 2017 by Pirelli & C. S.p.A. to the parent company Marco Polo International Holding Italy S.p.A. of the shares of TP Industrial Holding SpA, a company in which almost all of Pirelli's Industrial assets converged, in continuity with the year 2017 some residual activities in China and Argentina relating to the Industrial business qualify as "discontinued operations". The result of the discontinued operations was classified in the income statement in a single item as "result of discontinued operations". The separation process in Argentina was completed in June 2018 and in China in the fourth quarter of 2018.

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Milan, 26 February 2019 - The Board of Directors of Pirelli & C. S.p.A. met today and approved the results for the 12 months that ended on 31 December 2018. The year saw operating trends in line with targets thanks to the resilience of the business model, with its focus on High Value, the performance of which was better than that of the market.

The key characteristics of 2018 were:

- **Organic revenue growth** of +3.7%, thanks to the **reinforcement registered in all Regions of the High Value segment**, which today accounts for 63.7% of total revenues (+6.2 percentage points compared with 57.5% in 2017). High Value volumes posted growth of 11% with an improvement of the market share in Car New Premium (Pirelli sales volumes +14.3% in Car ≥18" compared with market growth of +10%).
- **Improvement of price/mix**, at +6.8% in 2018 (target +6.5%), as a consequence of the growing weight of the high end, the progressive improvement of the product and channel mix and price increases in emerging countries to offset exchange rate volatility;
- **Reduction of exposure to the Standard segment**, with a 14% volume decrease as a consequence of the acceleration of the exit from less profitable, lower rim size products in a context of general slowdown in the Standard segment;
- **Acceleration of the efficiencies' program** beginning from the third quarter (70 million euro for full year 2018, 1.3% of revenues) which more than offset costs' inflation (-48 million euro).
- **Rapid implementation of actions to recoup costs** (about 50 million euro) to counter the worsening market trend of the Standard segment in emerging countries, in particular in South America.
- A further **increase of profitability** of 2 percentage points to 18.4% (Adjusted Ebit margin on revenues).

Revenues

Revenues (e*uro millions*)	2018	% of total	2017	% of total	Variation y/y	Organic variation y/y
High Value	3,309.9	63.7%	3,079.2	57.5%	+7.5%	+10.3%
Standard	1,884.6	36.3%	2,273.1	42.5%	-17.1%	-5.4%
Total	**5,194.5**	**100%**	**5,352.3**	**100%**	**-2.9%**	**+3.7%**

Revenues totaled 5,194.5 million euro (2018 target about 5.2 billion) with organic growth of 3.7% compared with 31 December 2017 thanks to the positive performance of the *High Value* segment. The overall variation of revenues was -2.9% including the effect of exchange rates and the adoption of IAS 29 accounting principle to take into account high inflation in Argentina (for a total impact of -5.9%) and the effect deriving from the application of the new IFRS 15 accounting principle on revenues (-0.7%).

Revenue variants		2018
Volumes		-3.1%
	of which High Value +11%	
	of which Standard -14%	
Price/Mix		+6.8%
Adoption of new IFRS 15 principle		-0.7%
Exchange rates/IAS 29 Argentina		-5.9%
Total variazion		-2.9%

Revenues from ***High Value*** totaled 3,309.9 million euro, registering organic growth of 10.3% (+7.5% including the negative exchange rate effect of -2.8%), with an increase to 63.7% of total revenues compared with 57.5% on 31 December 2017.
Volumes in the High Value segment registered marked growth, +11%, with an improvement of market share in the main Regions. In particular, volumes of **Car New Premium above 18 inches** grew by 14.3% reaching levels above the market's performance (+10%), thanks to strong demand in Europe, Apac and North America and the growing demand for Pirelli *specialties* with rim sizes ≥18 inches.

The total growth of High Value volumes was more contained than the 2018 target of around +13% and was impacted by the decline in Original Equipment sales in Europe in the second half of the year following the introduction of new CO2 emissions tests (WLTP). In the last quarter, in particular, High Value volumes grew by 7.2% (+7.6% Car New Premium), with a markedly positive performance in the Replacement channel which grew by 15.2% (+15.6% New Car Premium), while Original Equipment saw a decline of 2.3% (-1.2% New Car Premium).

The difference in volume growth of *High Value* compared with Car ≥ 18 inches can be attributed to lower demand for *specialties* with rim sizes of ≤17 inches, included in *High Value*, in favour of those with bigger rim sizes, and the general slowdown of the Premium moto market (+1.8% in 2018 compared with +8.1% in 2017).

Total volumes were down by 3.1%, which resulted from the great increase in High Value volumes on the one hand and the 14% fall, on the other, in Standard volumes (-22.6% in the fourth quarter), above the 2018 target of -12%. The sharper decline registered in the fourth quarter (-22.6%) can be attributed to the deterioration of the market context in the Standard segment in Latam (market -7.1% in 2018, -14.6% in fourth quarter), Pirelli's decision to accelerate volume reductions of less profitable products, given the growing competitive pressure in this segment, and the worsening macro-economic context.

The **price/mix** improved (+6.8% on 31 December 2018), supported by the growing weight of High Value, the improvement of the mix in the Standard segment and price increases in emerging markets to counter exchange rate volatility. In the fourth quarter, the price/mix improvement was more marked, at +8.1%, as a result of the channel mix improvement following the double-digit growth in the replacement market and price increases in emerging markets.

The performance of exchange rates was negative, mainly due to exchange rate volatility in emerging countries. This dynamic, together with the application of the IAS 29 accounting principle to take into account Argentina's high inflation, had a negative impact of -5.9% to 31 December 2018 (-3.4% in the first quarter of 2018).

Profitability

Profitability *(euro millions)*	2018	% of revenues	2017	% of revenues	Variation y/y
Ebitda Adjusted before start-up costs	**1,279.1**	**24.6%**	**1,175.1**	**22.0%**	**+8.9%**
Ebitda Adjusted	1,234.7	23.8%	1,137.7	21.3%	+8.5%
Ebit Adjusted before start-up costs	**1,002.7**	**19.3%**	**926.6**	**17.3%**	**+8.2%**
Ebit Adjusted	955.0	18.4%	876.4	16.4%	+9.0%

Adjusted Ebitda before start-up costs in 2018 was 1,279.1 million euro, an increase of 8.9% compared with 1,175.1 million euro for the same period in 2017.

Adjusted Ebit before start-up costs grew by 8.2% to 1,002.7 million euro (2018 target over 1 billion euro) compared with 926.6 million euro for the same period in 2017. **The Adjusted Ebit margin before start-up costs** was 19.3% an increase of 2 percentage points compared with 17.3% in the same period of 2017. Over the course of 2018, the costs relating to new start-up programs totaled 47.7 million euro compared with 50.2 million euro on 31 December 2017. These costs stemmed from:

- *Cyber* activities dedicated to Premium and Prestige Original Equipment clients, to the world of fleets (Cyber Fleet) and new Consumer solutions that will be launched in 2019;
- The Velo business, with the expansion of the range through the introduction of new Road Racing products (Cinturato Velo) and a line entirely dedicated to electric bicycles (Cycl-e). The Velo business – which has launched new collaborations with Premium bicycle producers – is expected to break even in 2019;
- The conversion, completed in 2018, of Aelous brand production to the Pirelli brand in the Car factory in Jiaozuo;
- The intensification of digital transformation projects to support the long-term cost containment plan in view of the growing complexity of the business. The greater resources earmarked for these activities resulted in an increase of about 8 million euro in start-up costs compared with the year's target of around 40 million euro.

In the fourth quarter, the adjusted Ebit margin before start-up costs was 21.3% compared with 18.7% in the fourth quarter of 2017.

Adjusted Ebit was 955.0 million euro (2018 target about 1 billion euro), an increase of 9% compared with 876.4 million euro in the same period of 2017, with a Ebit margin improved by 2 percentage points to 18.4% compared with 16.4% on 31 December 2017. The improvement was the result of internal levers such as price/mix, efficiencies and cost actions that more than offset impacts stemming from the

deterioration of external factors (raw materials, exchange rates and inflation) and the decline of Standard segment volumes.
In particular:

- Improvement of the price/mix (+239 million euro) has more than compensated for the impact stemming from the increase in raw materials (-52 million euro) and the volatility of exchange rates (-43 million euro), as well as the already mentioned decline in volumes (-68 million euro);
- The positive balance of 22 million euro between industrial efficiencies (70 million euro, equal to 1.3% of revenues) and costs' inflation (-48 million euro). The efficiencies, in particular, regarded industrial and product activities: from the optimization of raw material costs to the simplification of products, the improvement of productivity thanks to the growing digitalization of processes;
- The approximately 50 million euro cost reduction plan, kicked off in the second half of 2018 to counter the fall in Standard segment sales – particularly in Brazil – contributed to the containment of increases in amortizations and other costs linked to High Value (-71 million euro);
- Start-up costs which were 2.5 million euro lower (-47.7 million euro in 2018 from -50.2 million euro in 2017).

Ebit amounted to 703.1 million euro, an increase of 4.4% compared with 673.6 million euro on 31 December 2017. This mainly includes amortizations of intangible assets identified through PPA of 114.6 million euro (109.6 million euro in 2017), costs linked to the revision of commercial agreements and royalties of 14.2 million euro (of which 9 million euro refer to the remodulation of some of the existing terms of the licensing contract with the Aeolus company), costs not pertaining the usual operations management amounting to 18.3 million euro, charges of 13.3 million euro relating to the retention plan and non-recurring and restructuring charges of 91.5 million euro (93.2 million euro in 2017). This figure includes restructuring costs of 67.5 million euro related to actions to rationalize structures related to the Standard business launched at the end of 2018 and which will continue in the 2019-2020 period, as well as non-recurring charges of 24 million euro.
The impact on the net result of non-recurring and restructuring charges is substantially offset by the benefits from the Patent Box (approximately 89 million euro for the 2015-2018 four-year period).

Performance by Region

Revenues *(euro millions)*	2018	% of total 2018	% of total 2017	Variation y/y	Organic variation y/y
Europe	2,234.2	43.1%	41.7%	-0.2%	+1.4%
Nafta	1,004.1	19.3%	18.4%	+2.1%	+7.6%
Apac	890.2	17.1%	15.1%	+10.4%	+13.3%
Latam	691.9	13.3%	17.1%	-24.4%	-3.1%
Russia & CIS	167.0	3.2%	3.0%	+4.6%	+15.5%
Meai	207.1	4.0%	4.7%	-16.8%	-6.6%
Total	**5,194.5**	**100%**	**100%**	**-2.9%**	**+3.7%**

At the regional level, **Europe** registered, in 2018, organic revenue growth of 1.4% (-0.2% including the effect of exchange rates of -0.4% and the effect of the adoption of the new IFRS 15 accounting principle of -1.2%). The strengthening of High Value continued, with organic revenue growth of 7.0% despite the decline in the Original Equipment market (car OE market -5% in the third quarter and -5% in the fourth quarter) following the introduction of new WLTP tests for CO2 emissions and the weakness of the

Premium moto market (-2.4% in 2018 compared with +3.3% in 2017). In this context, Pirelli improved its market share in Car ≥18'' both in Original Equipment, thanks to the expansion of the homologation portfolio with Premium and Prestige car makers, and in the Replacement channel, thanks to the *pull-through* effect. Profitability was in the *high-teens,* an improvement of over one percentage point compared with 31 December 2017 mainly due to the continuing mix improvement and efficiencies.

Nafta achieved organic revenue growth of +7.6% (+2.1% including the -4.5% negative effect of exchange rates and negative -1% impact of new IFRS 15 accounting principle). This was driven by *High Value* (organic growth +9.3%) and, in particular, by the sustained growth in the Replacement channel, with an increase of market share thanks to the success of specialties ≥18'' and *All Season* products. Profitability (Adjusted ebit margin) improved by over one percentage point to *Twenties* levels, thanks to the growing weight of the high end and the progressive appreciation of the dollar.

Apac confirmed its position as the Region with the greatest growth and highest level of profitability (Adjusted ebit margin in the "*Twenties*"), a marked improvement from the prior year. Revenues saw organic growth of 13.3% (+10.4% including the negative exchange rate impact of -2.9%). This was driven by *High Value* (organic revenue growth of +21.0%), thanks to greater exposure to the Original Equipment channel, which counts new supply contracts and homologations with European and local car makers, an increase in market share in the Replacement channel thanks to the *pull through* effect and an ever wider commercial presence with over 4,500 points of sale.

Latam revenues registered an organic variation of -3.1% impacted above all by a 14.8% fall in volumes (the overall variation was -24.4% including the effect of exchange rates and the application of high inflation accounting in Argentina for a total negative impact of 21.1% and the difference in perimeter stemming from the application of the new IFRS 15 of 0.2%). This trend reflects the weakness of the market (total car market -6.8% in 2018, -14.4% in the fourth quarter), the continuation of the focus on mix, with a reduction of sales of less profitable, lower rim size Standard products, the export of a part of production to North America. The price/mix improved greatly (+11.7% on the year, +23.8% in the fourth quarter) thanks to price increases in Brazil, which took place in the fourth quarter, and the great improvement in the product mix. Profitability (Adjusted *ebit margin*) was High*-single digit*, a decline compared with 2017, which discounts the already mentioned fall in volumes, the impact of the application beginning from the third quarter of 2018 of high inflation accounting in Argentina and the growing cost of raw materials made more onerous by unfavorable exchange rates. These impacts were offset, in part, by improvements in the mix, greater efficiencies and actions on cost structures (actions on purchasing, advertising and marketing budgets, consultancies, travel expenses and other general expenditures) of about 20 million euro in reply to the difficult external context.

The strategic focus on the more profitable segments and the recovery of the market had a positive impact on **Russia's** 2018 results, with a further improvement in profitability to the *High-teens* (*low-teens* in 2017). Revenues saw organic growth of 15.5% (+4.6% including a negative exchange rate impact of 10.9%).

Meai achieved profitability in the *low-teens*, slightly lower than 2017 mainly due to the impact of exchange rates, in particular in Turkey. Revenues saw an organic variation of -6.6%, (-16.8% including the effect of exchange rates) due to the volume reduction in the Standard segment.

Net results and net financial position

The result from investments in 2018 was a loss of 5 million euro, an improvement on the -6.9 million euro of the corresponding period of 2017.

Net income from continuing operations (Consumer) at 31 December 2018 was 448.8 million euro, up 70.5% on the 263.3 million euro of 2017. The figure reflects, in addition to the improvement in the operating result and the result from equity investments, lower net financial expenses of 166.3 million euro (from 362.6 million euro in 2017 to 196.3 million euro at 31 December 2018) thanks to the refinancing actions and the reduction of indebtedness due to the capital increase subscribed by Marco Polo for approximately 1.2 billion euro in June 2017. It should be noted that the figure for financial charges at 31 December 2017 included charges for 61.2 million euro deriving from the early repayment in June 2017 of the old bank loan.

Tax expense in 2018 amounted to 53 million euro against a pre-tax profit of 501.8 million euro, with a tax rate of 10.6% (13.4% in 2017). The tax rate of 2018 is positively impacted by the benefit deriving from the application of the subsidised tax regime Patent Box due to the prior agreement signed on October 15, 2018 with the Italian Revenue Agency. This benefit, equal to approximately 89 million euro (54 million euro for the three-year period 2015-2017 and 35 million euro in estimated benefit for the year 2018), substantially offset the non-recurring and restructuring charges.

The net result of discontinued operations, which refers to some residual industrial activities in China and Argentina, is negative 6.4 million euro (-87.6 million euro at December 31, 2017).

The **total net result** was positive 442.4 million euro, up 152% on the 175.7 million euro of 31 December 2017.

The **Net Financial Position** was negative 3,180.1 million euro, an improvement of 858.2 million euro compared with 30 September 2018 (due to the usual seasonality of working capital) and of 38.4 million euro compared with 31 December 2017. The Net Financial Position at the end of 2018 includes approximately 140 million euro consisting of advances on investments in China and the slowdown/restructuring in Brazil to be recouped between now and 2020. Consequently the Net Financial Position/Adjusted Ebitda before start-up costs reached 2.49x (2.7x in 2017, 2.35x the 2018 target)

The **net cash flow from operations** in 2018 was positive 383.1 million euro (772.1 million euro in 2017). The operating cash flow trend, in particular, reflects:

- Investments of 463.4 million euro (489.4 million euro in 2017) mainly aimed at the increase of High Value capacity in Europe and the Nafta area, the strategic conversion of Standard capacity to High Value in Brazil and the constant improvement of the mix and quality in all factories;
- The variations in working capital and other variations from operations (-388.2 million euro absorption in 2018). This reflects:
  - the realignment of factoring to historic levels compared to those of 2017
  - the increase of inventories (21.7% of sales at the end of 2018, mainly linked to Standard) following the great slowdown in sales in Latam. The company has launched a plan to normalize this phenomenon and realign inventories during 2019 to a level below 20% of revenues;
  - the temporary revision of the payment terms of some dealers in Brazil, given the difficult macro-economic context, which will return to the norm over the course of 2019
  - the usual deficit financing of pension funds

Net cash flow was positive 38.4 million euro. It included – as well as cash disbursements related to the balance of financial and fiscal inflows and charges – charges for non-recurring restructuring and operations on participations that took place during the year (Mediobanca stake disposal, acquisition of 49% in the new Joint Venture in China and completion of the strengthening of the distribution chain in Brazil). The company has already launched actions to recoup, during 2019, the impacts of non-recurring events that temporarily slowed down cash generation in 2018.

As of December 31, 2018, the Company had 31,489 employees (30,189 employees at December 31, 2017).

The **parent company Pirelli & C. Spa** ended the year 2018 with a net profit of 262.4 million euro, an increase of 53.5% compared to the 170.9 million euro of the corresponding period of 2018.

The Board will propose to the assembly the distribution of a dividend of 0,177 for each share, equal to a total dividend of 177 million euro, with a payout of 40% of consolidated net income. The dividend for the 2018 financial year will be paid as from 22 May 2019 (ex-dividend date 20 May 2019 and *record date* on 21 May 2019). The dividend policy is in line with the provisions of the IPO, both in terms of the payout ratio (on average 40% of consolidated net result) and in terms of timing (first dividend to be distributed in 2019 on the basis of the results for the 2018 financial year).

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In 2018 significant improvements were obtained in terms of environmental, social and economic performance

In 2018 there was a further improvement of the environmental, social and economic results of Pirelli. In September, following the annual review of the Dow Jones Sustainability indices by RobecoSam and S&P Dow Jones, Pirelli was declared **a global leader in the Automobiles & Components sector** in the **Dow Jones World** and **Europe** indices, with a score total of 81 compared to the sector median of 32. In January 2019, Pirelli was also recognised among the **global leaders in the fight against climate change**, returning to the **CDP Climate A list.** Furthermore, in February 2019 Pirelli was the only company in the "Auto Components" sector in the world to obtain the "**Gold Class Company**" recognition in the RobecoSAM Sustainability Yearbook 2019.

More specifically, in 2018 Pirelli recorded a **decrease in the absolute water levy** of 11.8% and a **specific** reduction of 9.8% compared to 2017, a **reduction in absolute energy consumption** of 1.6% with a specific index aligned with the values of the previous year, and a **reduction of the absolute** CO_2 emissions of 5.8% and of the **specific** ones of 3.7%. Furthermore, 96% of **waste was sent for recovery**, effectively pursuing the objective of "zero waste to landfill" and reaching the 2020 target (recovery> 95%) two years in advance.

The investment in "health and safety at work" and in training was also primary, with an **injury frequency index** that in 2018 stood at values in line with the previous year (-81% compared to 2009), while the **investment in training** was greater than 8 days on average per employee, thus exceeding the target of an average of 7 per-capita days for the sixth consecutive year.

Furthermore, in 2018, **revenues from Green Performance tyres** amounted to 49.8%[1] (compared to 43.5% in 2017) to total tyre sales. Revenues from Green Performance calculated on High Value[2] products amounted to 57.5%.

During 2018, the **consultation of relevant stakeholders** (including international NGOs, the company's main natural rubber suppliers, supply chain traders and farmers, automotive customers, international multilateral organisations) was particularly important for the setting up of the **Pirelli Policy Implementation Manual on the sustainable management of natural rubber and a roadmap of activities for the three-year period 2019-2021.**

In addition, in 2018, the **Anti-Corruption management system** of Pirelli & C. S.p.A., Pirelli Tyre S.p.A. and the main subsidiaries in Brazil and Russia obtained the **ISO 37001 Certification.** Pirelli also obtained a third party certification of the **full compliance** of its purchase process management model with the provisions of the **ISO 20400** "Sustainable Procurement Guidance" standard.

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[1] *Data obtained by weighing the sales value of the Green Performance tyres on the total sales value of the Group's tyres. The Green Performance products identify the tyres that Pirelli produces all over the world and that fall exclusively in the rolling resistance classes A, B, C and wet grip, according to the labeling parameters required by European legislation. The 2017 value has been updated following the acquisition of new data.*
[2] *High Value products are determined by being equal or greater than 18 inches and, in addition, include all "Specialties" products (Run Flat, Self-Sealing, Noise Cancellation System).*

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2019 outlook

It should be noted that the 2019 forecast figures - which reflect the strategy of focusing on High Value and the acceleration of the reduction in exposure to the Standard segment - were disclosed to the market on 14 February on the occasion of the dissemination of preliminary and unscheduled results at 31 December 2018.

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Convocation of the Shareholders' Meeting and corporate governance

The Board of Directors resolved to convene - in single call on May 15, 2019 - the shareholders 'meeting for the approval of the 2018 financial statements. The Shareholders' Meeting will also be called to resolve on the confirmation of Ning Gaoning as Director and Chairman - already co-opted on 7 August 2018 - and to express himself with a consultative vote on the Remuneration Policy.
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.
The Shareholders' Meeting will also resolve on the annual "Report on the corporate governance and share ownership of Pirelli & C. S.p.A." in which, in particular, the following are highlighted:

- the adoption of even more stringent criteria with regard to the question of the maximum number of administrative and control offices Pirelli board members can hold in other companies;
- the "Diversity and Independence Statement", a document which indicates - among other things - the criteria to be taken into account with regard to themes of diversity between genders on the occasion of the renewal and integration of company bodies. Pirelli conceives of and welcomes the values of diversity as a factor of success and element that contributes to the achievement of the Company's strategic objectives, as also indicated in the Report on the Responsible Management of the Value Chain which contains the consolidated Statement of ~~a~~ non-financial nature ex legislative decree of 30 December 2016, no.254;
- the positive outcomes of the annual process of self-evaluation of the Board of Directors and – for the first time, as recommended in the rules of behaviour issued by the Consiglio Nazionale dei Commercialisti e degli Esperti Contabili (CNDCEC) (national accountants and accounting experts council) with regard to listed companies – of the Board of Statutory Auditors.

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Bond Issues

In accordance with the provisions of Borsa Italiana, Pirelli announces that during 2018, as part of the senior *unsecured* EMTN program authorized by the Board of Directors, the company issued the following bond loans (listed on the Luxemburg stock exchange and guaranteed by the subsidiary Pirelli Tyre SpA):

- Pirelli & C. S.p.A. € 200,000,000 Floating Rate Note maturing September 2020;
- Pirelli & C. S.p.A. € 600,000,000 1.375% maturing in January 2023 (following re-purchases carried out during the year, the residual amount as of 31 December 2018 was Euro 553 milioni).

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The Manager in charge of preparing the corporate accounting documents of Pirelli & CSpA, Mr. Francesco Tanzi, declares pursuant to paragraph 2 of article 154 bis of the Consolidated Law on Finance that the accounting information contained in this press release corresponds to the documentary results, books and accounting records.

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Pirelli - results 31.12. 2018

(In millions of euro)	**12/31/2018**	**12/31/2017**
Net sales	**5.194,5**	**5.352,3**
EBITDA adjusted without start-up costs (°)	**1.279,1**	**1.175,1**
% of net sales	24,6%	22,0%
EBITDA adjusted (°°)	**1.234,7**	**1.137,7**
% of net sales	23,8%	21,3%
EBITDA	**1.097,4**	**1.044,5**
% of net sales	21,1%	19,5%
EBIT adjusted without start-up costs (°)	**1002,7**	**926,6**
% of net sales	19,3%	17,3%
EBIT adjusted (°°°)	**955,0**	**876,4**
% of net sales	18,4%	16,4%
EBIT	**703,1**	**673,6**
% of net sales	13,5%	12,6%
Net income (loss) from equity investments	(5,0)	(6,9)
Financial income/(expenses)	(196,3)	(362,6)
Net income (loss) before tax	**501,8**	**304,1**
Tax expenses	(53,0)	(40,8)
Tax rate %	(10,6%)	(13,4%)
Net income (loss) related to continuing operations (Consumer)	**448,8**	**263,3**
Eanings/(loss) per share related to continuing operations (in euro per share)	0,44	0,31
Net income (loss) related to continuing operations (Consumer) adjusted	576,3	386,8
Net income (loss) related to discontinued operations (Industrial)	(6,4)	(87,6)
Total net income (loss)	**442,4**	**175,7**
Net income attributable to the Parent Company	431,6	176,4
Fixed assets related to continuing operations	**9.017,8**	**9.121,0**
Inventories	1.128,5	940,7
Trade receivables	628,0	652,5
Trade payables	(1.604,7)	(1.673,6)
Operating working capital related to continuing operations	**151,8**	**(80,4)**
% of net sales	2,9%	(1,5%)
Other receivables/other payables	34,3	(42,2)
Net working capital related to continuing operations	**186,1**	**(122,6)**
% of net sales	3,6%	(2,3%)
Net invested capital held for sale	**10,7**	**60,7**
Net invested capital	**9.214,6**	**9.059,1**
Equity	**4.550,9**	**4.177,0**
Provisions	1.483,6	1.663,6
Net financial (liquidity)/debt position	**3.180,1**	**3.218,5**
Equity attributable to the Parent Company	4.468,1	4.116,7
Investments in property, plant and equipment and intangible assets	463,4	489,4
Research and development expenses	219,0	221,5
% of net sales	4,2%	4,1%
Research and development expenses - High Value	202,9	199,9
% on sales High Value	6,1%	6,5%
Employees (headcount at end of period)	31.489	30.189
Industrial sites (number)	19	19

(°) Start-up costs refer to contribution to EBITDA and EBIT (amounting to euro 44.4 millions (euro 37.4 millions in 2017) and euro 47.7 millions (euro 50.2 millions in 2017) respectively) of the Cyber and Velo activities, the costs for the conversion of Aeolus brand Car products, and costs sustained for the digital transformation of the Group.

(°°) Adjustments refer to non recurring and restructuring expenses amounting to euro 91.5 millions (euro 93.2 millions in 2017), expenses relating to the retention plan approved by the Board of Directors on February 26, 2018 amounting to euro 13.3 millions and 2018 costs (i) relating to renegotiation of commercial agreements and royalties amounting to euro 14.2 millions and (ii) not pertinent to normal business operations amounting to euro 18.3 millions.

(°°°) Adjustments refer to amortization of intangible assets recognised as a consequence of Business Combinations amounting to euro 114.6 millions (109.6 millions in 2017) which are sumed to adjustments included in EBITDA adjusted.

Cashlfow statement

(In millions of euro)	2018					2017
	1 Q	2 Q	3 Q	4 Q	Total	Total
EBIT adjusted	218,4	231,7	250,0	254,9	955,0	876,4
Amortisation and depreciation (excluding PPA amortization)	69,7	68,1	69,8	72,1	279,7	261,3
Investments in property, plant and equipment and intangible assets	(85,3)	(93,9)	(117,5)	(166,7)	(463,4)	(489,4)
Change in working capital/other	(928,8)	(68,9)	(247,4)	856,9	(388,2)	123,8
Operating net cash flow	**(726,0)**	**137,0**	**(45,1)**	**1.017,2**	**383,1**	**772,1**
Financial income/(expenses)	(55,2)	(62,8)	(20,8)	(57,5)	(196,3)	(362,6)
Taxes paid	(31,1)	(36,2)	(33,8)	(17,9)	(119,0)	(135,5)
Financial (investments) / disinvestments	155,0	0,2	-	-	155,2	23,2
Caçula purchase from Brasilian controlled distribution	-	-	-	(1,4)	(1,4)	-
Acquisition of non-controlling interests	(18,5)	-	-	-	(18,5)	(15,4)
Cash Out for non-recurring and restructuring expenses/other	(38,2)	(11,9)	(4,6)	(17,3)	(72,0)	(63,8)
Other dividends paid	-	-	(8,4)	-	(8,4)	(12,9)
Acquisition of JV China	-	-	-	(65,2)	(65,2)	-
Minorities	-	-	-	-	-	(5,5)
Differences from foreign currency translation/other	(11,7)	6,4	(18,7)	14,8	(9,2)	0,7
Net cash flow before extraordinary transactions	**(725,7)**	**32,7**	**(131,4)**	**872,7**	**48,3**	**200,3**
Industrial reorganization	5,3	(10,3)	9,6	(14,5)	(9,9)	304,6
Share capital increase subscribed by Marco Polo	-	-	-	-	-	1.189,4
Net cash flow	**(720,4)**	**22,4**	**(121,8)**	**858,2**	**38,4**	**1.694,3**

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 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 excluding the depreciation and amortisation of property, plant and equipment and intangible assets. The EBITDA is used to measure the ability to generate earnings from operations, excluding the impact of investments;
- **EBITDA *adjusted*:** is an alternative measure to the EBITDA from which are excluded, the non-recurring and restructuring expenses, the expenses relative to the retention plan approved by the Board of Directors on February 26, 2018; and for the 2018 financial year only, costs relative to the renegotiation of commercial agreements and royalties, and costs not pertinent to normal business operations;
- **EBITDA *adjusted without start-up costs*:** is equal to the EBITDA *adjusted* but excludes the contribution to the EBITDA (*start-up costs*) of the Cyber and Velo activities, the costs for the conversion of Aeolus brand car products, and costs sustained for the digital transformation of the Group. The EBITDA *adjusted without start-up costs* is an alternative measure to the EBITDA *adjusted* but which excludes start-up costs;
- **EBITDA *margin*:** is calculated by dividing the EBITDA by revenues from sales and services (net sales). This measure is used to evaluate operational efficiency, excluding the impacts arising from investment activities;
- **EBITDA *margin adjusted*:** is calculated by dividing the EBITDA adjusted by revenues from sales and services (net sales). This measure is used to evaluate operational efficiency, excluding the impacts arising from investments, the operating costs attributable to non-recurring and restructuring expenses, the expenses relative to the retention plan approved by the Board of Directors on February 26, 2018 and, for the 2018 financial year only, costs relative to the renegotiation of commercial agreements and royalties, and costs not pertinent to normal business operations;
- **EBITDA *margin adjusted without start-up costs*:** is calculated by dividing the EBITDA *adjusted without start-up costs* by revenues from sales and services (net sales). This is an alternative measure to the EBITDA *margin adjusted* but which excludes start-up costs;
- **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 the net income (loss) from equity investments. The EBIT is used to measure the ability to generate earnings from operations, including the impact arising from investment activities;
- **EBIT *adjusted*:** is an alternative measure to the EBIT from which are excluded the depreciation and amortisation of property, plant and equipment and assets recognised as a consequence of Business Combination, the non-recurring and restructuring expenses, the expenses relative to the retention plan approved by the Board of Directors on February 26, 2018 and, for the 2018 financial year only, costs relative to the renegotiation of commercial agreements and royalties, and costs not related to the normal operational management of the business.
- **EBIT *adjusted without start-up costs*:** is equal to the EBIT *adjusted* but excludes the contribution to the EBIT (*start-up costs*) of the Cyber and Velo activities, the costs for the conversion of Aeolus brand Car products, and costs sustained

for the digital transformation of the Group. The EBIT *adjusted without start-up costs* is an alternative measure to the EBIT *adjusted* but which excludes start-up costs;

- **EBIT *margin*:** is calculated by dividing the EBIT by revenues from sales and services (net sales). This measure is used to evaluate operational efficiency;
- **EBIT *margin adjusted*:** is calculated by dividing the EBIT *adjusted* by revenues from sales and services (net sales). This measure is used to evaluate operational efficiency, but excludes the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, the operating costs attributable to non-recurring and restructuring expenses, the expenses relative to the retention plan approved by the Board of Directors on February 26, 2018 and, for the 2018 financial year only, costs relative to the renegotiation of commercial agreements and royalties, and costs not related to the normal operational management of the business;
- **EBIT *margin adjusted* without start-up costs:** is calculated by dividing the EBIT *adjusted without start-up* costs by revenues from sales and services (net sales). This is an measure to the *EBIT margin adjusted* but which excludes start-up costs;
- **Net income (loss) related to continuing operations (Consumer) *adjusted:*** is calculated by excluding the following items from the net income (loss) from continuing operations;
    - the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, the operating costs attributable to non-recurring and restructuring expenses, the expenses relative to the retention plan approved by the Board of Directors on February 26, 2018; and, for the 2018 financial year only, costs relative to the renegotiation of commercial agreements and royalties, and costs not related to the normal operational management of the business;
    - non-recurring income/costs recognised under financial income and expenses;
    - non-recurring income/costs recognised as a tax item, as well as the tax impact relative to the adjustments referred to in the previous points.

  This is used to measure net profitability, excluding the impact of the items referred to in the previous points.
- **Fixed Assets related to continuing operations:** this measure is constituted of the sum of the items, *"Property, plant and equipment", "Intangible assets", "Investments in associates and joint ventures"* and *"Other financial assets carried at fair value recognised under other items in the Statement of Comprehensive Income", and "Other financial assets carried at fair value recognised in the Income Statement" ("Other financial assets"* with reference to comparative data at December 31, 2017). 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 *"Inventory", "Trade receivables"* and *"Trade payables";* This measure is used to measure the financial equilibrium of commercial activities.
- **Net working capital related to continuing operations:** this measure consists of the net operating working capital and other receivables and payables not included in the *"Net financial liquidity/(debt) position"*. The measure represents short-term assets and liabilities included in the "*Net invested capital"*, and is used to measure short-term financial equilibrium;
- **Net invested capital assets available for sale:** this measure is constituted by the difference between *"Assets available for sale"* and *Liabilities available for sale".* Net invested capital assets available for sale is used to measure net assets relative to assets available for sale
- **Net invested capital:** this measure is constituted by the sum of (i) fixed assets related to continuing operations, (ii) net working capital related to continuing operations, and (iii) net invested capital assets available 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:** calculated pursuant to CONSOB Communication No. 6064293 of July 28, 2006 and in compliance with Recommendations ESMA/2013/319. Net financial debt represents the debt position towards banks and financial institutions net of cash and cash equivalents, other current financial assets carried at fair value recognised in the Income Statement (or "*Securities held for trading"* with reference to comparative figures at December 31, 2017) and "*Current financial receivables"* (included in "*Other receivables"*) and current derivative financial instruments included in the item *"Net financial position"* (included under *"Current assets as derivative financial instruments");*
- **Total net financial (liquidity) debt position**: is calculated as net financial debt less *"Non-current financial receivables"* (included in the non-current assets line item *"Other receivables"*) and *"Non-current derivative financial instruments included in net financial position"* (included under non-current assets as *"Derivative financial instruments"*). Total net financial (liquidity)/debt position is an alternative measure to net financial debt that includes long-term financial assets;
- **Total net financial (liquidity) debt position/EBITDA *adjusted without start-up costs;*** calculated as the ratio between the Total net financial (liquidity) debt position and the EBITDA *adjusted without start-up costs*. This is used to measure the sustainability of the debt;
- **CapEx (Capital Expenditures) or Investments in property, plant & equipment and intangible assets:** calculated as the sum of (i) investments (increases) in intangible assets and (ii) investments (increases) in property, plant and equipment. This measure represents the total amount of investments in tangible and intangible assets;

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