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Testo del comunicato

Vedi allegato.

PRESS RELEASE

The Board of Pirelli & C. S.p.A. approves results to 30 September 2019

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The economic, asset and financial data to 30 September 2019 were formulated applying the new IFRS 16 – Leases accounting principle, which establishes a new way of accounting for leasing contracts, with significant impact particularly on the representation of the Group net financial position and EBITDA. It should be noted that the comparative 2018 figures have not been restated.

Results to 30 September 2019

- **Revenues: +2.8% to 4,036.4 million euro, +6.7% in the third quarter**

- **High Value Revenues: +7.5% to 2,719.9 million euro thanks to strengthening in all regions. As a percentage of sales, rises to 67.4% from 64.5% on 30 September 2018**

- **High Value Volumes: +6.0% with sustained growth in the third quarter (+10.2%) both in the Original Equipment and Replacement channels**

- **Volumes of Car 'New Premium' (≥18 inches) increased 7.8% (market +5.7%). In the third quarter, volumes increased 12.7% (market +7.7%), with +12.1% growth in the Replacement channel (market +11%) and +13.6% in Original Equipment (market +3.1%)**

- **Price/mix: +5.4% because of the growing weight of High Value and the improvement of product and channel mix. In the third quarter price/mix at +3.5% due to the major weight of Original Equipment, lesser reduction of Standard and growing price pressure on Standard products and High Value ones of lower technological content**

- **Adjusted Ebit: 685.0 million euro (700.1 million euro on 30 September 2018), with an Adjusted Ebit margin of 17.0% (17.8% on 30 September 2018) due also to higher costs linked to the unabsorbed fixed costs in Standard capacity stemming from lower production to reduce inventory**

- **Net income from continuing operations: +2.0% to 385.7 million euro (378.1 million euro on 30 September 2018)**

- **Net cash flow before dividends and extraordinary operations/participations improved by 349.6 million euro (to -611.5 million euro from -961.1 million euro on 30 September 2018). In the third quarter of 2019, net cash flow was positive 11.6 million euro, a marked improvement compared with third quarter 2018 (-131.4 million euro) thanks to the management of working capital**

- **Net Financial Position excluding the IFRS 16 impact was -4,002.3 million euro (-4,480.2 million euro including the 477.9 million euro IFRS 16 impact) compared with -3,180.1 million euro on 31 December 2018 because of the usual seasonality of working capital and the payment of 177 million euro in dividends**

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Outlook

- 2019 revenues expected at at least 5.3 billion euro, an increase of around 2.5% (previous indication between +1.5% and +2.5%)

- High Value as percentage of revenues confirmed at about 67% compared with 64% in 2018

- Price/mix expected at around +4.5% (previous indication between +4.5% and +5.0%) due to continuing price competition also in third quarter in Standard and High Value products of lower technological content, as well as the different product mix (decline more contained in Standard) and channel mix (greater weight of Original Equipment) in second half

- Adjusted Ebit Margin 2019 forecast at between >17% and 17.5% (previous indication between 18% and 19%) also because of greater costs due to unabsorbed fixed costs in Standard capacity (linked to lower production to reduce inventory) and because of the deterioration of the inflationary context

- High Value as percentage of Adjusted Ebit before start-up costs confirmed at 85% compared with 83% in 2018

- 2019 investments confirmed at around 380 million euro

- 2019 net cash flow before dividends expected at between approximately 330 million euro and 350 million euro (previous indication 350 million euro - 380 million euro)

- Ratio of Net Financial Position to Adjusted EBITDA before start-up costs estimated at between approximately 2.42x and 2.36x at end 2019 (2.59x and 2.53x including IFRS16 impact), previous indication 2.33x-2.20x

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Guidelines of 2020-2022 Industrial Plan which will be presented in first quarter 2020

- Strategic focus on High Value confirmed, with significant strengthening of the competitiveness of the Business Model
- Among the plan's goals are: greater cash generation and maintaining leadership in Sustainability
- Significant reinforcement of initiatives to reduce break-even point already from 2020 in a reference context which is more challenging compared with the forecasts of recent months
- For this reason, the presentation of the 2020-2022 Industrial Plan – originally scheduled for 11 December 2019 – will take place in the first quarter of 2020

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Milan, 29 October 2019 – The Board of Directors of Pirelli & C. S.p.A. met today and reviewed results for the nine months ended on 30 September 2019.

The first nine months of 2019 were marked at the global level by the weakness of the car market, which also continued into the third quarter beyond expectations: car production in fact saw a decline of 5.9% in the first nine months of 2019, with a fall of 3.2% in the third quarter compared with a forecast stabilization.
The slowdown of the car market impacted Tyre demand, with a decline of 6.3% in Original Equipment in the first nine months of 2019 (-3.9% in the third quarter). This dynamic had a negative effect on prices as many operators diverted production to the Replacement channel that had been originally planned for Original Equipment in order to ensure an adequate level of factory saturation and contain inventory. Price reduction mainly regarded the Standard segment and High Value products of lower technological content.

In this context, Pirelli continued with its strategic focus on High Value (less exposed to competitive pressure), the reinforcement in specialties with rim sizes of or greater than 18 inches (≥18 inches) and the implementation of the cost cutting plan.
In the Standard segment, where demand remains weak (-2.6% in first 9 months of 2019, -1.8% in third quarter) the company continued with the reduction of exposure to less profitable products while, at the same time, intensifying actions to normalize inventory levels which rose at the end of 2018 due to the crisis in Brazil. At the end of September 2019, Pirelli reached inventory levels in line with the end-of-year target of a 20.5%/21% weight on revenues, compared with 21.7% at the end of 2018.

Pirelli's results for the first nine months of 2019 were distinguished by:

- **Overall revenue growth,** of +2.8% (organic variation +2.3%), thanks to the strengthening of the High Value segment, which today represents 67.4% of total sales (+2.9 basis points compared with 64.5% in the first nine months of 2018). High Value volumes registered growth of +6%, sustained in the third quarter (+10.2%) in the Original Equipment channel, thanks to the broadening of the client portfolio, and Replacement channel.
- **Further reduction of exposure to the Standard segment**, with a decline in volumes of 12.2% (-8.8% in the third quarter) due to the progressive exit from lower rim size and less profitable products, in the context of a general slowdown of the Standard market. The combined effect of the High Value and Standard trends led to a fall in overall volumes of 3.1% in the nine months (+0.6% in the third quarter);
- **Improvement of the price/mix**, at +5.4% due to the growing weight of the high end and the progressive improvement of product and channel mix. In the third quarter, the growth of price/mix reached +3.5% as a consequence of the re-balancing of sales between Original Equipment and Replacement, a lesser reduction of Standard and growing price pressure in that segment and on High Value products of lower technological content (non-specialty);
- **The progressive implementation of the efficiencies' program** (56.1 million euro in the first nine months of 2019, equal to 1.4% of revenues) which offset production costs' inflation (-54.9 million euro);
- **The continuation of cost cutting actions** (40 million euro in the first nine months, 10 million in third quarter 2019) in response to the slowdown of demand in Car Original Equipment and above-mentioned pressure on prices. Some of the cost-cutting initiatives initially planned for 2019 will be replaced by medium-term actions which will contribute to the lowering of the break-even point and will allow greater flexibility in a volatile market and macro-economic scenario;
- **The effective fall in inventory** (Standard volumes -22%) through the reduction of Standard segment production. Thanks to these actions, at the end of September 2019 inventory, as a percentage of revenues of the last 12 months, was at 20.8% (22.3% at the end of June 2019), in line with the end-of-year target weight of 20.5%/21% (21.7% at the end of 2018). This dynamic had a positive effect on cash flow in the quarter;
- Net cash flow from operations **improved by 382.0 million euro compared with the first nine months of 2018,** thanks in part to the recovery actions on working capital. In the third quarter cash flow from operations was positive 122.6 million euro (-45.1 million euro in third quarter 2018). Net cash flow before dividends and extraordinary operations/participations improved by 349.6 million euro compared with 30 September 2018. In the third quarter of 2019, the net cash flow before dividends and extraordinary operations/participations was positive 11.6 million euro (-131.4 million euro in third quarter 2018)

Sales

Revenues (euro *millions*)	30/09/2019	% of total	30/09/ 2018	% of total	Variation y/y	Organic variation y/y
High Value	2,719.9	67.4%	2,529.8	64.5%	+7.5%	+5.7%
Standard	1,316.5	32.6%	1,395.4	35.5%	-5.7%	-4.0%
Total	**4,036.4**	**100%**	**3,925.2**	**100%**	**+2.8%**	**+2.3%**

Revenues totaled 4,036.4 million euro, with a total growth of 2.8% compared with the first nine months of 2018 thanks to the positive performance of the *High Value* segment. Excluding forex effects and the adoption of the IAS 29 accounting principle to account for Argentina's high inflation (for a total impact of +0.5%), organic revenue growth was +2.3%. The **third quarter** saw marked revenue growth: +6.7% total growth, +4.1% at the organic level.

Revenue variants		30/09/ 2019
Volumes	***of which High Value +6.0%*** *of which Standard -12.2%*	-3.1%
Price/Mix		+5.4%
Forex/IAS 29 Argentina		+0.5%
Total variation		+2.8%

High Value revenues, of 2,719.9 million euro, posted growth of 7.5% compared with the same period in 2018 (+5.7% organic growth excluding the positive effect of exchange rates of +1.8 basis points), growing as a percentage of total sales to 67.4% compared with 64.5% in the first nine months of 2018.

Volumes in the *High Value* segment registered growth of 6.0% (+10.2% in the third quarter alone) while the volumes of **Car New Premium tyres (≥18")** grew 7.8% (market performance +5.7%) and 12.7% in the third quarter (market +7.7%), with an improvement in market share in the main regions. In particular, in the **third quarter** Pirelli posted Car New Premium volume growth of 12.1% in the Replacement channel (thanks to the pull-through effect and the success of specialties ≥18 inches). In Original Equipment, Car New Premium volumes grew by 13.6% because of new supply deals in Europe for High Value products of high technological content and in compliance with new regulations for CO2 reduction, as well as new contracts in North America and Apac.

The difference in volume growth between High Value and Car ≥18" can be attributed to slowing demand for specialties ≤17" mainly in Original Equipment, in line with the decline in Car production.

Total **volumes** registered a fall of 3.1% due to the increase in *High Value* volumes (+6.0%) on the one hand and the fall of *Standard* volumes (-12.2%) on the other in the first nine months of the year. In the **third quarter** total volumes grew 0.6% as a consequence of 10.2% growth of the High Value segment and a decline of 8.8% in Standard. The overall performance of the Standard segment reflects a fall in demand in all markets (Standard car tyre global performance -2.6%) and Pirelli's ongoing volume reduction in low profit products.

Price/mix was positive (+5.4% in the first nine months of 2019), supported by the growing weight of High Value and the improvement in product and channel mix. The price/mix improvement was more contained in the **third quarter** (+3.5%) as a result of the re-balancing of sales between Original Equipment and Replacement, a lesser reduction of Standard and competitive pressure on prices, more contained in High Value also thanks to the high level of exposure to the specialties segment.

The performance of exchange rates was positive (+0.5% in the first nine months, +2.6% in the quarter) due to the strengthening of the dollar and lower exchange rate volatility compared with the euro in emerging countries.

Profitability

Profitability * *(euro millions)*	30/09/2019	% revenues	30/09/2018	% revenues	Variation y/y
Adjusted Ebitda before start-up costs	**1,007.6**	**25.0%**	**936.3**	**23.9%**	**+7.6%**
Adjusted Ebitda	978.5	24.2%	907.7	23.1%	+7.8%
Adjusted Ebit before start-up costs	**714.4**	**17.7%**	**732.1**	**18.7%**	**-2.4%**
Adjusted Ebit	685.0	17.0%	700.1	17.8%	-2.1%

*Beginning from January 1, 2019, leasing fees, previously included in Ebitda, are registered as reduction of leasing debt (in the capital quota) and among the financial charges (for the interest quota). At the same time, the amortizations of the rights to use of leased goods are registered in Ebit initially recorded in the assets in the balance sheet opposite leasing debts.

Adjusted Ebitda before start-up costs on 30 September 2019 was 1,007.6 million euro, an increase of 7.6% compared with 936.3 million euro of the same period in 2018. Ebitda includes a benefit of 77.8 million euro stemming from the application – from 1 January 2019 – of the new IFRS 16 accounting principle that establishes a new way of accounting for leasing contracts.

Adjusted Ebit before start-up costs was 714.4 million euro (732.1 million in the first nine months in 2018), with an **Adjusted Ebit margin before start-up costs** of 17.7% (18.7% in the same period of 2018), in part due to higher costs stemming from unabsorbed fixed costs in Standard capacity linked to lower production to normalize inventory levels.

Adjusted Ebit was 685.0 million euro (700.1 million euro in the first nine months of 2018) with a margin of 17.0% (17.8% in the same period of 2018). Internal levers (price/mix, efficiencies and costs' reduction program) contributed to the containment of impacts linked to the external context (production costs' inflation, demand weakness and pressure on prices).
In particular:

- the improvement of price/mix (+120.6 million euro) offset the rise in raw material costs (-67.6 million euro) and volumes' decline (-53.9 million euro);
- industrial efficiencies (+56.1 million euro, 1.4% of revenues) offset costs' inflation (-54.9 million euro);
- the costs' reduction plan (equal to 40 million euro in the first nine months) helped combat pressure on prices, cover greater costs linked to the development of *High Value* and costs of unabsorbed fixed costs in Standard capacity (approximately 10 million euro);
- start-up costs improved slightly (from -32 to -29 million euro with a benefit to Ebit of 3 million euro) mainly in reference to the Group's digital transformation

Ebit was 597.9 million euro (591.4 million in the first nine months of 2018) and includes:

- amortizations of *intangible assets* identified in the context of PPA of 86 million euro (in line with the first nine months of 2018),
- non-recurring and restructuring charges of 67.8 million euro (11.7 million euro in the first 9 months of 2018), of which about 61.3 million euro relative to the devaluation of tangible assets and other actions for restructuring actions mainly in Brazil and Italy;
- charges relative to the retention plan of 5.1 million euro (11 million in the first nine months of 2018);
- proceeds from the recognition of tax credits in Brazil of 71.8 million euro.

The **result from equity investments** was positive for 1.4 million euro, an improvement compared with -7.8 million euro in the first nine months of 2018.

Net financial charges totaled 75.2 million euro (138.8 million euro in the first nine months of 2018) and mainly reflect:

- net financial charges of 157.8 million euro, an increase of 19 million euro compared with the first nine months of 2018, mainly from the application of high inflation accounting for Argentina,
- the positive 100.6 million euro effect stemming from the recognition of tax credits in Brazil
- the negative 18 million euro impact from leasing charges stemming from the application of the new IFRS 16 – *Leases* accounting principle.

The **net income from continuing operations** was 385.7 million euro, an increase of 2% compared with 378.1 million euro in the same period of 2018. The result of the first nine months of 2019 benefitted from the tax credits in Brazil of about 102 million euro while the figure for the first nine months of 2018 included a benefit deriving from the application of the Patent Box subsidized tax regime.

Performance by region

Revenues *(euro millions)*	30/09/2019	% of total 30/09/2019	% of total 30/09/2018	Variation y/y	Organic variation y/y
EMEA	1,758.8	43.5%	45.9%	-2.4%	-2.0%
North America	842.9	20.9%	19.2%	+11.9%	+5.7%
Apac	729.2	18.1%	17.4%	+6.8%	+5.2%
South America	508.1	12.6%	12.7%	+1.7%	+7.2%
Russia & Nordics	197.4	4.9%	4.8%	+4.6%	+5.4%
Total	**4,036.4**	**100%**	**100%**	**+2.8%**	**+2.3%**

At the regional level, the **EMEA** area registered in the first nine months of 2019 an organic variation of revenues of -2% (-2.4% including the -0.4 basis point impact of exchange rates) because of the steep fall in Standard segment sales (organic figure -12.3%), in line with the company's strategy of reducing its exposure to this segment. In the High Value segment revenues grew by +2.3% (organic figure), an improvement compared with the first half (organic growth +0.6%) thanks to the recovery of sales in the Original Equipment channel and the solid performance in the Replacement channel. Profitability was at *Mid-teens* levels, lower that the first nine months of 2018 before of the decline in Standard volumes and greater price competition on Standard and High Value products of lower technological content.

North America registered organic revenue growth of 5.7% (+11.9% including the positive effect of exchange rates of 6.2 basis points) driven by High Value (organic growth +8.7%) where Pirelli achieved an increase in market share thanks to the success of specialties ≥18'' and "*All Season"* products. Profitability (adjusted Ebit margin) improved to the *Twenties* level thanks to the growing weight of the high end, efficiency actions on costs and the progressive strengthening of the dollar.

Apac registered organic revenue growth of 5.2% (+6.8% including forex, positive 1.6 basis points) and was again the region with the highest profitability (adjusted Ebit margin in the *Twenties,* in line with the same period a year earlier). The performance of High Value revenues (organic growth +5.5%) reflects the slowdown in Original Equipment because of the fall in production of Premium cars (-4.5% in China) and the improvement in Replacement, with an increase in the Car ≥18'' market share thanks to the *pull-through* effect and ever wider commercial presence which now counts over 4,500 points of sale. Standard sales rose with an organic variation of +4.3% (+6.0% including forex, positive 1.7 basis points), thanks to the recovery of the Replacement market for rim sizes ≤17 inches.

South America registered an organic variation of revenues of 7.2% (+1.7% the overall variation including the effect of exchange rates and the application of high inflation accounting for Argentina in all negative -5.5 basis points) impacted above all by the 9.8% fall in volumes. This trend reflects the weakness of the market (total car market -4.7% in the first nine months of 2019), the ongoing focus on mix, with the reduction of sales of lower profit and smaller rim size standard products, and the destination of part of production to exports to North America. High Value revenues posted marked growth (organic growth +37.0%), with a consequent reinforcement of market leadership (+5 basis points). The price/mix also improved markedly (+17% in the first nine months) thanks to price increases in Brazil (which took place in the fourth quarter of 2018) and the great improvement of the product mix. Profitability (adjusted *Ebit margin*) was *High-single digit*, an increase compared with the first nine months of 2018, because of the efficiency actions on costs and the improvement and conversion of the mix.

The **Russia and Nordics** area registered organic revenue growth of 5.4% (+4.6% including a negative forex effect of -0.8 basis points) thanks to the strategic focus on more profitable segments and the market's recovery. These dynamics had a favorable impact on the nine month results with organic High Value revenue growth of 33.9% (+33.0% growth including a negative forex impact of -0.9 basis points) and an organic reduction of Standard revenues of 2.9% (-3.7% including forex). Profitability was in the *Mid-Teens* level, slightly down compared with the first nine months of 2018.

Net financial position and cash flow

The **Net Financial Position**, excluding the impact of the new IFRS 16 accounting principle, is negative 4,002.3 million euro (-4,480.2 million euro including the impact of IFRS 16 of 477.9 million euro) compared with 3,180.1 million euro on 31 December 2018, because of the usual seasonality of working capital and dividend payments of 177 million euro.

The **net cash flow before dividends and extraordinary operations/participations** was negative 611.5 million euro and improved by 349.6 million euro compared with the same period in 2018 (-961.1 million euro), thanks mainly to the better management of working capital.

Taking a closer look, the **net cash flow from operations** in the first nine months of 2019 was negative 252.1 million euro, an improvement of 382.0 million euro compared with the figure for the same period in 2018 (-634.1 million euro) and reflects:

- investments before IFRS 16 of 242.3 million euro compared with 296.7 million euro in the first nine months of 2018 (investments were 268.0 million euro including 25.7 million stemming from the effect of IFRS 16). The investments mainly served to increase High Value capacity in Europe and North America, the strategic conversion of Standard capacity into High in Brazil, and the constant improvement of the mix and quality in all factories;
- cash absorption that was 282.4 million euro lower (to -962.7 million euro from -1,245.1 million euro) thanks also to the recovery actions on working capital that were announced on the

occasion of the 2018 results and which continued into the third quarter (110.6 million euro improvement in working capital)

In the third quarter, the **net cash flow from operations** was positive 122.6 million euro, an improvement of 167.7 million euro compared with the same period of 2018 (-45.1 million euro).

The performance of working capital and other in the first nine months of 2019 benefitted from:

- the continuing improvement of the payment conditions towards suppliers;
- actions of recovery of commercial credits, through a realignment of the terms of payment of the principle dealers in Brazil, temporarily extended at the end of 2018 because of the difficult market conditions;
- the normalization plan for inventory levels, which grew at the end of 2018 as a consequence of Brazil's economic crisis.

In particular, inventories registered a volume reduction of 9% compared with the end of the preceding year (4% reduction in the first half) because of:

- a reduction of 22% in Standard products, in line with the recovery plan announced at the beginning of the year;
- an increase of 1.5% in High Value products, to ensure a better level of service to the end customer.

Following the actions taken, the level of inventories in value on 30 September 2019 as a percentage of sales (last twelve months) reached 20.8% in line with the end-2019 weight target of between 20.5%-21% of sales (21.7% at end 2018).

The **cash flow before dividends paid by the Parent Company** was negative 628.9 million euro (-819.8 million euro in the first nine months of 2018) and includes the impact of extraordinary operations and participations in the nine months of -17.4 million euro. In the first nine months of 2018, the impact of operations on participations and extraordinary operations was positive 141.3 million euro (mainly because of the disposal of the stake in Mediobanca). In the **third quarter of 2019,** the net cash flow before dividends paid by the Parent Company was positive 11.6 million (-121.8 in third quarter 2018).

The **total cash flow**, which includes the distribution of dividends by the Parent Company of 177 million euro, was negative 805.8 million euro (-819.8 million euro in the same period of 2018).

2019 Outlook

Data in euro millions	2018	2019
Revenues	5,194.5	≥5,300
High Value weight on revenues	*~64%*	*~ 67%*
Volumes	-3.1%	~ -2%
High Value Volumes	+11%	*≥+7.5%*
Standard Volumes	*-14%*	*~ -11%*
Price/Mix	+6.8%	~ +4.5%
Exchange rates	-5.9%	~ *stable*
Adjusted Ebit margin	18.4%	>17% ÷ 17.5%
Start-up costs	*48*	*~ 40*
CapEx	463	~ 380
Net cash flow before dividends	38	~ 330 ÷ 350
Net financial position / Adjusted Ebitda before start-up costs	2.49X	~ 2.42x/2.36x +0.17x incl. IFRS16

Revenues are expected to total at least 5.3 billion euro, an increase of around 2.5% (previous indication between 1.5% and 2.5%) compared with 2018, underpinned by the strengthening of High Value (weight on revenues confirmed at ~67%).

Total **volumes** expected to decline by 2% (previous indication between -2.5% and -2%). **High Value volumes** are forecast to grow by ≥+7.5% (previous indication between 7.5% and 8%), greater than the market's growth and supported by the good performance of the Replacement Channel and growth of the Original Equipment channel in the second half thanks to the homologation portfolio and the contribution of new contracts in North America and Apac. Standard volumes are forecast to decline by about 11%, compared with the previous indication of -11.5% to -12%, due to a lower reduction in volumes mainly in South America.

The **price/mix** expected to improve by approximately 4.5% (previous indication between 4.5% and 5%) due to:

- the continuation of greater price competition also in the third quarter of the year in Standard products and High Value products of lower technological content,
- the different product mix (more contained decline in Standard) and channel mix (greater weight of Original Equipment channel in second half).

Exchanges rates are seen remaining substantially stable (previous indication ~ -0.5%).

The **Adjusted Ebit margin** expected at between >17% and 17.5% (previous guidance between 18% and 19%), considering:

- greater costs of unabsorbed fixed costs in Standard capacity, linked to lower production to reduce inventory,
- deterioration of the inflationary context, and

- the inclusion of some cost cutting initiatives, initially foreseen for 2019, in a medium term cost recovery plan which will contribute to the lowering of the break-even point already beginning from 2020 to improve competitiveness in a volatile market and macro-economic context.

The weight on High Value on Adjusted Ebit before start-up costs is expected at ~85% (in line with previous guidance and compared with around 83% in 2018).

Investments confirmed at approximately 380 million euro.

The net cash flow before dividends is estimated at between approximately 330 million and 350 million euro (previous indication 350 million - 380 million euro)

The ratio between the Net Financial Position and Adjusted Ebitda before start-up costs is forecast at 2.42x/2.36x (+0.17x including the impact of the adoption of the new IFRS16 accounting principle), compared with the previous indication of 2.33x-2.20x. At the end of 2018, this indicator stood at 2.49x.

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Guidelines of 2020-2022 Industrial Plan which will be presented in first quarter 2020

In a more challenging and continuously evolving context of reference, Pirelli confirms its strategic focus on High Value, at the same time bringing significant reinforcement to the competitiveness of its Business Model.

The New Plan's targets are greater cash generation and maintaining our technological leadership, also through the achievement of ever more challenging targets in terms of Sustainability.

High Value will continue to be the market segment with the greatest growth prospects – with a "high single digit" average annual increase forecast between 2020 and 2022 – and with the highest technological barriers to entry. In detail, Original Equipment is expected to grow but at a lower rate than the past, given the continuing weakness in car production, while the Replacement channel confirms its resilience thanks to the constant growth of the world Car park, above all in the Premium and Prestige segments.

The reinforcement of the Business Model will be based on four pillars:

- Significant reduction of the cost base and breakeven point, already beginning from 2020
- Consolidation of technology and innovation leadership, reinforcing the products' distinctive positioning, with solutions of excellence for future mobility and with a commitment to increase our products' environmental efficiency in all phases of its lifecycle (renewable raw materials, energy consumption savings, ultra-low rolling resistance).
- Selective approach to High Value growth
- Containment of investments, in particular those aimed at increasing production capacity

Considering that the context of reference is becoming more challenging compared with the forecasts of recent months, Pirelli believes it opportune to significantly strengthen the plan to reduce break-even already beginning from 2020. Therefore, the presentation of the 2020-2022 Industrial Plan – originally planned for 11 December 2019 – will take place in the first quarter of 2020. The date of the presentation of the Industrial Plan will be announced with the publication of the 2020 financial calendar scheduled for December 2019.

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Conference call

The results to 30 September 2019 will be illustrated today, 29 October 2019, at 6.30 pm 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 listen in by telephone, without the possibility of asking questions, by dialing **+39 02 805 88 27.** The presentation will also be webcast – in real time – at www.pirelli.com in the Investors section, where the slides will also be available.

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The intermediate results to 30 September 2019 will be available to the public be the end of today at the Company's legal headquarters, as well as being published on the Company website (www.pirelli.com) and on eMarket Storage (www.emarketstorage.com).

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The Manager responsible for the preparation of the company account documents of Pirelli & C. S.p.A., Dott. Francesco Tanzi, declares in accordance with paragraph 2 of article 154 bis of the Testo Unico della Finanza that the accounting information contained in the present press release corresponds to documented results, books and accounting texts.

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Pirelli – Results to 30 September 2019

(in millions of euro)	**1/1 - 09/30/2019**	**1/1 - 09/30/2018**
Net sales	**4.036,4**	**3.925,2**
EBITDA adjusted without start-up costs (°)	**1.007,6**	**936,3**
% of net sales	25,0%	23,9%
EBITDA adjusted (°°)	**978,5**	**907,7**
% of net sales	24,2%	23,1%
EBITDA (°°°)	**977,4**	**885,0**
% of net sales	24,2%	22,5%
EBIT adjusted without start-up costs (°)	**714,4**	**732,1**
% of net sales	17,7%	18,7%
EBIT adjusted	**685,0**	**700,1**
% of net sales	17,0%	17,8%
Adjustments: - amortisation of intangible assets included in PPA	(86,0)	(86,0)
- non-recurring, restructuring expenses and other	(72,9)	(22,7)
- income from Brazilian tax credits	71,8	-
EBIT	**597,9**	**591,4**
% of net sales	14,8%	15,1%
Net income/(loss) from equity investments	1,4	(7,8)
Financial income/(expenses) (°°°)	(75,2)	(138,8)
- of which financial income from Brazilian tax credits	*100,6*	-
Net income/(loss) before tax	**524,1**	**444,8**
Tax expenses	(138,4)	(66,7)
Tax rate %	26,4%	15,0%
Net income/(loss) related to continuing operations	**385,7**	**378,1**
Eanings/(loss) per share related to continuing operations (in euro per share)	0,37	0,37
Net income/(loss) related to continuing operations adjusted	380,3	403,5
Net income/(loss) related to discontinued operations	-	(6,7)
Total net income/(loss)	**385,7**	**371,4**
Net income attributable to owners of the Parent Company	372,7	362,5

(°) Start-up costs refer to contribution to EBITDA and EBIT (amounting to euro 29.1 million (euro 28.6 million in the first nine months of 2018) and euro 29.4 million (euro 32.0 million in the first nine monthsof 2018) respectively of the Cyber and Velo activities and costs sustained for the digital transformation of the Group.

(°°) Adjustments refer to non recurring and restructuring expenses amounting to euro 67.8 million (euro 11.7 million in the first nine months of 2018), income from Brazilian tax credit amounting to euro 71.8 million and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018 amounting to euro 5.1 million (euro 11.0 million in the first nine months of 2018)

(°°°) The item includes for 2019, the impacts deriving from the application of the new accounting standard IFRS 16 - Leases to the amount of euro 77.8 million on EBITDA and euro -18 million on financial expenses.

Pirelli – Balance sheet data to 30 September 2019

(in millions of euro)	**09/30/2019**	**12/31/2018**	**09/30/2018**
Fixed assets related to continuing operations without IFRS 16	8.972,9	9.017,8	8.880,6
Right of use IFRS 16	463,8	n/a	n/a
Fixed assets related to continuing operations	**9.436,7**	**9.017,8**	**8.880,6**
Inventories	1.103,5	1.128,5	1.048,9
Trade receivables	976,2	628,0	967,7
Trade payables	(1.146,7)	(1.604,7)	(1.005,0)
Operating working capital related to continuing operations	**933,0**	**151,8**	**1.011,6**
% of net sales (*)	17,3%	2,9%	19,3%
Other receivables/other payables	298,6	34,3	98,7
Net working capital related to continuing operations	**1.231,6**	**186,1**	**1.110,4**
% of net sales (*)	22,9%	3,6%	21,2%
Net invested capital held for sale	0,8	10,7	11,4
Net invested capital	**10.669,1**	**9.214,6**	**10.002,4**
Equity	**4.742,4**	**4.550,9**	**4.464,9**
Provisions	1.446,5	1.483,6	1.499,2
Net financial (liquidity)/debt position without IFRS 16	**4.002,3**	**3.180,1**	**4.038,3**
Lease obligations IFRS 16	477,9	n/a	n/a
Total Net financial (liquidity)/debt position	**4.480,2**	**3.180,1**	**4.038,3**
Equity attributable to owners of the Parent Company	4.650,4	4.468,1	4.383,6
Investments in property, plant and equipment and intangible assets without IFRS16	242,3	463,4	296,7
Investments in property, plant and equipment and intangible assets IFRS16	25,7	n/a	n/a
Research and development expenses	173,2	219,0	166,6
% of net sales	4,3%	4,2%	4,2%
Research and development expenses - High Value	160,0	202,9	152,4
% on sales High Value	5,9%	6,1%	6,0%
Employees (headcount at end of period)	31.724	31.489	31.902
Industrial sites (number)	19	19	19

(°) during interim periods net sales are annualised

Financial statement

(in millions of euro)	**1Q**		**2Q**		**3Q**		**cumulative at 09/30**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
EBIT adjusted	219,2	218,4	221,3	231,7	244,5	250,0	685,0	700,1
Amortisation and depreciation (excluding PPA amortisation)	96,5	69,7	99,1	68,1	98,0	69,8	293,6	207,6
Investments in property, plant and equipment and intangible assets without IFRS16	(78,0)	(85,3)	(89,7)	(93,9)	(74,6)	(117,5)	(242,3)	(296,7)
Investments in property, plant and equipment IFRS16	(3,2)	n.a.	(14,0)	n.a.	(8,5)	n.a.	(25,7)	n.a.
Change in working capital/other	(836,0)	(928,8)	10,1	(68,9)	(136,8)	(247,4)	(962,7)	(1.245,1)
Operating net cash flow	**(601,5)**	**(726,0)**	**226,8**	**137,0**	**122,6**	**(45,1)**	**(252,1)**	**(634,1)**
Financial income/(expenses)	(48,1)	(55,2)	38,1	(62,8)	(65,2)	(20,8)	(75,2)	(138,8)
Reversal of financial income from tax credits in Brazil	-	-	(99,8)	-	(0,8)	-	(100,6)	-
Taxes paid	(30,1)	(31,1)	(45,9)	(36,2)	(37,4)	(33,8)	(113,4)	(101,1)
Cash Out for non-recurring and restructuring expenses/other	(16,0)	(38,2)	(17,9)	(11,9)	(7,4)	(4,6)	(41,3)	(54,7)
Other dividends paid	-	-	(8,9)	-	-	(8,4)	(8,9)	(8,4)
Differences from foreign currency translation/other	-	(11,7)	(19,8)	6,4	(0,2)	(18,7)	(20,0)	(24,0)
Net cash flow before dividends, extraordinary transactions and investments	**(695,7)**	**(862,2)**	**72,6**	**32,5**	**11,6**	**(131,4)**	**(611,5)**	**(961,1)**
Industrial reorganisation	-	5,3	-	(10,3)	-	9,6	-	4,6
Disposals/(Acquisition) of investments	(17,2)	136,5	(0,2)	0,2	-	-	(17,4)	136,7
Net cash flow before dividends paid by Parent Company	**(712,9)**	**(720,4)**	**72,4**	**22,4**	**11,6**	**(121,8)**	**(628,9)**	**(819,8)**
Dividends paid by Parent Company	-	-	(176,9)	-	-	-	(176,9)	-
Net cash flow (*)	**(712,9)**	**(720,4)**	**(104,5)**	**22,4**	**11,6**	**(121,8)**	**(805,8)**	**(819,8)**
Net cash flow without IFRS 16	(732,9)	-	(109,0)	-	19,7	-	(822,2)	-

* The 2019 items refers to the change in Net Financial Position calculated by including lease obligations starting at 01.01.2019 for leasing recorded due to the application of the new standard IFRS 16 - Leases

ALTERNATIVE PERFORMANCE INDICATORS

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

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

- **EBITDA:** is equal to the EBIT, but which excludes the depreciation and amortisation of property, plant and equipment and intangible assets. The EBITDA is used to measure the ability to generate earnings from operations, excluding the impact of investments;
- **EBITDA adjusted** is an alternative measure to the EBITDA which excludes non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil, and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **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* and costs sustained for the digital transformation of the Group. At december 31, 2018 start up costs included also the cost for the conversion of Aeolus brand car products;
- **EBITDA adjusted without start-up costs without IFRS 16**: is equal to the EBITDA adjusted without start-up costs but excludes the impact deriving from the application of the new accounting standard IFRS 16 – Leases;
- **EBITDA margin**: this is calculated by dividing the EBITDA by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency, excluding the impacts arising from investment activities;
- **EBITDA margin adjusted:** this is calculated by dividing the EBITDA adjusted by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency, excluding the impacts arising from investments, operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBITDA margin adjusted without start-up costs:** this 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 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 net income/(loss) from equity investments. The EBIT is used to measure the ability to generate earnings from operations, including the impact arising from investments;
- **EBIT adjusted:** is an alternative measure to the EBIT which excludes the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, revenues and operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **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 and costs sustained for the digital transformation of the Group. At december 31, 2018 start up costs included also the cost for the conversion of Aeolus brand car products;
- **EBIT margin:** this is calculated by dividing the EBIT by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency;
- **EBIT margin adjusted:** this is calculated by dividing the EBIT adjusted by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency, but excludes the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBIT margin adjusted without start-up costs:** this is calculated by dividing the EBIT adjusted without start-up costs by revenues from sales and services (net sales).
- **Net income/(loss) related to continuing operations adjusted:** this is calculated by excluding the following items from the net income/(loss) related to continuing operations;
    - the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
    - non-recurring costs/income recognised under financial income and expenses;
    - non-recurring costs/income recognised as a tax item, as well as the tax impact relative to the adjustments referred to in the previous points.
- **Fixed assets related to continuing operations**: this measure is constituted of the sum of the financial statement items, *"Property, plant and equipment", "Intangible assets", "Investments in Associates and Joint Ventures"* and *"Other financial assets at fair value through other Comprehensive Income"* and *"Other financial assets at fair value through the Income Statement"*. Fixed assets related to continuing operations represent non-current assets included in the net invested capital;
- **Fixed assets related to continuing operations without IFRS 16**: this measure is calculated by excluding the rights of use detected following the application of the new standard IFRS 16 - Leases, from fixed assets related to continuing operations;
- **Net operating working capital related to continuing operations**: this measure is constituted by the sum of the items*, "Inventories", "Trade receivables"* and *"Trade payables";*
- **Net working capital related to continuing operations**: this measure consists of the operating working capital and of other receivables and payables and derivative financial instruments 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 stability;
- **Net invested capital assets held for sale**: this measure is constituted by the difference between *"Assets held for sale"* and *"Liabilities held for sale"*;
- **Net invested capital**: this measure is constituted by the sum of (i) fixed assets related to continuing operations, (ii) net working capital related to continuing operations, and (iii) net invested capital assets held for sale. Net invested capital is used to represent the investment of financial resources;
- **Average net invested capital**: this measure consists of the average between the net invested capital at the beginning and end of the period, excluding investments in Associated companies and Joint Ventures, *"Other financial assets at fair value through other Comprehensive Income", "Other non-current financial assets at fair value through the Income Statement"* and the intangible assets relative to assets recognised as a consequence of Business Combinations. This measure is used to calculate the ROI;
- **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;

- **ROI**: this is calculated as the ratio between the EBIT adjusted and the average net invested capital. The ROI is used as to measure the profitability of invested capital;
- **Net financial debt**: this is calculated pursuant to the CONSOB Communication dated July 28, 2006, and in compliance with ESMA/2013/319 Recommendations. Net financial debt represents the borrowings from banks and other financial institutions net of cash and cash equivalents, *"Other financial assets at fair value through the Income Statement",* current financial receivables (included in the financial statements under *"Other receivables"*) and, current derivative financial instruments included in the total net financial (liquidity)/debt position (included in the financial statements under current assets as *"Derivative financial instruments"*);
- **Net financial (liquidity)/debt position**: this measure represents the net financial debt less *"Non-current financial receivables"* (included in the financial statements under *"Other receivables"*) and non-current derivative financial instruments included in the net financial (liquidity)/debt position (included in the financial statements under non-current assets as *"Derivative financial instruments"*). Total net financial (liquidity)/debt position is an alternative measure to net financial debt which includes non-current financial assets;
- **Net financial (liquidity)/debt position without IFRS 16**: this measure is calculated by excluding lease obligations detected following the application of the new standard IFRS 16 – Leases from the net financial (liquidity)/debt position;
- **Net financial (liquidity)/debt position without IFRS 16 / EBITDA adjusted without start-up costs without IFRS 16**: this is calculated as the ratio between the net financial (liquidity)/debt position without IFRS 16 and the EBITDA adjusted without start-up costs without IFRS 1. It is used to measure the sustainability of debt;
- **CapEx (Capital Expenditures) or Investments in property, plant & equipment and intangible assets without IFRS 16**: these are calculated as the sum of investments (increases) in intangible assets and investments (increases) in property, plant and equipment, excluding the increases relative to the rights of use;
- **Investments in property, plant & equipment IFRS 16**: this is calculated as the increases relative to the rights of use detected during the application of the new standard IFRS 16 – Leases;
- **Impact of depreciation on investments**: is calculated by dividing the investments (increases) in property, plant and equipment with the depreciation for the period. The ratio of investments to depreciation is used to measure the ability to maintain or restore amounts for property, plant and equipment.

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