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Testo del comunicato

Vedi allegato.

PRESS RELEASE

2020-2022 INDUSTRIAL PLAN

CENTRALITY OF HIGH VALUE SEGMENT CONFIRMED
WITH GREATER FOCUS ON TYRES LARGER THAN 19 INCHES AND SPECIALTIES

IN STANDARD SEGMENT FOCUS ON 17-INCH TYRES, REDUCTION OF SMALLER SIZES

NEW PLAN'S 3 PROGRAMS: COST COMPETITIVENESS, COMMERCIAL DEVELOPMENT AND TECHNOLOGICAL INNOVATION

SOLID COMPETITIVE BARRIERS THANKS TO LINKS WITH PREMIUM/PRESTIGE CARMAKERS, TECHNOLOGY, COMMERCIAL/INDUSTRIAL DISTRIBUTION, BRAND, ESG PERFORMANCE

COST REDUCTION OVER 3 YEARS OF 510 MLN EURO GROSS OF INFLATION

INVESTMENTS OVER THE PERIOD OF THE PLAN OF ABOUT 900 MLN EURO, FOCUSED ON TECHNOLOGY, COMPARED WITH 1.3 BLN IN THE PREVIOUS 3-YEAR PERIOD

CASH GENERATION OF ABOUT 1.5 BLN EURO IN THE 3-YEAR PERIOD

IN ORIGINAL EQUIPMENT SELECTIVE GROWTH OF CLIENT BASE

IN REPLACEMENT CAPITALIZING ON PULL-THROUGH EFFECT OF HOMOLOGATIONS AND NEW SUV/CUV CLIENTS

ACCELERATION OF PROCESS AND PRODUCT INNOVATION WITH 20 NEW PRODUCT LINES

IMPROVEMENT OF CONSUMER NEEDS PREDICTIVE CAPACITY THANKS TO NEW DATA ANALYTICS PLATFORM

NEW LTI INCENTIVE PLAN FOR MANAGEMENT IN SUPPORT OF 2020-2022 OBJECTIVES

GOAL OF 100% ELECTRIC ENERGY FROM RENEWABLE SOURCES BY 2025 AND CARBON NEUTRALITY BY 2030

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TARGETS

2022 REVENUES AT 5.8 BLN EURO, WITH AVERAGE ANNUAL GROWTH OF ABOUT 3%

ADJUSTED EBIT MARGIN GROWING TO 18-19% IN 2022

INVESTMENT OVER PERIOD OF PLAN OF ABOUT 900 MLN EURO

CASH GENERATION OF ABOUT 1.5 BLN EURO OVER THE 3 YEARS

DIVIDEND POLICY CONFIRMED WITH PAYOUT EQUAL TO 40% OF CONSOLIDATED NET PROFIT

NET FINANCIAL POSITION AT -3.3 BLN EURO IN 2020 AND -2.5 BLN EURO IN 2022

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2019 PRELIMINARY RESULTS

Revenues: 5,323.1 million euro, an increase of 2.5% compared with 2018 (2019 target ≥5,300 million)

Adjusted Ebit: 917.3 million euro with a margin of 17.2% (2019 target >17%/17.5%)

Net cash flow before dividends and IFRS 16 impact: 332.9 million euro (2019 target 330/350 million euro). Cash flow before dividends after IFRS 16 impact of 344.1 million euro

Net Financial Position: 3,024.1 million euro (3,507.2 million including leasing debt of 483.1 million euro following the application of the IFRS 16 accounting principle), a reduction compared with 3,180.1 million euro on 31 December 2018. The ratio of net financial position to Adjusted Ebitda before start-up costs is 2.42x, or 2.59x including IFRS 16 impact (target 2.42x/2.36x, including IFRS 16 impact 2.59x/2.53x)

Research & Development expenses: 232.5 million euro in 2019 (4.4% of sales), of which 215.7 million euro destined to High Value activities (6.1% of segment's revenues)

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Milan, 19 February 2020 - The Board of Directors of Pirelli & C. approved the 2020-2022 Industrial Plan, with vision 2025, which will be illustrated to the financial community today by the Executive Vice Chairman and CEO, Marco Tronchetti Provera, and by the top management.

FROM 2017 TO NOW

From 2017 to now Pirelli, in line with its predetermined strategy, **consolidated its position in High Value** and **reduced its presence in the Standard segment**, able to rely on **5 solid and distinctive competitive barriers**:

- a strong and consolidated relationship with the most demanding car manufacturers;
- a consistently cutting edge technology;
- an iconic brand known the world over
- selective commercial distribution and highly technological manufacturing structure concentrated in countries with competitive production costs;
- a competitive advantage in terms of ESG performance, Pirelli at the top of the sector's highest world rankings.

In **High Value**, Pirelli achieved the forecasts of the previous plan, notwithstanding unpredictable elements such as the weakness of the automotive sector in 2019, which led to lower volumes in Original Equipment, with price pressures in the tyre sector. The results were achieved by seizing new opportunities in Original Equipment (OE) with a portfolio diversification, the signing of new contracts in North America and Apac, by maximising the pull-through effect on the Replacement channel and defending the price of specialty products.
In **Standard**, however, the market trend was worse than expected, due to the unexpected continuation of the economic crisis in LatAm and the weakness of the market in Europe and Russia. To contain these impacts, Pirelli accelerated the reduction of exposure in this segment, with a drop in volumes of 10 million pieces compared with the initial estimate formulated in the IPO phase.

INDUSTRY TRENDS

Over the next three years, the high-end mobility market, Pirelli's reference point, will not undergo any significant discontinuities. In particular:

- the total amount of "miles driven" will continue to grow at the global level (average annualized 2020-2022 growth +3%, slightly slower than the preceding 5 years)
- the number of "high-end" consumers will continue to grow at an average annualized rate 8%, maintaining the same rhythm seen since 2015

- private car ownership will continue to dominate compared with car sharing and car service vehicles (89% in 2020, 85% in 2022)
- the number of electric cars will continue to grow, but will still represent a contained portion of global car production (11% of total in 2020 and 20% in 2022)

Premium/Prestige will continue to represent a key market, driven by a further increase of homologations; a growing demand in specialty products; a constant growth of the SUV and CUV (Crossover) segment; new technologies related to the development of electric and connectivity; a Synergic Car parc increasingly oriented towards High Value tyres.
For the **High Value** tyre market - concentrated in Europe, Apac and North America – a still resilient demand is estimated for the next three years, despite a scenario of persistent pressure on prices which may be more contained for the more solid players in terms of innovation and brand.
In particular:

- **Premium and Prestige car production:** between 2019 and 2022 an average annual growth of about 2% is expected after +1.3% in 2016-2019, in contrast with the weakness of global car production (+0.7% overall growth expected in the three years after -1.6% in 2016-2019);
- **Premium and Prestige global car parc:** it is expected to reach approximately 180 million vehicles in 2022 (87% in Europe, North America and Apac) with an average annual growth of around 5% (+5.8% between 2016 and 2019) higher than the +2.9% envisaged between 2019 and 2022 for the overall car market (+3.6% between 2016 and 2019);
- **demand for ≥ 18-inch tyres:** an overall growth of around 6% on average per year between 2019 and 2022 is expected (+9.3% in 2016-2019) as a result of +7.5% in the Replacement channel (+11.7% between 2016 and 2019) and a +4.3% in Original Equipment (+6.4% between 2016 and 2019);
- **pressure on prices:** the weakness of the automotive sector in 2019, unexpected given the installation of capacity at the end of 2018 and 2019 has resulted in excess capacity, with consequent pressure on prices. Brand and technology, key elements in the purchase decision of a Premium consumer, are a competitive defence.

Instead, the **Standard** segment presents different dynamics, with a persistent decline with the exception of 17-inch tyres:

- **Synergic Car parc:** is about 90% of the world's car fleet and is estimated to reach around 1.4 billion vehicles in 2022, with an average annual growth rate of around 3%;
- **Synergic Car production:** is expected to reach around 78 million units in 2022, with an average annual growth rate of around 0.5%;
- **demand for 17-inch tyres:** an average annual growth of more than 1% is expected between 2019 and 2022 against a drop of 0.8% envisaged for the smaller measures.

2020-2022 INDUSTRIAL PLAN

The Pirelli 2020-2022 Industrial Plan confirms the centrality of **High Value,** with a consolidation of leadership also through a further strengthening of the **competitive barriers**, the use of digital technologies in a predictive perspective also with respect to the type and location of demand, and the development of increasingly sustainable products and processes.
In the **High Value** segment (car tyres ≥18 inches), Pirelli expects to outperform the market by approximately 3 percentage points, with an average annual volume growth rate of around 9% (estimated market growth of around 6%).
In **Standard** (car tyres ≤17 inches) Pirelli will continue the reduction, but capturing opportunities linked to 17 inches and being able to rely on low cost production sources (Russia and Latam).
A further reduction of exposure in the segment is expected with an average annual decrease in volume terms of 4.2% in 2019-2022 (-0.3% average annual decrease envisaged for the market). In the Standard these actions, together with a production focused in regions with lower production costs, will allow the price/mix and profitability to be increased, estimated at the end of the plan at *Double Digit*.

THE 3 PROGRAMS TO ACHIEVE THE PLAN

The **2020-2022 Industrial Plan** will be implemented through three main programs:

- **cost competitiveness,** launched in the fourth quarter of 2019
- **commercial development,** aimed at both the Original Equipment and the Replacement channel
- **technological innovation,** to introduce new processes and launch new products.

The plan also envisages greater cash generation than the previous plan thanks also to lower investments in light of an already adequate capacity and technology in the factories.

Cost Competitiveness Program

Already started in the fourth quarter of 2019, the Cost Competitiveness program envisages gross efficiencies of around 510 million euro (equal to approximately 11.5% of the total cost base) in the 2020-2022 period, with an impact net of inflation of approximately 290 million (approximately 6.5% of the total net cost base). A first phase - expected in 2020 for a total amount of around 180 million euro gross (110 million net) - will be followed by a second phase in 2021-2022 for 330 million euro gross (approximately 180 million euro net). Actions are planned on the following costs:

- **product:** optimisation of the range and specifications, structural simplification and rationalisation of tyre components, optimisation of purchases
  → expected savings of around 160 million euro gross (around 50 million euro in 2020 and around 110 million euro in 2021-22);
- **operations**: optimisation of the geographical distribution of the factories (reorganisation in Brazil and conversion of Bollate in Italy to Velo, new production processes oriented towards flexibility and smart manufacturing, data analytics for quality maximisation
  → expected savings of around 160 million euro, of which around 40 million euro in 2020 and around 120 million euro in 2021-22;
- **SG&A** (Selling, General and Administrative Expenses): use of advanced marketing tools, strict control of overheads
  → expected savings of around 100 million euro (around 40 million euro in 2020 and around 60 million euro in 2021-22);
- **organisation**: reengineering of processes also thanks to digital transformation, development of new expertise and digital skills, incentive systems further linked to performance, with an increase in the variable component on overall salaries
  → expected savings of around 90 million euro (around 50 million euro in 2020 and around 40 million euro in 2021-22);

Commercial Development Program

The Commercial Development program is based on 5 key points, of which 3 are for growth in the High Value market and 2 for the continuation of the repositioning in Standard. Together these programs will translate into net total volume growth between 2019 and 2022 of about 5 million pieces, with a growing contribution from the High Value segment (+9 million pieces in High Value, - 4 million in Standard). In particular:

High Value:

- in the Replacement channel, maximize the “pull-through” effect capitalizing on the high number of homologations held by Pirelli (1,090 in ≥18 inches);
- also in the Replacement channel, win new clients by capturing “push-through” demand with high margins among the owners of Synergic Cars (in particular SUVs and CUVs) with dedicated lines;
- in Original Equipment selective growth to continue to feed profitability stemming from the growth of “pull-through” in the coming years.

The actions in the Replacement channel will be concentrated (80% of volumes) in Specialties and sizes above 19 inches, areas that are less subject to price pressure and, together with the actions planned in Original Equipment, will contribute to the segment’s increased profitability in synergy with the cost competitiveness program.

Standard

- growth in 17 inches through the renewal of product lines

- further reduction in rim sizes below 17 inches and second brands

These actions, both in High Value and Standard, will also be made possible through an advanced data analytics system which, thanks to data from Original Equipment partners, replacement channel distributors and a series of external sources, will enable better prediction of the potential of each homologation project, exchange rates of the different car models and potential of the various geographical areas.

A reinforcement of the **distribution network** is also planned, with an increase in sales points to over 20,000 from 16,000 in 2018.

Technology Innovation Program

The Technology Innovation Program entails an **acceleration in product innovation, cost competitiveness** and **focus on sustainable mobility.**

- **Acceleration in product innovation:** over the next three years Pirelli expects to launch 20 new tyre lines (5 in the Original Equipment channel and 15 in the Replacement channel), with a growth of around 40% compared to 2017-2019. The new products will reinforce Pirelli's leadership in Original Equipment, where Pirelli has almost twice the number of homologations compared to the best competitor, also aiming for a higher mix (19 inches). In the Replacement channel the product range will be extended to meet specific needs, also on a regional basis (e.g.: focus on *mileage* in the USA, *comfort* in Apac and *green* features in Europe), and will see the development of new Specialty products with PNCS, Seal Inside and Run Flat technology, and lines developed for electric cars;
- **Cost competitiveness:** a 10% reduction in product-level costs is expected over the plan period, equal to around 160 million euro, thanks to range management, optimisation of specifications, and a modular approach design (introduced already in 2019 in European factories and to be extended to other factories), and the optimisation of purchase plans. Consistently with the digital shift already under way, Pirelli has introduced virtual product development techniques that enable the time to market to be shortened by 30% and the number of prototypes made reduced by 20%;
- **Product development and sustainable mobility:** in terms of raw materials, an increasing use of materials deriving from renewable and recycled sources is expected, with the aim to use more than 40% renewable materials by 2025 (over 60% the objective by 2030) in the new product lines. The Plan also envisages constant investment in **sustainable mobility**, in particular in tyres for electric vehicles where Pirelli now boasts 74 homologations and is working on 286 projects. In connected solutions, Pirelli has completed the first phase of development tests for the Cyber Tyre, stabilizing the technology, testing it in extreme conditions (e.g.: Formula 2) and launching two co-developments with Prestige partners. The company has now launched the second phase that, also through possible partnerships, aims at the development of a product on a large scale for Premium carmakers and the creation of a system of active connectivity for vehicle safety and control and emissions reduction.

LOCATIONS AND PRODUCTION CAPACITY

In 2022, Pirelli will have **18 factories** (16 Car, 1 Premium Velo and JV Moto in Indonesia). The Car factories will include 9 entirely High Value plants (6 of these new and highly robotised) in Europe, North America and Apac and 7 High Value and Standard production plants (among these the two low cost production hubs in Latin America and Russia).

In addition to their advanced technological levels, the production plants will have a lower environmental impact, with the plan envisaging a 25% reduction in the group's absolute CO_2 emissions by 2025 compared to 2015 and the use of 100% renewable electricity by 2025 with a goal of 'Carbon Neutrality' (renewable and thermal) by 2030. The plan also foresees a 43% reduction in specific water withdrawal and sending 98% of waste to recovery, in a perspective of 'Zero waste to landfill'.

High Value capacity, already significantly increased in the 2017-2019 period (particularly in Europe, China and Mexico), will increase less markedly between now and 2022 (38 million units out of a total of

71 million in 2016, 50 million units out of a total of 77 million in 2019, 53 million units out of a total of 75 million envisaged in 2022). **Standard** capacity will on the other hand be reduced to 22 million pieces in 2022 from the current 27 million (compared to 33 million in 2016).

TARGETS 2020-2022

Targets 2020-2022 (euro billions)	2019	2020E	2022E	
Revenues	5.3	~5.4	~5.8	
Adjusted Ebit	0.9	~Stable y/y		
Adjusted Ebit Margin	17.2%		18% ÷ 19%	
Investments	0.39	~0.3	tot. ’20-’22 ~0.9	vs tot. ’17-‘19 ~1.3
Net cash flow before dividends	0.33	~0.4	Tot. ’20-’22 ~1.5	Of which ~0.5 nel ‘21 ~0.6 nel ‘22
Net financial position (including IFRS 16)*	3.5	~3.3	~2.5	

**assuming a dividend policy with a payout equal to 40% of consolidated net profit*

In 2020 revenues are expected to grow to approximately 5.4 billion euro and in 2022 to circa 5.8 billion euro, with an average annual growth rate of about 3%. High Value revenues will account for about 73% of total revenues at the end of the plan period compared with 69% expected in 2020 (about 67% in 2019).
The outlook for total **volumes** is for an average annual growth rate over the period of the plan of between +1.5% and +2%. With regard to total **High Value volumes, the annual average growth rate is expected to accelerate to** 8%, while the reduction in Standard volumes will continue, with an expected annual decline of 5%.

The **price/mix** is expected to improve by approximately 3% on average each year because of:

- A slight decline in the prices component;
- A positive mix contribution.

Exchange rates are expected to have an estimated negative impact -2% per year, because of the expected strengthening of the euro against the dollar and the growing volatility of currencies in emerging economies.

2020 Adjusted Ebit is expected to be substantially stable compared with 2019: the effect of the internal levers (price/mix, volumes and efficiencies) will offset the impact of the external context (inflation of production costs, raw materials and price pressure). The Adjusted Ebit Margin is estimated to grow to 18-19% in 2022 compared with 17.2% in 2019.

The already high technological level and adequate capacity of the production plants is the basis of the **investment plan** that will be more contained than the previous 3-year period - equal to 900 million euro between 2020 and 2022 compared with 1.3 billion euro of 2017-2019. This will contribute to the generation of a high level of cash flow together with the expected improvement of the operating result, more contained financial and fiscal costs, and an effective management of working capital. Over the period of the plan, the total **net cash flow before dividends** is expected to be around 1.5 billion euro, of which around 400 million in 2020, approximately 500 million in 2021 and approximately 600 million in 2022.

The dividend policy foresees a payout confirmed at equal to 40% of consolidated net profit.

At the end of the plan period, the group net financial position, including the impact of the IFRS 16 accounting principle, is expected to fall from the 3.5 billion of 2019 to around 3.3 billion in 2020 down to approximately 2.5 billion in 2022.

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THE SUSTAINABILITY TARGETS OF THE PLAN

The main targets of the High Value sustainable development strategy for 2022, 2025 and 2030 are summarised below, aligned with the materiality of the Company's socio-environmental impacts and in support of the United Nations 2030 Sustainable Development Agenda 11 Goals.
Their definition rests on the mitigation of risks and taking of opportunities ensuing from the 2025-2030 scenarios, including technological and digital break-through, circular economy, population growth, scarcity of natural resources and cybersecurity.

<u>“Eco-Safety” Approach and Targets throughout the product lifecycle:</u>
At the level of raw materials, for new product lines, Pirelli envisages:
By 2025:
- Renewable materials >40%
- Recycled materials >3%
- Fossil based materials <40%

By 2030:
- Renewable materials >60%
- Recycled materials >7%
- Fossil based materials <30%

At the level of the **production process**, there are many environmental efficiency targets.
With regard to CO_2 emissions, we can highlight
By 2025:
- 100% renewable electric energy at group level
- -25% vs 2015 absolute CO_2 emissions

By 2030:
- Carbon Neutrality (emissions from electricity and thermal energy)

Pirelli has also signed its membership to the Science Based Target initiative.

Additional objectives of efficiency in the use of resources by 2025 are:
- -10% vs 2019 specific consumption of energy
- - 43% vs 2015 specific water withdrawal
- 98% of waste sent to recovery (*Vision Zero Waste to Landfill)*

With regard to the **product *Eco-Safety* Performance,** the goal is to achieve an ever higher environmental performance while at the same time further increasing safety.
The Targets, (average values of the entire Car product range) compared to 2015, are:
- Wet grip: +7% by 2022 and +9% by 2025
- Reduction of rolling resistance: -10% by 2022 and –14% by 2025
- Reduction of weight: -25% by 2022 and -30% by 2025
- Tread wear rate: -12% by 2022 and –18% by 2025
- Noise: -4% by 2022 (constant to 2025)

Performance targets are also envisaged for the Motorcycle and Velo Products.

In support of innovation in the context of the circular economy, Pirelli will work on the development of innovative processes that ensure the high level of quality expected in the use of secondary raw materials deriving from end-of-life tyres. **To accelerate the transition to future mobility,** Pirelli will also rely on a new digital development simulator, which capitalises on the F1 experience and makes possible product development times reduced by 30%, drastic reduction of production of physical prototypes, maximum co-development efficiency with Original Equipment Customers. Still on the theme of sustainable development and return of tangible value, **the weight of revenues from “Eco-Safety Performance[1]”**

[1] The Eco-Safety Performance products, previously called “Green Performance Products”, identify the car tyres that Pirelli

products will grow by 15 percentage points by 2022, reaching 71% of the Group total car tyre sales. By restricting on High Value products, the weight of Eco-Safety Performance revenues will be 78%.

Human Capital

The culture of workplace safety will continue to support the Zero Accidents objective, with an expected injury frequency index of ≤0.15 by 2022 and ≤0.1 by 2025.

The plan will focus on an increasingly innovative management of human capital. New marketing solutions and the recruitment of STEM (Science, Technology, Engineering, Mathematics) talents will be accompanied by the experimentation of ever smarter ways of working and training on new digital skills, in an inclusive work environment capable of facing the challenges of the future in an agile way.

The ESG objectives, an integral part of the short- and long-term incentive plans (with a weight of 20% of the LTI premium) will be an enabler of positive tension in achieving the Group objectives.

Supply Chain

The target is to rely on a supply chain increasingly resilient to ESG risks, and a continuous expansion of Partners in sustainable innovation.

With a view to reducing the Carbon Footprint, Pirelli has set itself the objective of obtaining an 8.6% reduction in the absolute CO_2 emissions of raw material suppliers by 2025 compared to 2018.

The implementation of the 2019-2021 activity Roadmap for the sustainable management of natural rubber will continue, characterised by an on-site commitment in partnership with suppliers in order to map and manage the socio-environmental risks up to the origin of the chain.

While at the same time, the mapping activities started with the cobalt and conflict minerals suppliers will continue.

By 2021 the phasing out of single-use plastic used for offices and factory services is also envisaged at Group level and as expected by the Single Use Plastic Free Policy adopted by Pirelli in 2019.

Cyber Security

A program will be implemented which will make the group's operating activities and interactions with the value chain even safer, from products to customers.

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NEW LTI INCENTIVE PLAN FOR MANAGEMENT TO SUPPORT TARGETS OF THE 2020-2022 PLAN.

Pirelli's Board of Directors today approved a new monetary incentive plan - Long Term Incentive (LTI) – for the Group's entire management team (today around 270 participants) – linked to the targets of the new 2020-2022 industrial plan being presented today to the financial community. At the same time, the Board – with effect from 31 December 2019 – decided on the early closure of the previous LTI plan adopted in 2018 and linked to the targets for the 2018-2020 contained in the 2017-2020 industrial plan.

The New LTI Plan, like the previous one, is in line with variable remuneration policies adopted at the international level and also based on the performance of Pirelli shares (so-called TSR), enabling the alignment of management's interest with those of shareholders. The New LTI Plan, like the previous one, is also completely self-financing, in that the relative charges are in included in the financial figures of the industrial plan.

The New LTI Plan sets the following targets:

- *Total Shareholder Return (*TSR) of the Group in relation to a panel of Tier 1 peers, with a total weight at target of 40% of the LTI award;
- Group Cash Flow (before dividends), with a weight at target of 40% of the LTI award;
- Pirelli's positioning in selected sustainability indicators at the global level, with a weight at target of 20% of the LTI award.

The new LTI Plan has a "rolling" structure: every year a new LTI Plan will be launched based on the targets of the subsequent 3-year period guaranteeing, at the same time, management retention and the

manufactures world-wide, and which fall exclusively in the rolling resistance and wet grip classes A, B and C according to the tyre label parameters established by European legislation.

correct focus on performance targets. The date of an eventual first payment is April 2023 (when the 2020-2022 results have been achieved) and, from that moment onwards, in April of every subsequent year when the results of the 3-year period have been achieved.

The participants in the New LTI Plan include, among other, the Executive Vice Chairman and Chief Executive Officer of Pirelli & C. Marco Tronchetti Provera, the General Manager Operations Andrea Casaluci and managers qualified by the Board as having strategic responsibilities.

The New LTI Plan also includes Senior Managers (including the Director Giovanni Tronchetti Provera, in his role of Senior Manager) and the Group's Executives (executives of the Group's Italian companies or employees in overseas companies with positions or roles equivalent to that of an Italian executive).

In the event that a mandate or employee relationship ends for whatever reason before the end of the three-year period, that person ceases to participate in the New LTI Plan and as a consequence the LTI award will not be paid, not even pro-quota. For directors of Pirelli & C. invested with particular responsibilities to whom specific attributions have been delegated who cease in their roles because the mandate has ended and who are not subsequently nominated, not even as directors, pro-quota payment of the LTI award is foreseen.

The New LTI Plan 2020-2022 was decided also in accordance with article 2389 of the civil code, at the proposal of the Remuneration Committee, with the favorable opinion of the Statutory Auditors in relation to the subjects regarding whom such opinion was requested. The New LTI Plan 2020-2022 and the early closure of the prior plan will be included in the remuneration policy that will be submitted for approval to the Shareholders Meeting called to approve the annual Financial Report to 31 December 2019. The same Shareholders Meeting will also be called upon to approve the LTI Plan 2020-2022 with regard to the part linked to *Total Shareholder Return*.

For more information on how the New LTI Plan works, one may refer to the illustrative Report and information document that will be made available to the public, in the terms and manner indicated by the present laws.

CORONAVIRUS (COVID-19)

Pirelli is continuing to follow developments in the spread of the Coronavirus through ongoing contact with national and international organisations. The company immediately adopted control and prevention measures for all employees worldwide, with particular attention to China, where all expatriate workers have returned to their countries of origin along with their families.
Operations have been suspended in 2 of the 3 factories that the group has in China, where at the moment only the Car/Moto factory in Yanzhou is operating at a reduced pace.
China accounts for about 12% of Pirelli's total sales. The impact currently expected at the Adjusted Ebit level in the first quarter of 2020 is about 30 million euro, which is expected to be reabsorbed during the year. Should the crisis continue, Pirelli will update its estimates when it presents figures for the first quarter of 2020 in May.

2025 VISION

Looking forward to 2025, Pirelli anticipates confirmation of some of the dynamics that are already in place, including the growth of miles driven and of high-end consumers, at a pace in line with that observed since 2015. Conversely, a change in consumer attitude towards car ownership is expected, with an increase in shared fleets and car services, with a trend that by 2025 will also affect the high-end of the market. Electric cars will also see an increase in use and will account for about one third of Premium/Prestige car production, with growth in the overall electric car fleet. It is also expected that all vehicles in the Premium/Prestige segment produced in 2025 will be connected (today approximately 70%).
In this scenario, Pirelli is well positioned to take advantage of any opportunities that arise. In fact, the company is working with the top car manufacturers and the most innovative start-ups to develop projects to meet the needs of new consumers, in particular:

- tyres for electric vehicles, Pirelli has been working in this area for some time with the development of its 'Elect' tyres
- Cyber technology, with the experience gained over the years through collaboration with car manufacturers, and with new features to increase driving safety, optimise performance and create an eco-friendly tyre data system.

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PRELIMINARY RESULTS FOR YEAR ENDED 31 DECEMBER 2019

In 2019, the tyre sector was characterized by weak demand (-1.4% compared with 2018), particularly in the Original Equipment channel (market -5.9%) in line with the decline of global auto production. With the aim of guaranteeing a sufficient level of factory saturation and containing inventory, many sector operators sent production, originally intended for the Original Equipment channel, to the Replacement market, with a resulting impact on prices. This reduction mainly applied to the Standard segment and High Value products with a lower level of technological content.

In this context, Pirelli pursued its strategic focus on High Value, a segment that is more resilient (Car ≥18'' market growth +5.9%) and less exposed to competitive pressure, consolidating its leadership and strengthening its presence in products characterized by a high level of technological content. In the Standard segment, where demand remains weak (market -2.7% in 2019), Pirelli continued to reduce its exposure to less profitable products, at the same time reducing inventory levels (Car Standard inventory -23% in terms of volume), which had increased at the end of 2018 because of the Brazilian economic crisis. The company closed 2019 with inventories equal to 20.5% of revenues, compared with 21.7% at the end of 2018.

Overall, Pirelli ended 2019 with preliminary results in line with expectations:

- **Revenues at 5,323.1 million euro** (target ≥5.3 billion euro), an increase of +2.5% compared with 2018 (organic variation +2.2%), thanks to further **reinforcement in the High Value segment**, which accounts for 66.5% of consolidated revenues (+2.8 percentage points compared with 63.7% in 2018);
- **Profitability (adjusted ebit margin) of 17.2%, in line with target (>17%÷17.5%).** Adjusted Ebit was 917.3 million euro. The contribution of internal levers (price/mix, efficiencies and cost containment actions) limited the negative impact of the external context (increase in cost of production factors, weak demand and pressure on prices);

- **Solid cash generation,** with a net cash flow before dividends and the impact of IFRS 16, of 332.9 million euro, **in line with the target of 330-350 million euro**, thanks to the effective management of investments and working capital. In the fourth quarter, net cash flow before dividends and IFRS 16 was 978.2 million euro, an improvement of 120 million euro compared with 858.2 million in the fourth quarter of 2018;
- **the ratio of the net financial position to Ebitda before start-up costs was in line with the target.** In 2019, the Net Financial Position was 3,024.1 million euro (3,507.2 including 483.1 million euro stemming from the IFRS 16 accounting principle), compared with 3,180.1 million on 31 December 2018. The ratio of the net financial position to Adjusted Ebitda before start-up costs was 2.42x, or 2.59x including the impact of the IFRS16 accounting principle (2019 target 2.42x/2.36x, or 2.59x-2.53x including the impact of the adoption of the new IFRS16 accounting principle)

Sales

Revenues (*euro millions*)	31/12/2019	% of total	31/12/2018	% of total	Variation y/y	Organic variation y/y
High Value	3,539.9	66.5%	3,309.9	63.7%	+6.9%	+5.2%
Standard	1,783.2	33.5%	1,884.6	36.3%	-5.4%	-3.2%
Total	**5,323.1**	**100%**	**5,194.5**	**100%**	**+2.5%**	**+2.2%**

Revenues amounted to 5,323.1 million euro, with total growth of 2.5% compared with 2018 thanks to the positive performance of the High Value segment. Excluding the impact of exchange rates and the adoption of the IAS 29 accounting principle to account for high inflation in Argentina (with a total impact of +0.3%), organic revenue growth was +2.2%.

Revenue variants		31/12/ 2019
Volumes		-2.0%
	of which High Value +6.4%	
	of which Standard -9.7%	
Price/Mix		4.2%
Forex/IAS 29 Argentina		+0.3%
Total variation		+2.5%

High Value revenues, of 3,539.9 million euro, posted a growth rate of 6.9% compared with 2018 (organic growth +5.2% excluding the positive effect of exchange rates of +1.7 percentage points), accounting for 66.5% of total revenues, an increase from 63.7% in 2018.
Volumes in the High Value segment saw growth of 6.4% (+7.8% in the fourth quarter) while volumes of **Car New Premium (≥18 inches)** increased by 8.4% (market performance +5.9%) and 8.7% in the fourth quarter (market +5.3%), with an improvement in market share in the main geographic regions.

In the **fourth quarter,** Pirelli registered volume growth in Car ≥18 inches of 15.3% in the Original Equipment channel thanks to new supply in Europe of High Value products with high technological content and in line with new regulations for the reduction of CO_2 emissions, as well as new contracts in North America and Apac. Growth in the Replacement channel was more contained (+3.5%) reflecting the unfavourable basis for comparison (2018 fourth quarter growth +15.6%) and the sales performance of Winter products, impacted by the mild winter temperatures.
The difference with the 2019 target for High Value growth of ≥+7.5% stems from the slowdown in demand for specialties ≤17" mainly in Original Equipment - in line with the decline in Car production – and the more contained growth of Winter.

Price/mix was positive at +4.2%, substantially in line with the target (~+4.5%), underpinned by the growing weight of High Value and the improvement in the mix of products both in High Value and Standard. The price/mix performance in 2019 reflects the different trends of single components during the year. In the first half, the Price/Mix performance (+6.4%) benefitted from greater sales in the Replacement channel (Car Replacement ≥18 inches +13.1% compared with -3.4% in the Original Equipment channel) and the sharp fall in Standard volumes (-13.9%). In the second half, however, the price/mix improvement was more contained (+2%), particularly in the fourth quarter (+0.5%), because of greater sales in the Original Equipment channel (Car ≥18 inches volumes +15.3% in the fourth quarter compared with +3.5% in the Replacement channel). The more contained reduction of Standard (-0.7%

in the fourth quarter of 2019) was also a factor and reflects the favourable basis of comparison (-22.6% in fourth quarter of 2018).

In this weak market context, competitive price pressure persists, particularly in the Original Equipment channel. The price trend in the Replacement channel improved in the fourth quarter, compared with the preceding quarter, thanks to price increases in Europe, the USA and Brazil.
The performance of exchange rates was slightly positive (+0.3% in 2019 compared with "stable" exchange rate guidance for the year). In the fourth quarter, exchange rates were negative for 0.6%, mainly due to the volatility of emerging market currencies against the euro.

Profitability

Proftiability* *(euro millions)*	31/12/2019	% of revenues	31/12/2018	% of revenues	Variation y/y
Adjusted Ebitda before start-up costs	**1,350.7**	**25.4%**	**1,279.1**	**24.6%**	**+5.6%**
Adjusted Ebitda	1,310.0	24.6%	1,234.7	23.8%	+6.1%
Adjusted Ebit before start-up costs	**958.6**	**18.0%**	**1,002.7**	**19.3%**	**-4.4%**
Adjusted Ebit	917.3	17.2%	955.0	18.4%	-3.9%

**Beginning from January 1, 2019, leasing rentals, previously included in Ebitda, are booked as reduction of debt for leasing (for the capital quota) and among financial charges (for the interest quota). At the same time, Ebit includes amortization of usage rights for leased goods, originally booked as assets in the balance sheet against leasing debts.*

Adjusted Ebitda before start-up costs on 31 December 2019 was 1,350.7 million euro (+5.6% compared with 1,279.1 million euro in 2018) and includes a benefit of 104.3 million euro stemming from the application – beginning from January 1, 2019 – of the new IFRS16 accounting principle that establishes a new way of accounting for leasing contracts.

Adjusted Ebit before start-up costs was 958.6 million euro (1,002.7 million euro in 2018). **The Adjusted Ebit margin before start-up costs** was 18.0% (19.3% in 2018), with High Value's weight in Adjusted Ebit before group start-up costs at 84% (2019 target ~85%), an increase from 83% in 2018.

Adjusted Ebit was 917.3 million euro (955.0 million euro in 2018) with an Adjusted Ebit margin of 17.2% (18.4% in 2018). The internal levers (price/mix, efficiencies and cost reduction program) contributed to the containment of impacts linked to the external context (production cost inflation, weak demand and pressure on prices).
In particular:

- the improvement of the price/mix (+123 million euro) more than offset the increase in raw material prices (-67 million euro) and the decline in volumes (-45 million euro);
- efficiencies (+70 million euro, 1.3% of revenues) substantially compensated for costs' inflation (-77 million euro);
- the cost reduction plan (50 million euro) contributed to limiting the impact of greater amortizations and expenses linked to the development of High Value (81 million euro in total) and costs (around 20 million euro) linked to the temporary greater under-saturation of Standard capacity to reduce inventory;

Ebit was 742.7 million euro (703.1 million in 2018) and includes:

- amortizations of *intangible assets* identified the context of PPA of 114.6 million euro (in line with 2018),

- restructuring charges of 97.0 million euro related to the write-down of tangible fixed assets and other costs for restructuring actions mainly in Brazil and Italy,
- other charges of 34.0 million euro, of which 6.9 million euro linked to the retention plan and 14 million euro related to cost not pertaining the management of operations and 13.1 million related to the revision of commercial agreements.
- proceeds from the recognition of tax credits in Brazil of 71.0 million euro.

Net financial position and cash flow

The **Net Financial Position**, excluding the impact of the new IFRS 16 accounting principle, was negative for 3,024.1 million euro, an improvement of 156 million euro (Net Financial Position 3,180.1 million on 31 December 2018), which includes the disbursement of dividends by the Parent Group of 176.9 million euro. Including leasing debts of 483.1 million euro, following the application of the IFRS 16 accounting principle, the Net Financial Position on December 31, 2019 was 3,507.2 million euro. The **ratio between Net Financial Position and Adjusted Ebitda before start-up costs** was 2.42x, or 2.59x including the impact of the action of the IFRS16 accounting principle (2019 target 2.42x/2.36x, or 2.59x/2.53x including the impact of the adoption of the new IFRS16 accounting principle).

The **net cash flow before dividends** before the application of the IFRS 16 accounting principle was positive for 332.9 million euro, in line with the 2019 target of 330-350 million euro, a marked improvement compared with +38.4 million euro at the end of 2018 thanks to the effective management of investments and working capital. Net cash flow before dividends and after the IFRS 16 impact at 344.1 million euro.

Investments amounted to 390.5 million euro (2019 target 380 million, in 2018 463.4 million euro) mainly destined to High Value, and the constant improvement of the mix and quality in all factories.

There was a marked improvement in the management of working capital with cash absorption of -60.8 million euro (-388.2 million euro in 2018) thanks to the normalization of inventory levels which at the end of last year had reached 20.5% of revenues, a clear improvement from 21.7% in 2018.

In the fourth quarter, net cash flow before dividends and IFRS16 was positive for 978.2 million euro, an improvement from 858 million euro in the same period of 2018.

In 2019, expenditure for Research & Development amounted to 232.5 million euro, equal to 4.4% of total revenues, of which 215.7 million euro destined to High Value activities (6.1% of the segment's revenues).

In 2019, there were significant improvements in terms of environmental, social and economic performance.

Pirelli, again in 2019, registered a further improvement in the area environmental, social and economic results, as also reflected in the international awards obtained. In September, following the annual revision of the Dow Jones Sustainability indices by RobecoSam and S&P Dow Jones, the company was confirmed **Leader in Sustainability at the world level in the Automobiles & Components sector** in the **Dow Jones World** and **Europe** indices. Pirelli was subsequently also confirmed part of the **United Nations Global Compact Lead**, a grouping of companies distinguished by their constant commitment to the implementation of the Ten Principles of the United Nations for responsible company action. In addition, three significant acknowledgements in ESG matters were received in 2020. In January, Pirelli was confirmed a global leader in the fight against climate change with its inclusion in the **Climate A list** drafted by CDP (former Carbon Disclosure Project). The company was also the only one of the "Auto Components" sector at the world level to achieve "**Gold Class Distinction" in the SAM Sustainability Yearbook 2020** published by S&P Global and in addition was recognized as **Leader in the FTSE4Good Index Series**, achieving top place in the tyres sector.

In terms of results obtained in the environmental, social and economic context, in 2019 Pirelli registered a **reduction in absolute water withdrawal** of 14.7% compared with 2018, a **reduction of absolute energy consumption** of 2% compared with the previous year, and a **reduction of absolute** CO_2 emissions of

1.9%. Further, 97% of **waste was sent to recovery**, effectively pursuing the goal of "zero waste to landfill".

Investment in the "culture of health and safety in the workplace" was also of primary importance, as was training, with an average 7 days per employee.

In 2019, furthermore, **revenues from Green Performance tyres** accounted for 55.8%[2] (compared with 49.8% in 2018) of total tyre sales. Green Performance revenues accounted for 63.3% of High Value[3] products (compared with 57.5% in 2018).

Among the central objectives of 2019, there was also the work of training in the content of Pirelli's Natural Rubber Policy, introduced by the company in 2017, and the relative implementation Manual dedicated to Pirelli suppliers directly involved in activities "in the field", in local languages in all the countries where Pirelli is supplied. One hundred percent of natural rubber suppliers participated in six seminars organized by Pirelli in five countries (Indonesia, Thailand, Malaysia, China and Brazil). On several occasions, national authorities active in the sector also participated, and subsequently prepared activity plans in line with Pirelli's Policy.

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Presentation of the 2020-2022 Industrial Plan, Vision 2025 and preliminary 2019 results

The 2020-2022 Industrial Plan, Vision 2025 and the preliminary and unaudited 2019 results will be illustrated today, 19 February 2020, from 11.30 am in a presentation with the participation of the Executive Vice Chairman and CEO of Pirelli & C. SpA, Marco Tronchetti Provera, and the Top Management. The presentation will also be available in webcast – in real time – at www.pirelli.com in the Investors section, where the slides will also be available.

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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.

Forward-looking statements" (which expression shall include opinions, predictions or expectations about any future event) that may be contained in the Press Release are based on a variety of estimates and assumptions by the Group, including, among others, estimates of future operating results, the value of assets and market conditions. These estimates and assumptions are inherently uncertain and are subject to numerous business, industry, market, regulatory, geo-political, competitive and financial risks that are outside of the Group's control. There can be no assurance that the assumptions made in connection with the forward-looking statements will prove accurate, and actual results may differ materially. The inclusion of the forward-looking statements herein should not be regarded as an indication that the Group considers the forward-looking statements to be a reliable prediction of future events and the forward-looking statements should not be relied upon as such.
Pirelli sells its products worldwide in over 160 countries and owns industrial plants located in different countries.
The Industrial Plan 2020-2022 does not take into account any negative effects that may arise from impacts on the global market in which Pirelli operates and more generally on the macroeconomic scenario, also following any governmental measures related to the spread of Covid-19 (SARS-CoV-2).
Sensitivity assumptions related to the effects of the spread of Covid-19 elaborated on the basis of first estimates are included in the Industrial Plan 2020-2022. By their nature, these hypotheses contain elements of uncertainty and are subject to changes, even significant ones, in the event of changes in the scenario and the reference context which could lead to a significant alteration of normal market dynamics and, more generally, of business operating conditions.

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

[2] *Figure obtained weighing the value of sales of Green Performance tyres against the value of Group tyre sales. "Green Performance" identifies tyres that Pirelli produces throughout the world and that belong exclusively in classes A, B, C of rolling resistance and wet grip according to the labeling parameters set out in European law.*

[3] *High Value products are determined as those with rim sizes of 18 inches or more and, in addition, include "Specialties" products (Run Flat, Self-Sealing, Noise Cancellation System).*

Pirelli – preliminary and unadited results to 13.12.2019

(in millions of euro)	**2019**	**2018**
Net sales	**5.323,1**	**5.194,5**
EBITDA adjusted without start-up costs (°)	1.350,7	1.279,1
% of net sales	25,4%	24,6%
EBITDA adjusted (°°)	**1.310,0**	**1.234,7**
% of net sales	24,6%	23,8%
EBITDA (°°°)	**1.250,0**	**1.097,4**
% of net sales	23,5%	21,1%
EBIT adjusted without start-up costs (°)	958,6	1002,7
% of net sales	18,0%	19,3%
EBIT adjusted (°°)	**917,3**	**955,0**
% of net sales	17,2%	18,4%
EBIT	**742,7**	**703,1**
% of net sales	14,0%	13,5%
Net financial (liquidity)/debt position without IFRS 16	**3.024,1**	**3.180,1**
Lease obligations IFRS 16	(483,1)	n/a
Total Net financial (liquidity)/debt position	**3.507,2**	**3.180,1**
Net cash flow before dividends without IFRS16	**332,9**	**38,4**
Net cash flow before dividends	**344,1**	**38,4**
Investments in property, plant and equipment and intangible assets (Capex)	390,5	463,4
Research and development expenses	232,5	219,0
% of net sales	4,4%	4,2%
Research and development expenses - High Value	215,7	202,9
% on sales High Value	6,1%	6,1%

(°) Start-up costs refers to contribution to EBITDA and EBIT (amounting to euro 40.7 million (euro 44.4 million in 2018) and euro 41.3 million (euro 47.7 million in 2018) respectively of the Cyber and Velo activities and costs sustained for the digital transformation of the Group.

(°°) Adjustments refer to restructuring expenses amounting to euro 97 millions (euro 67,5 millions in 2018), the benefit derived from tax credits in Brazil amounting to euro 71 millions, expenses relating to the retention plan amounting to euro 6.9 millions (euro 13.3 millions in 2018) and costs (i) relating to renegotiation of commercial agreements amounting to euro 13,1 millions (euro 14.2 millions in 2018) and (ii) not pertinent to normal business operations amounting to euro 14 millions (euro 18.3 millions in 2018) and, with reference only to EBIT, amortization of intangible assets recognised as a consequence of Business Combinations amounting to euro 114.6 millions (114.6 millions in 2018). In 2018 adjustments included also non recurring expenses amounting to euro 24 millions.

(°°°) The item includes for 2019, the impacts deriving from the application of the new accounting standard IFRS 16 - Leases to the amount of euro 104.3 million.

Glossary

HIGH VALUE TYRES
Prestige. *Tyres designed and developed in partnership with car manufacturers belonging to the Prestige Cars segment (which*
traditionally includes car manufacturers such as Ferrari, Lamborghini, Maserati, Bentley, Bugatti, Rolls Royce, Porsche, Aston Martin, McLaren and Pagani) and subject to specific approval;
New Premium. *Tyres with a rim of 18 inches and greater, designed primarily but not exclusively for*
cars belonging to the Prestige Cars and Premium Cars segment (which traditionally includes car manufacturers such as BMW, Mercedes, Audi, Alfa Romeo, Jaguar, Land Rover, Infiniti, Lexus, Lincoln, Acura, Cadillac, Tesla and Volvo).
Specialities and Super Specialities. *High-tech tyres for cars of all classes, which meet the needs of*
specific applications (e.g. Run Flat, Self-Sealing, Noise Cancellation System)
Motorsport. *Tyres designed for use in car or motorcycle racing.*
Premium Motorcycle. *High-end motorcycle tyres that ensure high performance.*
STANDARD TYRES:
- Tyres with a rim of 17 inches or less that do not fall within the Specialties segment and are not dedicated to Motorsport
- Non premium motorcycle tyres
SYNERGIC CAR
- Car segment that includes car manufacturers that do not fall within the Prestige and Premium segment.
PULL LINES
- Product lines for the Original Equipment channel that are the result of dedicated development to meet the needs of individual car manufacturers for a specific car
PUSH LINES
- Product lines for the Replacement channel that are developed to meet the needs of the end consumer and serve to support the Pull-Through strategy in parallel.

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

- **EBITDA:** is equal to the EBIT but which excludes the depreciation and amortisation of property, plant and equipment and intangible assets. The EBITDA is used to measure the ability to generate earnings, excluding the 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, costs not pertinent to normal business operations, costs relative to the renegotiation of commercial agreements, 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 this measure also included costs 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 investments;
- **EBITDA margin adjusted:** this is calculated by dividing the EBITDA adjusted by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency, excluding the impacts arising from investments, operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil, costs not pertinent to normal business operations, costs relative to the renegotiation of commercial agreements, 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, 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, operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil, costs not pertinent to normal business operations, costs relative to the renegotiation of commercial agreements, 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 this measure also included costs 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 excluding 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, costs u not pertinent to normal business operations, costs relative to the renegotiation of commercial agreements, 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 financial (liquidity)/debt position:** this measure represents the net financial debt less the *"Non-current financial receivables"* (included in the financial statements under *"Other receivables"*) and non-current derivative financial instruments included in the net financial (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 16. This is used to measure the sustainability of the debt;
- **Operating net cash flow:** is calculated as the change in the net financial position relative to operations management;
- **Net cash flow before dividends and extraordinary transactions/investments:** is calculated by adding the change in the net financial position due to financial and tax management, to the operating net cash flow;
- **Net cash flow before dividends paid by Parent Company:** is calculated by adding the change in the net financial position due to extraordinary transactions and the management of investments, to net cash flows before dividends and extraordinary transactions/investments;
- **Net cash flow before dividends without IFRS 16:** is calculated by adding the change in the net financial position due to the implementation of the new accounting standard IFRS 16 - Leases, to net cash flows before dividends disbursed by the Parent company;
- **Net cash flow:** is calculated by adding the change in the net financial position due to the disbursement of dividends by the Parent company, to the net cash flows before dividends disbursed by the Parent company;
- **Net cash flow without IFRS 16:** is calculated by adding the change in the net financial position due to the implementation of the new accounting standard IFRS 16 - Leases, to net cash flows.
- **Capital Expenditures or Investments in property, plant & equipment and intangible assets (CapEx):** this is calculated as the sum of investments (increases) in intangible assets, and investments (increases) in property, plant and equipment excluding any increases relative to the rights of use.

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