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Testo del comunicato

Vedi allegato.

PRESS RELEASE

TOTAL NET PROFIT: +3.5% TO 457.7 MLN EURO (442.4 MLN ON 31 DEC. 2018)

BOARD TO PROPOSE TO SHAREHOLDERS MEETING, CALLED FOR 18 JUNE, THE DISTRIBUTION OF A DIVIDEND OF 0.183 EURO PER SHARE (0.177 EURO IN 2018) AMOUNTING TO TOTAL OF 183 MLN EURO

The Board of Directors of Pirelli & C. SpA approved consolidated results for the year ended on 31 December 2019.

- **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, of which 215.7 million euro destined to High Value activities (6.1% of segment's revenues)**
- **Further improvement in results in environmental, social and economic context: Pirelli world leader in sustainability within the Automobiles and Components sector of the Dow Jones World indices**

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The economic, asset and financial data as of 31 December 2019 were formulated applying the new IFRS 16 – Leases accounting principle that establishes a new way of accounting for leasing contracts, with significant effects in particular on the representation of the Group net financial position and EBITDA. It should be noted that the comparable 2018 data have not been restated.

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Milan, 2 March 2020 – The Board of Directors of Pirelli & C. SpA met today and approved results for the year ended on 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.

Pirelli, as already announced on 19 February with the presentation of 2020-2022 Industrial Plan with Vision 2025, ended 2019 with 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);
- **Total net profit** 457.7 million euro, an increase of 3.5% compared with a profit of 442.4 million euro in 2018. The 2019 result in part benefitted from the contribution of tax credits in Brazil, while the 2018 result was positively impacted by the Patent Box subsidized taxation regime applied to the years 2015-2018.
- **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 (e*uro 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%
	o/w	***High Value***	***+6.4%***	
	ofw	*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 (25 million euro) and expenses linked to the development of High Value (56 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 Result and Net Financial Position

The **result from equity holdings** was negative 11.0 million euro, compared with -5 million euro in 2018.

Net financial charges stood at 109.4 million euro (196.3 million euro in 2018) and mainly reflect:

- the positive 107.3 million euro effect stemming for the recognition of tax credits in Brazil;
- the negative 23.5 million euro impact relative to leasing charges deriving from the application of the new IFRS 16 – Leases accounting principle.

Using the same perimeter as 2018, net financial charges were 193.2 million euro, substantially in line with the previous year (196.3 million euro).

Fiscal charges in 2019 amounted to 164.6 million euro against a pretax profit of 622.3 million euro with a tax rate of 26.5%, in line with the expected tax rate for 2019. In 2018, the tax rate was 10.6% thanks to the benefit stemming from the application of the Patent Box subsidized taxation regime following from the agreement signed on 15 October 2018 with the Italian Taxation Agency.

The **total net result** was 457.7 million euro, an increase of 3.5% compared with a profit of 442.4 million euro in 2018. The 2019 result benefitted from the contribution stemming from tax credits stemming in Brazil, while the 2018 result was positively impacted by the Patent Box subsidized tax regime applied to the years 2015-2018.

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 and a marked improvement compared with +38.4 million euro at the end of 2018. It reflects:

- Investments of 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.
- Effective management of working capital, with cash absorption of approximately -60 million euro (-388.2 million euro in 2018), an improvement thanks above all to the normalization of inventory levels.

As well as actions to recover commercial credits – through a realignment of the terms of payment for the main Dealers in Brazil, temporarily extended at the end of 2018 because of difficult market conditions - there were actions to normalize inventories, which at the of December 2019 saw a 7% volume reduction compared with the end of the previous year with:

- A decline of 23% in Standard products, in line with the recovery plan announced at the beginning of the year, and
- An increase of 5% in High Value products, also to ensure a better level of service to the end customer.

Thanks to these actions to contain inventories of finished products, and further actions to reduce inventories of raw materials as well, the level at the end of December 2019 reached a weight of 20.5% of revenues, in line with the end-of-year target of 20.5%/21% (21.7% at end 2018).

The net cash flow before dividends and after the IFRS 16 impact was 344.1 million euro.

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). The workforce on 31 December 2019 stood at 31,575 employees (31,489 employees on 31 December 2018).

The **Parent Company** Pirelli & C. SpA ended 2019 with a net profit of 273.2 million euro, an increase of 4.1% from 262.4 million euro in 2018.

The Board will propose to the Shareholders Meeting the distribution of a dividend of 0.183 euro per share (0.177 euro per share last year), amounting to total of 183 million euro (177 million in 2018), or about 40% of the net consolidated result. The dividend relative to 2019 will be in payment from 24 June 2020 (ex-coupon date 22 June 2020 and record date 23 June 2020).

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%[1] (compared with 49.8% in 2018) of total tyre sales. Green Performance revenues accounted for 63.3% of High Value[2] products (compared with 57.5% in 2018).

Among the key results 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,

[1] *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.*

[2] *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).*

national authorities active in the sector also participated, and subsequently prepared activity plans in line with Pirelli's Policy.

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2020 forecasts

Please note that the 2020 forecasts were provided on 19 February 2020 during the presentation of the 2020-2022 Industrial Plan with vision 2025.

Bond issues

The Board of Directors today decided to renew the authorization – in the context of the "Euro Medium Term Note " EMTN Program decided upon on 21 December 2017 – to issue bond loans up to a maximum of 1.8 billion euro through 31 March 2021 destined exclusively for qualified investors.
In accordance with the rules of Borsa Italiana, it should also be noted that in September 2020 the bond loan for a total nominal value of 200 million euro -placed by Pirelli & C. SpA and guaranteed by Pirelli Tyre SpA on the Eurobond market in March 2018 – matures.

Call for Shareholders Meeting and corporate governance

The Board of Directors has decided to call – in sole session on 18 June 2020 – a Shareholders Meeting in ordinary and extraordinary session.
In the ordinary session, shareholders will be called upon to:

- Approve results for 2019
- Renew the Board of Directors, which is expiring as its mandate is ending. The shareholders meeting will have to determine the number of members (through the slate vote mechanism), duration and compensation of the Board of Directors, nominating the Chairman.

The shareholders meeting will also be called upon to:

- Approve policy in matters of remuneration as well as approving, for the part linked to Total Shareholder Return, following the early closure of the preceding plan, the adoption of a new monetary incentive plan – Long Term Incentive (LTI) – destined to all the Group's management and correlated to the targets of the new 2020-2022 Industrial Plan, as already announced to the market on 19 February 2020;
- Express itself, through consultative note, on the compensations disbursed for 2019
- Renew the authorization to stipulate an insurance policy to cover the managerial risks of the Directors and Auditors (cd. D&O).

In extraordinary session, the Shareholders Meeting will be called upon to approve some statutory changes predominantly linked to new laws on gender quotas.

The Shareholders Meeting will also be presented with the annual "Report on company governance and ownership structure" which, in particular, highlight the positive outcomes of the Board of Director's annual of self-evaluation and – as recommended in the norms of conduct issued by Consiglio Nazionale dei Commercialisti e degli Esperti Contabili (national accountants and accounting experts council) or CNDCEC – of the Statutory Auditors.

Additional information on the matters reported here above will be available in the illustrative reports of the Board of Directors meeting, which also contain the single decisional proposals of the Shareholders Meeting.

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The 2019 results' file, which will be made available to the public in the manner and terms of the law, will also contain (chapter "Report on the Responsible Management of the Value Chain"), the annual consolidated Statement of a non-financial nature (ex. Legislative Decree 30 December 2016, no. 254) today approved by the Board.

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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 31 december 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%
Adjustments:	- amortisation of intangible assets included in PPA	(114,6)	(114,6)
	- non-recurring, restructuring expenses and other	(131,0)	(137,3)
	- income from Brazilian tax credits	71,0	-
EBIT		**742,7**	**703,1**
% of net sales		14,0%	13,5%
Net income/(loss) from equity investments		(11,0)	(5,0)
Financial income/(expenses) (°°°)		(109,4)	(196,3)
- of which financial income from Brazilian tax credits		*107,3*	-
Net income/(loss) before tax		**622,3**	**501,8**
Tax expenses		(164,6)	(53,0)
Tax rate %		26,5%	10,6%
Net income/(loss) related to continuing operations		**457,7**	**448,8**
Eanings/(loss) per share related to continuing operations (in euro per share)		0,44	0,44
Net income/(loss) related to continuing operations adjusted		514,3	576,3
Net income/(loss) related to discontinued operations		-	(6,4)
Total net income/(loss)		**457,7**	**442,4**
Net income attributable to owners of the Parent Company		438,1	431,6

(°) 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). 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 on EBITDA and euro -24 million on financial expenses.

Pirelli – Balance sheet data to 31 December 2019

(in millions of euro)	**12/31/2019**	**12/31/2018**
Fixed assets related to continuing operations without IFRS 16	9.007,2	9.017,8
Right of use IFRS 16	462,6	n/a
Fixed assets related to continuing operations	**9.469,8**	**9.017,8**
Inventories	1.093,8	1.128,5
Trade receivables	649,4	628,0
Trade payables	(1.611,5)	(1.604,7)
Operating working capital related to continuing operations	**131,7**	**151,8**
% of net sales	2,5%	2,9%
Other receivables/other payables	81,0	(39,8)
Net working capital related to continuing operations	**212,7**	**112,0**
% of net sales	4,0%	2,2%
Net invested capital held for sale	-	10,7
Net invested capital	**9.682,5**	**9.140,5**
Equity	**4.826,6**	**4.550,9**
Provisions	1.348,7	1.409,5
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**
Equity attributable to owners of the Parent Company	4.724,4	4.468,1
Investments in property, plant and equipment and intangible assets without IFRS16 (Capex)	390,5	463,4
Increases in Rights of use IFRS16	51,2	n/a
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%
Employees (headcount at end of period)	31.575	31.489
Industrial sites (number)	19	19

Cashflow statement

(in millions of euro)	**1Q**		**2Q**		**3Q**		**4Q**		**Total**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
EBIT adjusted	219,2	218,4	221,3	231,7	244,5	250,0	232,3	254,9	917,3	955,0
Amortisation and depreciation (excluding PPA amortisation)	96,5	69,7	99,1	68,1	98,0	69,8	99,1	72,1	392,7	279,7
Investments in property, plant and equipment and intangible	(78,0)	(85,3)	(89,7)	(93,9)	(74,6)	(117,5)	(148,2)	(166,7)	(390,5)	(463,4)
Increase in right of use IFRS16	(3,2)	n.a.	(14,0)	n.a.	(8,5)	n.a.	(25,5)	n.a.	(51,2)	n.a.
Change in working capital / other	(836,0)	(928,8)	10,1	(68,9)	(136,8)	(247,4)	901,9	856,9	(60,8)	(388,2)
Operating net cash flow	**(601,5)**	**(726,0)**	**226,8**	**137,0**	**122,6**	**(45,1)**	**1.059,6**	**1.017,2**	**807,5**	**383,1**
Financial income / (expenses)	(48,1)	(55,2)	38,1	(62,8)	(65,2)	(20,8)	(34,2)	(57,5)	(109,4)	(196,3)
Reversal of financial income from tax credits in Brazil	-	-	(99,8)	-	(0,8)	-	(6,7)	-	(107,3)	-
Taxes paid	(30,1)	(31,1)	(45,9)	(36,2)	(37,4)	(33,8)	(28,6)	(17,9)	(142,0)	(119,0)
Cash Out for non-recurring and restructuring expenses / other	(16,0)	(38,2)	(17,9)	(11,9)	(7,4)	(4,6)	(10,9)	(17,3)	(52,2)	(72,0)
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)	(6,2)	14,8	(26,2)	(9,2)
Net cash flow before dividends, extraordinary transactions and investments	**(695,7)**	**(862,2)**	**72,6**	**32,5**	**11,6**	**(131,4)**	**973,0**	**939,3**	**361,5**	**(21,8)**
Industrial reorganisation	-	5,3	-	(10,3)	-	9,6	-	(14,5)	-	(9,9)
Disposals/(Acquisition) of investments	(17,2)	136,5	(0,2)	0,2	-	-	-	(66,6)	(17,4)	70,1
Net cash flow before dividends paid by Parent Company	**(712,9)**	**(720,4)**	**72,4**	**22,4**	**11,6**	**(121,8)**	**973,0**	**858,2**	**344,1**	**38,4**
Net cash flow before dividends paid by Parent Company w/o IFRS 16	*(732,9)*	*(720,4)*	*67,9*	*22,4*	*19,7*	*(121,8)*	*978,2*	*858,2*	*332,9*	*38,4*
Dividends paid by Parent Company	-	-	(176,9)	-	-	-	-	-	(176,9)	-
Net cash flow (*)	**(712,9)**	**(720,4)**	**(104,5)**	**22,4**	**11,6**	**(121,8)**	**973,0**	**858,2**	**167,2**	**38,4**
Net cash flow without IFRS 16	(732,9)	(720,40)	(109,0)	22,40	19,7	(121,80)	978,2	858,20	156,0	38,40

* The 2019 item 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, 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 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 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, costs unrelated to the normal operating management of business, 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;
    - non-recurring costs/income recognised under financial income and financial 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", "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 represents 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 is constituted by the operating working capital, and other receivables and payables, and the derivative financial instruments not included in the net financial (liquidity)/debt position. This 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 Associates 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;
- **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 flows 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 flows 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 flows before dividends without FRS 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 paid by Parent company;
- **Net cash flows** is calculated by adding the change in the net financial position due to the payment of dividends by Parent company, to the net cash flows before dividends paid by Parent company;
- **Net cash flows 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;

Increases in the Rights of Use 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.

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