



PRESS RELEASE

Board of Pirelli & C. S.p.A. reviewed preliminary results to 31 December 2018

PIRELLI ACHIEVED 2018 OPERATING TARGETS

REVENUES AT 5.2 BILLION EURO (TARGET ABOUT 5.2 BILLION), ORGANIC GROWTH OF 3.7%

ADJUSTED EBIT BEFORE START-UP COSTS AT 1,003 MILLION EURO (ABOVE 1 BILLION THE TARGET). +8.2% COMPARED WITH 2017. EBIT MARGIN ADJUSTED BEFORE START-UP COSTS GREW TO 19.3%

ADJUSTED EBIT AT 955 MILLION EURO (TARGET APPROX. 1 BILLION EURO), +9% COMPARED WITH 2017, EBIT MARGIN ADJUSTED GREW TO 18.4%

Results for the 12 months ended 31 December 2018

- Revenues at 5,194.5 million euro, +3.7% at the organic level
- High Value Revenues: +10.3% at organic level thanks to strengthening in all Regions. Weight on total sales rises to 63.7% from 57.5% on 31 December 2017
- High Value Volumes: +11%, with volumes of 'New Premium' Car (≥ 18 inches) +14.3%
- Price/mix: +6.8% underpinned by the growing weight of High Value and improved product and channel mix (price/mix +8.1% in fourth quarter)
- Adjusted Ebit before start-up costs: +8.2% to 1,002.7 million euro, with a Ebit margin adjusted before start-up costs at 19.3% (17.3% in 2017), thanks to High Value which reached a weight of over 83%
- Adjusted Ebit: +9% at 955 million euro (876.4 million euro on 31 December 2017), with a Ebit margin adjusted of 18.4% (16.4% on 31 December 2017, 20.1% in fourth quarter 2018)
- Net financial position: negative 3,180.1 million euro, an improvement compared 4,038.3 million euro on 30 September 2018 and 3,218.5 million on 31 December 2017. The Net Financial Position at the end of 2018 includes approximately 140 million euro consisting of advances on financial investments in the JV in China and the slowdown/restructuring in Brazil to be recouped between now and 2020. Consequently the Net Financial Position/Adjusted Ebitda before start-up costs reached 2.49x (2.7x in 2017, 2.35x the 2018 target)
- Investments of 463.4 million euro (489.4 million euro in 2017) mainly destined to the growth of High Value and the improvement of mix and quality
- Research & Development expenditure: 219 million euro in 2018 (4.2% of sales), of which 202.9 million euro for High Value activities (6.1% of revenues in the segment)

Outlook

Revenues in 2019 expected to grow by between 4% and 6% with the weight of High Value at around 67% (around 64% in 2018)

Profitability expected to improve, with the 2019 adjusted Ebit margin at about 19% (18.4% in 2018). High Value as a percentage of Adjusted Ebit before start-up costs at around 85% (around 83% in 2018)

Expected 2019 investments of 430 million euro

Ratio between net financial position and adjusted Ebitda before start-up costs at end of 2019 estimated at about 2.1x¹ (2.49x in 2018)

Confirmed target of NFP to adjusted Ebitda ratio lower than 2x in 2020²

Milan, 14 February 2019 - The Board of Directors of Pirelli & C. S.p.A. met today and reviewed preliminary and unaudited results for the 12 months that ended on 31 December 2018³. The year saw operating trends in line with targets thanks to the resilience of the business model, with its focus on High Value, the performance of which was better than that of the market.

The key characteristics of 2018 were:

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

¹ *Excluding the impact of the new IFRS 16 accounting principle*

² *Excluding the impact of the new IFRS 16 accounting principle*

³ *As already announced to the market, the results for the year ended on 31 December 2018 will be approved by the Board of Directors at its meeting on 26 February 2019.*

Specific programs to note:

- Further **strengthening of partnerships with *Prestige* and *Premium* car makers**; with a portfolio ever more oriented towards new technologies and which counts around 2,480 homologations at the high end
- **Expansion of *High Value* production capacity** (+3 million pieces) mainly in Europe and Nafta, which account for about 60% of total capacity;
- **Strengthening of distribution coverage** mainly in Europe, Nafta and Apac;
- **Development of business programs that intercept the needs of final customers** (such as *Cyber* and *Ve/o*), flanked by projects for the digital transformation of the company and the conversion of production from the Aeolus brand to the Pirelli brand in the Jiaozuo Aeolus Car factory.

Revenues

Revenues (euro millions)	31/12/2018	% of total	31/12/ 2017	% of total	Variation a/a	Organic variation y/y
High Value	3,309.9	63.7%	3,079.2	57.5%	+7.5%	+10.3%
Standard	1,884.6	36.3%	2,273.1	42.5%	-17.1%	-5.4%
Total	5,194.5	100%	5,352.3	100%	-2.9%	+3.7%

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

Revenue variants	31/12/ 2018
Volumes	-3.1%
	<i>of which High Value +11%</i>
	<i>of which Standard -14%</i>
Price/Mix	+6.8%
Adoption of new IFRS 15 principle	-0.7%
Exchange rates/IAS 29 Argentina	-5.9%
Total variacion	-2.9%

Revenues from *High Value* totaled 3,309.9 million euro, registering organic growth of 10.3% (+7.5% including the negative exchange rate effect of -2.8%), with an increase to 63.7% of total revenues compared with 57.5% on 31 December 2017.

Volumes in the High Value segment registered marked growth, +11%, with an improvement of market share in the main Regions. In particular, volumes of **Car New Premium above 18 inches** grew by 14.3% reaching levels above the market's performance (+10%), thanks to strong demand in Europe, Apac and North America and the growing demand for *Pirelli specialties* with rim sizes ≥ 18 inches.

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

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

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

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

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

Profitability

Profitability (euro millions)	31/12/2018	% of revenues	31/12/2017	% of revenues	Variation y/y
Ebitda Adjusted before start-up costs	1,279.1	24.6%	1,175.1	22.0%	+8.9%
Ebitda Adjusted	1,234.7	23.8%	1,137.7	21.3%	+8.5%
Ebit Adjusted before start-up costs	1,002.7	19.3%	926.6	17.3%	+8.2%
Ebit Adjusted	955.0	18.4%	876.4	16.4%	+9.0%

Adjusted Ebitda before start-up costs on 31 December 2018 was 1,279.1 million euro, an increase of 8.9% compared with 1,175.1 million euro for the same period in 2017.

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

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

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

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

In particular:

- Improvement of the price/mix (+239 million euro) has more than compensated for the impact stemming from the increase in raw materials (-52 million euro) and the volatility of exchange rates (-43 million euro), as well as the already mentioned decline in volumes (-68 million euro);

- The positive balance of 22 million euro between industrial efficiencies (70 million euro, equal to 1.3% of revenues) and costs' inflation (-48 million euro). The efficiencies, in particular, regarded industrial and product activities: from the optimization of raw material costs to the simplification of products, the improvement of productivity thanks to the growing digitalization of processes;
- The approximately 50 million euro cost reduction plan, kicked off in the second half of 2018 to counter the fall in Standard segment sales – particularly in Brazil – contributed to the containment of increases in amortizations and other costs linked to High Value (-71 million euro);
- Start-up costs which were 2.5 million euro lower (-47.7 million euro in 2018 from -50.2 million euro in 2017).

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

The impact on the net result of non-recurring and restructuring charges linked to the Standard business was in large part offset by the benefits from the patent box.

Performance by Region

Revenues (<i>euro millions</i>)	31/12/2018	% of total 31/12/2018	% of total 31/12/2017	Variation y/y	Organic variation y/y
Europe	2,234.2	43.1%	41.7%	-0.2%	+1.4%
Nafta	1,004.1	19.3%	18.4%	+2.1%	+7.6%
Apac	890.2	17.1%	15.1%	+10.4%	+13.3%
Latam	691.9	13.3%	17.1%	-24.4%	-3.1%
Russia & CIS	167.0	3.2%	3.0%	+4.6%	+15.5%
Meai	207.1	4.0%	4.7%	-16.8%	-6.6%
Total	5,194.5	100%	100%	-2.9%	+3.7%

At the regional level, **Europe** registered, on 31 December 2018, organic revenue growth of 1.4% (-0.2% including the effect of exchange rates of -0.4% and the effect of the adoption of the new IFRS 15 accounting principle of -1.2%). The strengthening of High Value continued, with organic revenue growth of 7.0% despite the decline in the Original Equipment market (car OE market -4% in the third quarter and -5% in the fourth quarter) following the introduction of new WLTP tests for CO2 emissions and the weakness of the Premium moto market (-2.4% in 2018 compared with +3.3% in 2017). In this context, Pirelli improved its market share in Car $\geq 18''$ both in Original Equipment, thanks to the expansion of the homologation portfolio with Premium and Prestige car makers, and in the Replacement channel, thanks to the *pull-through* effect. Profitability was in the *high-teens*, an improvement of over one percentage point compared with 31 December 2017 mainly due to the continuing mix improvement and efficiencies.

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

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

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

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

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

Net financial position and cash flow

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

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

- Investments of 463.4 million euro (489.4 million euro in 2017) mainly aimed at the increase of High Value capacity in Europe and the Nafta area, the strategic conversion of Standard capacity to High Value in Brazil and the constant improvement of the mix and quality in all factories;

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

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

In 2018, expenditure for **Research & Development** amounted to 219.0 million euro (4.2% of sales), of which 202.9 million euro were destined to High Value activities (6.1% of High Value revenues).

2019 Outlook

<i>Euro millions</i>	2018	2019
Revenues	5,194.5	~+4%/+6%
<i>Weight of High Value on revenues</i>	~64%	~67%
Volumes	-3.1%	0/ +1%
<i>Volumes High Value</i>	+11%	~+11%
<i>Volumes Standard</i>	-14%	-10%/-9%
Price/Mix	+6.8%	+5%/+5.5%
Forex	-5.9%	-1%/-0.5%
Ebit Adjusted Margin	18.4%	~19%
<i>Start-up costs</i>	48	~40
Net financial position/Ebitda Adjusted before start-up costs	2.49X	~2.1X
CapEx	463	~430

The 2019 forecasts reflect our strategy focusing on High Value and the accelerated reduction of exposure to the Standard segment. The figures, furthermore, already take into account the marginal effects of the remodulation of some of the terms of the licensing contract with the Prometeon Tyre Group and Aeolus.

The 2019 forecasts are:

- revenues to grow by between 4% and 6% compared with 5,194.5 million euro in 2018, underpinned by the strengthening of High Value (67% weight on revenues compared with 64% in 2018) and the continuing improvement of the price mix (+5%/+5.5%)
- High Value volumes to increase by about +11% and accelerated reduction of exposure to the Standard segment (Standard volumes -10%/-9%) to continue
- total volumes: between 0 and +1% compared with 2018
- impact of exchange rates at -1/0.5%
- profitability rising with an adjusted Ebit margin of about 19% (18.4% in 2018) underpinned by improvements of internal levers (price/mix and cost efficiencies)
- weight of High Value on adjusted Ebit before start-up costs at around 85% (about 83% in 2018)
- start-up costs at around 40 million euro (47.7 million euro in 2018) and aimed at reinforcing the company's digital transformation program, the ongoing development of Cyber solutions and start of production activities at the new JV in China
- reduction of debt with a ratio between net financial position and adjusted Ebitda before start-up costs of about 2.1x compared with 2.49x at the end of 2018⁴
- investments of around 430 million euro, in line with the 2018 figure

In 2019 a new business plan

Pirelli confirms the 2020 target of “below 2 times” for the ratio between the net financial position and Adjusted Ebitda⁵, as foreseen in the Industrial Plan presented for the IPO. The other targets contained there in will be updated - and are therefore to be considered as superseded - by the fourth quarter of the year with the presentation of a new plan, with a time horizon to 2022, which reflects the new economic scenario, the continuation of the reduction of standard volumes at a faster rate than in the original plan (the impact of which will be mainly offset by the fiscal benefits of the Patent Box) and strengthening of transformation programs (decomplexity, cost containment and digital transformation) in support of the greater development of High Value.

Conference call

The preliminary results for the year ended on 31 December 2018 will be illustrated today, 14 February 2019, at 6.30 pm via conference call with the participation of the Executive Vice Chairman and CEO of Pirelli & C. SpA, Marco Tronchetti Provera, and top management. Journalists will be able to follow the presentation by telephone, without the possibility of asking questions, by calling **+39 02 805 88 27**. The presentation will also be webcast live at www.pirelli.com in the Investors section, where the slides can also be viewed.

Il Dirigente Preposto alla redazione dei documenti contabili societari di Pirelli & C. S.p.A., Dott. Francesco Tanzi, dichiara ai sensi del comma 2 dell'articolo 154 bis del Testo Unico della Finanza che l'informativa contabile contenuta nel presente comunicato corrisponde alle risultanze documentali, ai libri e alle scritture contabili.

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⁴ Excluding the impact of the new IFRS 16 accounting principle

⁵ Excluding the impact of the new IFRS 16 accounting principle

Pirelli - Preliminary results not yet audited 31.12. 2018

<i>(In millions of euro)</i>	12/31/2018	12/31/2017
Net sales	5.194,5	5.352,3
EBITDA adjusted without start-up costs	1.279,1	1.175,1
% of net sales	24,6%	22,0%
EBITDA adjusted	1.234,7	1.137,7
% of net sales	23,8%	21,3%
EBITDA	1.097,4	1.044,8
% of net sales	21,1%	19,5%
EBIT adjusted without start-up costs	1.002,7	926,6
% of net sales	19,3%	17,3%
EBIT adjusted (*)	955,0	876,4
% of net sales	18,4%	16,4%
EBIT	703,1	673,6
% of net sales	13,5%	12,6%
Net financial (liquidity)/debt position	3.180,1	3.218,5
Operating net cash flow	383,1	772,1
Net cash flow	38,4	1.694,3
Investments in property, plant and equipment and intangible assets	463,4	489,4
Research and development expenses	219,0	221,5
% of net sales	4,2%	4,1%
Research and development expenses - High Value	202,9	199,9
% on sales High Value	6,1%	6,5%
Employees (headcount at end of period)	31.489	30.189

(*) Adjustments refer to amortization of intangible assets recognised as a consequence of Business Combinations amounting to euro 114.6 millions (109.6 millions in 2017), non recurring and restructuring expenses amounting to euro 91.5 millions (euro 93.2 millions in 2017), expenses relating to the retention plan approved by the Board of Directors on February 26, 2018 amounting to euro 13.3 millions and 2018 costs (i) relating to renegotiation of commercial agreements and royalties amounting to euro 14.2 millions and (ii) not pertinent to normal business operations amounting to euro 18.3 millions.

ALTERNATIVE PERFORMANCE INDICATORS

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

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

- **EBITDA:** is equal to the EBIT, from which the depreciation and amortisation of property, plant and equipment and intangible assets are excluded. EBITDA is used to measure the ability to generate earnings from operations, excluding the impact of investing activities;
- **EBITDA adjusted:** calculated by adjusting EBITDA for non-recurring and restructuring expenses, costs for the retention plan approved by the Board of Directors on February 26, 2018 and 2018 expenses (i) relating to renegotiation of commercial agreements and royalties and (ii) not pertinent to normal business operations. EBITDA adjusted is an alternative indicator to EBITDA, that excludes certain identified items, such as non-recurring expenses, restructuring charges, costs for the retention plan approved by the Board of Directors on February 26, 2018 and 2018 expenses (i) relating to renegotiation of commercial agreements and royalties and (ii) not pertinent to normal business operations;
- **EBITDA adjusted without start-up costs:** is equal to EBITDA adjusted but excludes the contribution to the EBITDA (start-up costs) of the Cyber and Velo activities, the costs for the conversion of Aeolus brand car products, and costs sustained for the digital transformation of Pirelli. EBITDA adjusted without start-up costs is an alternative indicator to EBITDA adjusted that excludes start-up costs;
- **EBITDA margin:** calculated by dividing EBITDA by revenues from sales and services (net sales). This ratio is used to evaluate the operational efficiency excluding the impact of investments activities;
- **EBITDA margin adjusted:** calculated by dividing EBITDA adjusted by revenues from sales and services (net sales). This ratio is used to evaluate the operational efficiency excluding the impact of investments activities and excluding non-recurring expenses and restructuring charges, costs for the retention plan approved by the Board of Directors on February 26, 2018 and 2018 expenses (i) relating to renegotiation of commercial agreements and royalties and (ii) not pertinent to normal business operations;
- **EBITDA margin adjusted without start-up costs:** calculated by dividing EBITDA adjusted without start-up costs by revenues from sales and services (net sales). This ratio is an alternative indicator to EBITDA margin adjusted that 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”, “Tax”, “Financial income”, “Financial expenses” and the “Net income (loss) from equity investments”. EBIT is used to measure the ability to generate earnings from operations, including the impact of investing activities.
- **EBIT adjusted:** calculated by adjusting EBIT for amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations and non-recurring and restructuring expenses, costs for the retention plan approved by the Board of Directors on February 26, 2018 and 2018 expenses (i) relating to renegotiation of commercial agreements and royalties and (ii) not pertinent to normal business operations. EBIT adjusted is an alternative indicator to EBIT, that excludes certain identified items, such as non-recurring expenses, restructuring charges, amortisation of intangible assets relative to assets recognised as a consequence of Business Combination, costs for the retention plan approved by the Board of Directors on February 26, 2018 and 2018 expenses (i) relating to renegotiation of commercial agreements and royalties and (ii) not pertinent to normal business operations;
- **EBIT adjusted without start-up costs:** is equal to the EBIT adjusted but excludes the contribution to the EBIT (start-up costs) of the Cyber and Velo activities, the costs for the conversion of Aeolus brand car products, and costs sustained for the digital transformation of Pirelli. EBIT adjusted without start-up costs is an alternative indicator to EBIT adjusted that excludes start-up costs;
- **EBIT margin:** calculated by dividing EBIT by “Revenues from sales and services” (net sales). This ratio is used to evaluate the operational efficiency;
- **EBIT margin adjusted:** calculated by dividing EBIT Adjusted by “Revenues from sales and services” (net sales). This ratio is used to evaluate the operational efficiency, excluding non-recurring expenses, restructuring charges, amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, costs for the retention plan approved by the Board of Directors on February 26, 2018 and 2018 expenses (i) relating to renegotiation of commercial agreements and royalties and (ii) not pertinent to normal business operations;
- **EBIT margin adjusted without start-up costs:** calculated by dividing EBIT adjusted without start-up costs by “Revenues from sales and services” (net sales). This ratio is an alternative indicator to EBIT margin adjusted that excludes start-up costs.
- **Net financial debt:** calculated in accordance with CONSOB Communication no. 6064293 of July 28, 2006 and in accordance with ESMA/2013/319 Recommendations. Net financial debt represents the debt position towards banks and financial institutions net of cash and cash equivalents, other current financial assets at fair value through income statement (or “Securities held for trading” with reference to December 31, 2017 comparative figures) and “Current financial receivables” (included in the current assets line item “Other receivables”) and “Current derivative financial instruments included in net financial position” (included in the current assets line item “Derivative financial instruments”);

- **Total net financial (liquidity)/debt position:** calculated as net financial debt less “Non-current financial receivables” (included in the non-current assets line item “Other receivables”) and “Non-current derivative financial instruments included in net financial position” (included in the non-current assets line item “Derivative financial instruments”). Total net financial (liquidity)/debt position is an alternative indicator to Net financial debt that includes long-term financial assets.
- **CapEx (Capital Expenditures) or Investments in property, plant and equipment and intangible assets:** calculated as the sum of: (i) investments (increases) in intangible assets and (ii) investments (increases) in property, plant and equipment. CapEx is used to measure the amount of investments in property, plant and equipment and intangible assets.