PRESS RELEASE

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

***

The economic, capital and financial data on 30 June 2019 were formulated by applying the new IFRS 16 – Leases accounting principle, which establishes a new method for the accounting of leasing contracts, with significant effects particularly on the representation of the Group net financial position and EBITDA. It should be noted that the comparative 2018 data have been restated.

Results to 30 June 2019

- Revenues: 2,654.8 million euro, +1.4% at the organic level

- High Value Revenues: 1,787.6 million euro (+6.2% total variation) thanks to its strengthening in all regions. As a percentage of sales increased to 67.3% from 64.0% on 30 June 2018

- High Value Volumes: +3.9% because of the prolonged weakness of Original Equipment demand, +5.5% in 'New Premium' Car volumes (≥18 inches) with sustained growth in the Replacement channel, +13.1% compared with market's +10.1%, +14% in second quarter compared with market's +9.1%

- Price/mix: +6.4% underpinned by the growing weight of High Value and improvement of product and channel mix

- Adjusted Ebit before start-up costs: 462.4 million euro (473.3 million in first half 2018) with an Adjusted Ebit margin before start-up costs at 17.4% (18.0% on 30 June 2018) because of demand weakness in Original Equipment

- Adjusted Ebit: 440.5 million euro (450.1 million on 30 June 2018), with an Adjusted Ebit margin of 16.6% (17.1% on 30 June 2018)

- Net income related to continuing operations: +68.8% to 307.0 million euro (181.9 million euro on 30 June 2018) in part due to the benefits deriving from the recognition of tax credits in Brazil

- Net Financial Position excluding the impact of the IFRS 16 accounting principle was negative 4,022.0 million euro (-4,491.8 million euro including the impact of IFRS 16 of 469.8 million euro) compared with 3,180.1 million euro on 31 December 2018 because of the usual seasonality of working capital and the dividend payment of 177 million euro

- Net cash flow before extraordinary operations/participations and dividends improved (-623.1 million euro compared with -829.7 million on 30 June 2018), with lower cash absorption of 206.6 million euro. In the second quarter of 2019 the net cash flow before extraordinary operations/participations and dividends was positive 72.6 million euro, a marked improvement compared with the second quarter of 2018 (compared with +32.5 million) thanks to the management of working capital

***

Outllook

- **Revenues in 2019 expected to grow by between 1.5% and 2.5% (previous indication between +3% and +4%) because of the prolonged weakness of demand in Original Equipment and the changed competitive scenario**

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

- **Price/mix expected at between +4.5% and +5% (previous indication between +5% and +5.5%) in the face of greater pricing competition, particularly in Standard and High Value products with a lower level of technological content, and the different product and geographic mix.**

- **Adjusted ebit margin in 2019 expected at between 18% and 19% (previous indication ≥19%).**

- **High Value as a percentage of adjusted ebit before start-up costs confirmed at around 85% compared with 83% in 2018**

- **Investments in 2019 at around 380 million euro (previous target around 400 million) consistent with the new market scenario**

- **Ratio of net financial position to adjusted Ebitda before start-up costs estimated for the end of 2019 at between 2.33x and 2.20x (between 2.50x and 2.37x including the impact of IFRS16), compared with 2.49x at the end of 2018.**

***

Milan, 1 August 2019 - The Board of Directors of Pirelli & C. S.p.A. met today and reviewed the results for the six months ended on 30 June 2019.

The first half saw a fall in global car production of 6.7% (-7.5% in the second quarter alone) with a consequent decline in the Tyre market (-7.3% in the first half, -8.5% in the second quarter) which had a particular impact on the Original Equipment channel. A market performance that had an impact on prices in that many operators – to guarantee an adequate level of saturation in factories and contain inventory – diverted production to the Replacement channel that was originally earmarked for Original Equipment. These price reductions mainly involved the Standard segment and High Value products of lower technological content. In this scenario, Pirelli pursued its strategic focus on High Value, which is less exposed to competitive pressure, and the reinforcement of specialties ≥18'' – intensifying its costs' reduction plan in the second quarter.

Pirelli's results for the first half of 2019 were characterized by:

- **Organic revenue growth**, at +1.4% (+0.9% including forex effect), thanks to the **strengthening registered in the High Value segment**, which today accounts for 67.3% of total revenues (+3.3 percentage points compared with 64.0% in first half 2018). High Value volumes recorded growth of +3.9% because of the already mentioned fall in car production. In this scenario Pirelli nevertheless improved its market share in Car New Premium Replacement channel (+13.1% Pirelli sales' volumes compared with a market that grew 10.1%), while the trend in New Premium Original Equipment (-3.4%) reflects, as well as the aforementioned market slowdown (-2%), an unfavorable year-on-year comparison base (first half 2018 +23.1% driven by Europe and the doubling of sales in Apac), as well as Pirelli's decision to adopt a still more selective policy, and more oriented to value, with regard to some supplies to Original Equipment to safeguard profitability.

- **A further reduction in exposure to the Standard segment**, with a decline in volumes of 13.9% because of the acceleration of the exit from less profitable products with smaller rim sizes in the

context of a general slowdown in the Standard market. The combined effect of the High Value and Standard trends resulted in a 5% reduction in overall volumes in the first half;

- **The improvement of the price/mix**, of +6.4% as a result of the growing weight the high-end and the progressive improvement of product and channel mix;
- **The progressive implementation of the efficiency program** (36.1 million euro in first half 2019, equal to 1.4% of revenues) which offset inflation in production costs (-34.9 million euro). The annual efficiency target is 70 million euro;
- **The reinforcement of cost recovery actions** (17 million euro in second quarter and 13 million in first quarter 2019) in reaction to the demand slowdown in Car Original Equipment and price pressure.

Sales

Revenues (*millions euro*)	30/06/2019	% of total	30/06/ 2018	% of total	Variation y/y	Variation y/y Organic
High Value	1,787.6	67.3%	1,683.7	64.0%	+6.2%	+4.5%
Standard	867.2	32.7%	946.6	36.0%	-8.4%	-4.2%
Total	**2,654.8**	**100%**	**2,630.3**	**100%**	**+0.9%**	**+1.4%**

Revenues totaled 2,654.8 million euro, with an organic growth of 1.4% compared with the first half of 2018 thanks to the positive performance of the *High Value* segment. Total revenue growth was +0.9% including the forex effect and the adoption of the IAS 29 accounting principle to take into account the high inflation in Argentina (for a total impact of -0.5%).

Revenue variants		30/06/ 2019
Volumes	*Of which High Value +3,9%* *Of which Standard -13,9%*	-5.0%
Price/Mix		+6.4%
Forex/IAS 29 Argentina		-0.5%
Total variation		+0.9%

High Value revenues, at 1,787.6 million euro, registered growth of 6.2% compared with the same period in 2018 (+4.5% organic growth excluding the positive forex effect of +1.7 percentage points), and equal to 67.3% of total sales compared with 64% in the first half of 2018.

Volumes in the *High Value* segment posted growth of 3.9% while volumes of **Car New Premium tyres (≥18")** grew 5.5% (market performance +4.5%) with improvement in market share in the main regions. In particular, in the Replacement channel, Pirelli posted volume growth of 13.1%, while in Original Equipment it was -3.4% because of the fall in Premium car production in Europe and China (respectively -7.3% and -6.3%) due to macro-economic uncertainties and the earlier introduction of new CO_2 emissions regulations in China (China VI).

The difference in volumes' growth between High Value compared with Car ≥ 18 inches is linked to the slowdown in the demand for specialties ≤17" – mainly in Original Equipment in line with the decline in Car production.

Total **volumes** fell 5% because of the increase in *High Value* volumes (+3.9%) on the one hand and the fall in *Standard* volumes (-13.9%) on the other. The performance of the Standard segment reflects a fall in demand in all markets (global Standard car tyre performance -3.1%) and the ongoing reduction by Pirelli of volumes of lower profitability products.

Price/mix was positive (+6.4% in first half 2019), supported by the growing weight of *High Value* and the product mix improvement. The price/mix improvement was more contained in the second quarter (+5.1%) because of a lesser reduction of Standard volumes compared with the first quarter of 2019 and an increase of competitive pricing pressure, which was more contained in High Value, thanks in part to the high level of exposure to the specialties segment.

The performance of exchange rates was negative – mainly because of the volatility of currencies in emerging countries which, together with the application of the IAS 29 accounting principle to take into account high inflation in Argentina, had a negative impact of -0.5% in the first half of 2019.

Profitability

Profitability * *(millions of euro)*	30/06/2019	% of revenues	30/06/2018	% of revenues	Variation y/y
Adjusted Ebitda before start-up costs	**657.5**	**24.8%**	**608.3**	**23.1%**	**+8.1%**
Adjusted Ebitda	636.1	24.0%	587.9	22.4%	+8.2%
Adjusted Ebit before start-up costs	**462.4**	**17.4%**	**473.3**	**18.0%**	**-2.3%**
Adjusted Ebit	440.5	16.6%	450.1	17.1%	-2.1%

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

Adjusted Ebitda before start-up costs on 30 June 2019 was 657.5 million euro, increased by 8.1% compared with 608.3 million euro in the same period of 2018. Ebitda included a benefit of 51.7 million euro deriving from the application – beginning from January 1, 2019 – of the new IFRS 16 accounting principle, which establishes a new accounting for leasing contracts.

Adjusted Ebit before start-up costs amounted to 462.4 million euro (473.3 million in first half 2018) with an **Adjusted Ebit margin before start-up costs** of 17.4% (18% in the same period of 2018).

Adjusted Ebit was 440.5 million euro (450.1 million euro in the first half of 2018), with a margin at 16.6% (17.1% in the same period of 2018) because of the already mentioned slowdown in Original Equipment demand and the consequent impact on prices. The internal levers (price/mix, efficiencies and the cost reduction program) contributed to the containment of impacts linked to the external scenario (exchange rates, production costs' inflation, weakness in the Original Equipment market and pricing pressure).
In particular:

- The improvement of price/mix (+100.6 million euro) contributed to the reduction of the impact of increases in the price of raw materials (-58.5 million euro) and forex volatility (-4.7 million euro), as well as the decline in volumes (-56.9 million euro);
- Industrial efficiencies (+36.1 million euro, 1.4% of revenues) more than offset costs' inflation (-34.9 million euro);
- The 30 million euro costs' reduction plan to counter the decline in sales in the Standard segment, particularly in Brazil, contributed to offset the growing pressure on prices and cover the costs linked to the development of *High Value*;
- Start-up costs (mainly linked to the Cyber business and the digital transformation of the company) posted a slight fall (-1.3 million euro at 21.9 million euro compared with 23.2 million euro in the first half of 2018).

Ebit was 425.0 million euro (377.7 million in first half 2018) and includes:

- amortizations of intangible assets identified in the context of PPA of 57.3 million euro (in line with first half 2018),
- non-recurring and restructuring charges of 26.8 million euro (of which about 15 million euro relating to the devaluation of tangible assets because of restructuring actions in Brazil and Italy in the second half) compared with 6.5 million euro in the first half of 2018
- charges relating to the retention plan of 3.2 million euro (8.6 million in first half 2018)
- proceeds from the recognition of tax credits in Brazil of 71.8 million euro.

The **result from participations** was positive 2.1 million euro, an improvement compared with -4.5 million euro in the first half of 2018.

Net financial charges totaled 10 million euro (118 million euro in first half 2018) and mainly reflect the positive 99.8 million euro effect deriving from the recognition of tax credits in Brazil and the negative 12 million euro impact relative to leasing charges stemming from the application of the new IFRS 16 – *Leases* accounting principle. Excluding these effects, the net financial charges amount to 97.8 million euro in the first half of 2019, a reduction of 20.2 million euro compared with the first half of 2018, mainly because of lower losses on exchange rates of 22 million euro that had an impact in the first half of 2018. It should be noted that, in 2018, the major part of these losses were in Argentina, where the characteristics of the country's financial markets do not allow an adequate coverage of exposure to forex risk, with regard to which the Group effectively intervened with the aim of mitigating the underlying risk.

Net income related to continuing operations was 307 million euro, an increase of 68.8% compared with 181.9 million euro in the corresponding period of 2018. This result also included the tax credits from Brazil for a benefit of 102 million euro.

Performance by region

Revenues *(millions of euro)*	30/06/2019	% of total 30/06/2019	% of total 30/06/2018	Variation y/y	Variation y/y organic
Emea	1,166.7	43.9%	46.1%	-3.8%	-3.2%
North America	544.0	20.5%	18.5%	+11.7%	+4.6%
Apac	461.7	17.4%	16.7%	+5.4%	+4.2%
South America	345.2	13.0%	13.5%	-2.7%	+8.6%
Russia & Nordics	137.2	5.2%	5.2%	-0.2%	+2.5%
Total	**2,654.8**	**100%**	**100%**	**+0.9%**	**+1.4%**

At the regional level, in the first half the **Emea** area registered an organic variation in revenues of -3.2% (-3.8% including the exchange rate effect of -0.6 percentage points) because of the fall in Premium Car production in Europe in the first half. Pirelli nevertheless improved its market share both in Car New Premium ≥18'' Original Equipment – thanks to a diversified homologations' portfolio – and the Replacement channel thanks to the *pull-through* effect. *High Value* revenues registered contained organic growth of +0.6% because of the weakness of Original Equipment and greater price competition in the Replacement channel. In *Standard*, on the other hand, the reduction of exposure to less profitable products continued, with revenues at the organic level down by 12.7%. Profitability was at *Mid-teens* levels, lower than the first half of 2018 because of the aforementioned slowdown in Original Equipment.

North America posted organic revenue growth of 4.6% (+11.7% including the positive forex effect of 7.1 percentage points) driven by *High Value* (organic growth +7.2%) where Pirelli registered an increase in market share thanks to the success of specialties ≥18'' and *All Season* products. Profitability (adjusted Ebit margin) improved by over two percentage points to *Twenties* levels (*High-teens* in first half 2018), thanks to the growing weight of the high-end, efficiency actions on costs and the progressive strengthening of the dollar.

Apac registered organic revenue growth of 4.2% (+5.4% including exchange rates, positive for 1.2 percentage points) and was confirmed as the region with the highest profitability (adjusted Ebit margin *Twenties*), an improvement compared with the prior year. The performance of High Value revenues (organic growth +4.9%) reflects the slowdown in Original Equipment because of the fall in Premium Car production (-6.3% in China) and the improvement in the Replacement channel, with an increase of market share in Car ≥18'' thanks to the *pull-through* effect and an always greater commercial presence which counts over 4,500 points of sale. Standard sales rose, organic variation +1.7% (+2.6% including exchange rates, positive for 0.9 percentage points), thanks to the recovery of the Replacement market for ≤17 inches.

South America registered organic revenue growth of 8.6% (overall variation of - 2.7% including the forex effect and the application of accounting for the high inflation in Argentina for a total negative -11.3 percentage points) effected above all by the 11.5% fall in volumes. This trend reflects the weakness of the market (total car market -4.4% in first half 2019), the continuing focus on mix, with a reduction in sales of lower profit and smaller rim size *Standard* products, and the destination of a part of production to exports to North America. There was a marked growth in High Value revenues (organic growth +38.5%), with a resulting reinforcement of market leadership (+4 percentage points). The price/mix saw great improvement (+20.1% in first half) thanks to price increases in Brazil, which took place in the fourth quarter of 2018 and the strong improvement in the product mix. Profitability (adjusted *Ebit margin*) *High-single digit*, an increase compared with the first half of 2018, because of efficiency actions on costs and mix improvement and reconversion.

The **Russia and Nordics** area registered organic growth of 2.5% (- 0.2% including the forex effect of negative -2.7 percentage points) thanks to the strategic focus on more profitable segments and the market's recovery. These dynamics had a positive impact on the results for the half with organic High Value revenue growth of 34.1% (+31.6% growth including negative forex impact of -2.5 percentage points) and an organic reduction of Standard revenues of 6.5% (-9.3% including forex). There was a significant improvement in profitability compared with the first half of 2018 (Mid-teens adjusted Ebit margin up from *Mid-single-digit* in first half 2018).

Net financial position and cash flow

The **Net Financial Position** excluding the impact of the new IFRS accounting principle was negative 4,022.0 million euro (-4,491.8 million euro including the IFRS 16 impact of 469.8 million euro) an increase compared with 3,180.1 million euro on 31 December 2018 because of the usual seasonality of working capital and dividend payments totaling 177 million euro.

The **net cash flow before extraordinary operations/participations and dividends** was negative 623.1 million euro and is an improvement of 206.6 million euro compared with the same period in 2018 (-829.7 million euro) mainly thanks to the improvement of the management of operating cash flow.

In detail, the **net cash flow from operations' management** in the first half of 2019 was negative 374,7 million euro, an improvement of 214,3 million euro compared with the figure for the same period of 2018 (-589.0 million euro) and reflects:

- Investments before IFRS 16 of 167.7 million euro compared with 179.2 million euro in the first half of 2018 (investments totaled 184.9 million euro in the first half of 2019 including 17.2 million from the effects of IFRS 16). The investments are mainly destined to the increase of *High Value* capacity in Europe and North America, the strategic reconversion of Standard capacity into High Value in Brazil and the constant improvement of the mix and quality in all factories;

- The absorption of cash linked to the usual seasonality of working capital and other of 825.9 million euro. This absorption was below the figure in the first half of 2018 (-997.7 million euro) thanks to the recovery actions on working capital announced on the occasion of the full-year 2018 results. In the second quarter the variation in working capital was positive 10,1 million euro, an improvement of 79.0 million euro compared with the same period in 2018 (-68.9 million euro).

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

- The continuing improvement of payment conditions towards suppliers;
- Recovery actions on commercial credits, through a realignment of the terms of payment of the main dealers in Brazil, temporarily extended to the end of 2018 because of the difficult market conditions.

In particular, inventory volumes reduced by 4% compared with the end of the previous year (the reduction by end March was 2%) because:

- Of the 16% fall in Standard products, in line with the recovery plan announced at the beginning of the year;
- Of an increase of 6% in High Value products, to ensure a better level of service to the end customer.

This improvement in the warehouse mix and the impact of exchange rates resulted in a slight increase in inventories by value compared with 31 December 2018.

The **cash flow before dividends distributed by the Parent group** was negative 640.5 million euro (-698.0 million euro in first half 2018) and includes the impact of extraordinary operations and on shareholdings which took place in the first half of -17.4 million euro. In the first half of 2018, the impact of operations on participations and extraordinary operations was positive 131.7 million euro (mainly because of the effect of the disposal of the stake in Mediobanca). In the second quarter of 2019, net cash flow before dividends distributed by the Parent group was positive 72.4 million euro (+22.4 in second quarter 2018)

The **total cash flow**, which includes the distribution of dividends by the Parent Group of 177 million euro, was negative 817.4 million euro (-698.0 million euro in the corresponding period of 2018).

***

2019 Outlook

Figures in euro millions	2018	2019
Revenues	5,194.5	+1.5%/+2.5%
Weight of High Value on revenues	*64%*	*~67%*
Volumes	-3,1%	-2.5%/-2%
High Value Volumes	+11%	*+7.5%/+8%*
Standard Volumes	*-14%*	*-12%/-11.5%*
Price/Mix	+6.8%	+4.5%/+5%
Exchange rates	-5.9%	*~-0.5%*
Adjusted Ebit Margin	18.4%	18%/19%
Start-up costs	*48*	*~40*
Net financial position / Adjusted Ebitda before start-up costs	2.49X	2.33X/2.20X
		2.50X/2.35X incl. IFRS16
CapEx	463	~380

The performance of the tyre market in the first half saw greater weakness in Original Equipment demand compared with expectations and competitive pressure on prices, particularly in the Standard segment and High Value products with a lower level of technological content. These dynamics resulted in a revision of the market scenario and Pirelli's estimates for 2019.

The tyre market is expected to fall by 1.2% (previous indication "flat"), with the Standard segment's performance at -2% while New Premium (rim sizes ≥18 inches) is expected to grow by 6%, more contained than the previous indication (+7%) as a consequence of the slowdown of Original Equipment demand (0%/+1% compared with the previous estimate of +2%/+3%). On the other hand, the double-digit growth (~+10%) expected in New Premium Replacement is confirmed.

On the basis of this scenario, Pirelli has revised its expectations for 2019, providing a range for each indicator, the lower level of which is to be considered the floor in case of further deterioration of the external context.

Revenues are expected to grow by between 1.5% and 2.5% (previous indication between +3% and +4%) compared with 2018, underpinned by the strengthening of High Value (~67% of revenues confirmed).

Total **volumes** are expected to decline by between 2.5% and 2% (previous indication -1%) in the face of more cautious expectations regarding Original Equipment demand and the Standard segment in South America. **High Value volumes** are expected to grow by between 7.5% and 8% (previous indication above +9%), higher than the market's rate of growth, while **Standard volumes** are seen falling by between 12% and 11.5% (previous indication ~-11%).

The **price/mix** is expected to improve by between 4.5% and 5% (previous indication +5%/+5.5%) in consideration of the above mentioned competitive pricing pressure in the Standard segment and High

Value with a lower level of technological content, as well as the diverse product and geographical mix, compared with previous indications.

Exchange rates estimated at ~-0.5% (previous guidance -1%/-0.5%).

The adjusted Ebit margin is expected at between 18% and 19% of revenues (previous indication ≥19%), supported by improved internal levers (price/mix and cost efficiencies) which limit the impact of the changed external context.

High Value as a percentage of Adjusted Ebit before start-up costs is expected to be ~85% (in line with previous indications and compared with around 83% in 2018).

The ratio of the Net Financial Position and Adjusted Ebitda before start-up costs is expected to be 2.33x/2.20x (2.49 at end 2018), 2.50x/2.37 including the impact of the adoption of the new IFRS16 accounting principle.

Investments at around 380 million euro (previous indication 400 million euro), consistent with the new market scenario.

Bond issues

In accordance with the provisions of Borsa Italiana, the Company announces that the bond loan placed by Pirelli & C. S.p.A. on the Eurobond market in March of 2018 and guaranteed by Pirelli Tyre S.p.A., with a nominal total value of 200 million euro, expires in September of 2020.

***

Conference call

The results to 30 June 2019 will be illustrated today, 1 August 2019, at 6:30 pm, during a conference call with the participations of the Executive Vice Chairman and CEO of Pirelli & C. SpA, Marco Tronchetti Provera, and the top management. Journalists will be able to follow the presentation by telephone, without the possibility of asking questions, dialing in on **+39 02 805 88 27.** The presentation will also be webcast – in real time – at www.pirelli.com in the Investors section, where slides can also be viewed.

***

The financial report for the six months ended 30 June 2019 will be available to the public today at the Company's legal headquarters, as well as being published on the Company website (www.pirelli.com) and the eMarket Storage (www.emarketstorage.com) storage mechanism.

***

The Manager indicated 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.

***

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

Pirelli – Economic data to 30.06.2019

(in millions of euro)	**06/30/2019**	**06/30/2018**
Net sales	**2.654,8**	**2.630,3**
EBITDA adjusted without start-up costs (°)	**657,5**	**608,3**
% of net sales	24,8%	23,1%
EBITDA adjusted (°°)	**636,1**	**587,9**
% of net sales	24,0%	22,4%
EBITDA (°°°)	**677,9**	**572,8**
% of net sales	25,5%	21,8%
EBIT adjusted without start-up costs (°)	**462,4**	**473,3**
% of net sales	17,4%	18,0%
EBIT adjusted	**440,5**	**450,1**
% of net sales	16,6%	17,1%
Adjustment: - amortisation of intangible assets included in PPA	(57,3)	(57,3)
- non-recurring, restructuring expenses and other	(30,0)	(15,1)
- income from Brazilian tax credits	71,8	-
EBIT	**425,0**	**377,7**
% of net sales	16,0%	14,4%
Net income/(loss) from equity investments	2,1	(4,5)
Financial income/(expenses) (°°°)	(10,0)	(118,0)
- of which financial income from Brazilian tax credits	*99,8*	-
Net income/(loss) before tax	**417,1**	**255,2**
Tax expenses	(110,1)	(73,3)
Tax rate %	26,4%	28,7%
Net income/(loss) related to continuing operations	**307,0**	**181,9**
Eanings/(loss) per share related to continuing operations (in euro per share)	0,30	0,18
Net income/(loss) related to continuing operations adjusted	255,9	232,6
Net income/(loss) related to discontinued operations	-	(4,7)
Total net income/(loss)	**307,0**	**177,2**
Net income attributable to owners of the Parent Company	297,9	172,0

(°) Start-up costs refer to contribution to EBITDA and EBIT (amounting to euro 21.4 million (euro 20.4 million in first half of 2018) and euro 21.9 million (euro 23.2 million in first half 2018) respectively of the Cyber and Velo activities and costs sustained for the digital transformation of the Group.

(°°) Adjustments refer to non recurring and restructuring expenses amounting to euro 26.8 million (euro 6.5 million in first half of 2018), income from Brazilian tax credits amounting to euro 71.8 million and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018 amounting to euro 3.2 million (euro 8.6 million in first half of 2018)

(°°°) The item includes for 2019, the impacts deriving from the application of the new accounting standard IFRS 16 - Leases to the amount of euro 51.7 million on EBITDA and euro -12 million on financial expenses.

Pirelli – balance sheet data to 30.06.2019

(in millions of euro)	**06/30/2019**	**12/31/2018**	**06/30/2018**
Fixed assets related to continuing operations without IFRS 16	9.016,3	9.017,8	8.881,2
Right of use IFRS 16	458,9	n/a	n/a
Fixed assets related to continuing operations	**9.475,2**	**9.017,8**	**8.881,2**
Inventories	1.165,1	1.128,5	983,3
Trade receivables	862,1	628,0	864,4
Trade payables	(1.200,3)	(1.604,7)	(1.052,2)
Operating working capital related to continuing operations	**826,9**	**151,8**	**795,5**
% of net sales (*)	15,6%	2,9%	15,1%
Other receivables/other payables	311,2	34,3	113,5
Net working capital related to continuing operations	**1.138,1**	**186,1**	**909,0**
% of net sales (*)	21,4%	3,6%	17,3%
Net invested capital held for sale	0,8	10,7	38,6
Net invested capital	**10.614,1**	**9.214,6**	**9.828,8**
Equity	**4.663,7**	**4.550,9**	**4.323,2**
Provisions	1.458,6	1.483,6	1.589,1
Net financial (liquidity)/debt position without IFRS 16	**4.022,0**	**3.180,1**	**3.916,5**
Lease obligations IFRS 16	469,8	n/a	n/a
Total Net financial (liquidity)/debt position	**4.491,8**	**3.180,1**	**3.916,5**
Equity attributable to owners of the Parent Company	4.577,5	4.468,1	4.242,9
Investments in property, plant and equipment and intangible assets without IFRS16	167,7	463,4	179,2
Investments in property, plant and equipment and intangible assets IFRS16	17,2	n/a	n/a
Research and development expenses	124,1	219,0	116,8
% of net sales	4,7%	4,2%	4,4%
Research and development expenses - High Value	114,6	202,9	106,8
% on sales High Value	6,4%	6,1%	6,3%
Employees (headcount at end of period)	31.599	31.489	31.526
Industrial sites (number)	19	19	19

(°) during interim periods net sales are annualised

Cashflow statement

(in millions of euro)	1Q		2Q		1 H	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
EBIT adjusted	219,2	218,4	221,3	231,7	440,5	450,1
Amortisation and depreciation (excluding PPA amortisation)	96,5	69,7	99,1	68,1	195,6	137,8
Investments in property, plant and equipment and intangible assets without IFRS16	(78,0)	(85,3)	(89,7)	(93,9)	(167,7)	(179,2)
Investments in property, plant and equipment IFRS16	(3,2)	n.a.	(14,0)	n.a.	(17,2)	n.a.
Change in working capital/other	(836,0)	(928,8)	10,1	(68,9)	(825,9)	(997,7)
Operating net cash flow	**(601,5)**	**(726,0)**	**226,8**	**137,0**	**(374,7)**	**(589,0)**
Financial income/(expenses)	(48,1)	(55,2)	38,1	(62,8)	(10,0)	(118,0)
Reversal of financial income from tax credits in Brazil	-	-	(99,8)	-	(99,8)	-
Taxes paid	(30,1)	(31,1)	(45,9)	(36,2)	(76,0)	(67,3)
Cash Out for non-recurring and restructuring expenses/other	(16,0)	(38,2)	(17,9)	(11,9)	(33,9)	(50,1)
Other dividends paid	-	-	(8,9)	-	(8,9)	-
Differences from foreign currency translation/other	-	(11,7)	(19,8)	6,40	(19,8)	(5,3)
Net cash flow before extraordinary operations and investments	**(695,7)**	**(862,2)**	**72,6**	**32,5**	**(623,1)**	**(829,7)**
Industrial reorganisation	-	5,3	-	(10,3)	-	(5,0)
Disposals/(Acquisition) of investments	(17,2)	136,5	(0,2)	0,2	(17,4)	136,7
Net cash flow before dividends paid by Parent Company	**(712,9)**	**(720,4)**	**72,4**	**22,4**	**(640,5)**	**(698,0)**
Dividends paid by Parent Company	-	-	(176,9)	-	(176,9)	-
Net cash flow (*)	**(712,9)**	**(720,4)**	**(104,5)**	**22,4**	**(817,4)**	**(698,0)**
Net cash flow without IFRS 16	(732,9)	-	(109,0)	-	(841,9)	-

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

ALTERNATIVE PERFORMANCE INDICATORS

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

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

- **EBITDA:** is equal to the EBIT, but which excludes the depreciation and amortisation of property, plant and equipment and intangible assets. The EBITDA is used to measure the ability to generate earnings from operations, excluding the impact of investments;
- **EBITDA adjusted** is an alternative measure to the EBITDA which excludes non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil, and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBITDA adjusted without start-up costs**: is equal to the EBITDA adjusted but excludes the contribution to the EBITDA (start-up costs) of the *Cyber* and *Velo Activities* and costs sustained for the digital transformation of the Group. At december 31, 2018 start up costs included also the cost for the conversion of Aeolus brand car products;
- **EBITDA adjusted without start-up costs without IFRS 16**: is equal to the EBITDA adjusted without start-up costs but excludes the impact deriving from the application of the new accounting standard IFRS 16 – Leases;
- **EBITDA margin**: this is calculated by dividing the EBITDA by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency, excluding the impacts arising from investment activities;
- **EBITDA margin adjusted:** this is calculated by dividing the EBITDA adjusted by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency, excluding the impacts arising from investments, operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBITDA margin adjusted without start-up costs:** this is calculated by dividing the EBITDA adjusted without start-up costs by revenues from sales and services (net sales). This is an alternative measure to the EBITDA margin adjusted which excludes start-up costs;
- **EBIT:** is an intermediate measure which is derived from the net income/(loss) but which excludes the net income/(loss) from discontinued operations, taxes, financial income, financial expenses and net income/(loss) from equity investments. The EBIT is used to measure the ability to generate earnings from operations, including the impact arising from investments;
- **EBIT adjusted:** is an alternative measure to the EBIT which excludes the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, revenues and operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBIT adjusted without start-up costs:** is equal to the EBIT adjusted but excludes the contribution to the EBIT (start-up costs) of the *Cyber* and *Velo* Activities and costs sustained for the digital transformation of the Group. At december 31, 2018 start up costs included also the cost for the conversion of Aeolus brand car products;
- **EBIT margin:** this is calculated by dividing the EBIT by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency;
- **EBIT margin adjusted:** this is calculated by dividing the EBIT adjusted by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency, but excludes the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBIT margin adjusted without start-up costs:** this is calculated by dividing the EBIT adjusted without start-up costs by revenues from sales and services (net sales).
- **Net income/(loss) related to continuing operations adjusted:** this is calculated by excluding the following items from the net income/(loss) related to continuing operations:
  - o the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
  - o non-recurring costs/income recognised under financial income and expenses;
  - o non-recurring costs/income recognised as a tax item, as well as the tax impact relative to the adjustments referred to in the previous points.
- **Fixed assets related to continuing operations**: this measure is constituted of the sum of the financial statement items, *"Property, plant and equipment", "Intangible assets", "Investments in Associates and Joint Ventures"* and *"Other financial assets at fair value through other Comprehensive Income"* and *"Other financial assets at fair value through the Income Statement"*. Fixed assets related to continuing operations represent non-current assets included in the net invested capital;
- **Fixed assets related to continuing operations without IFRS 16**: this measure is calculated by excluding the rights of use detected following the application of the new standard IFRS 16 - Leases, from fixed assets related to continuing operations;
- **Net operating working capital related to continuing operations**: this measure is constituted by the sum of the items*, "Inventories", "Trade receivables"* and *"Trade payables";*
- **Net working capital related to continuing operations**: this measure consists of the operating working capital and of other receivables and payables and derivative financial instruments not included in the net financial (liquidity)/debt position. The measure represents short-term assets and liabilities included in the net invested capital, and is used to measure short-term financial stability;
- **Net invested capital assets held for sale**: this measure is constituted by the difference between *"Assets held for sale"* and *"Liabilities held for sale"*;
- **Net invested capital**: this measure is constituted by the sum of (i) fixed assets related to continuing operations, (ii) net working capital related to continuing operations, and (iii) net invested capital assets held for sale. Net invested capital is used to represent the investment of financial resources;
- **Average net invested capital**: this measure consists of the average between the net invested capital at the beginning and end of the period, excluding investments in Associated companies and Joint Ventures, *"Other financial assets at fair value through other Comprehensive Income", "Other non-current financial assets at fair value through the Income Statement"* and the intangible assets relative to assets recognised as a consequence of Business Combinations. This measure is used to calculate the ROI;

- **Provisions**: this measure is constituted by the sum of *"Provisions for liabilities and charges (current and non-current)", "Employee benefit obligations (current and non-current)"* and *"Provisions for deferred taxes"*. The item provisions represents the total amount of liabilities due to obligations of a probable but not certain nature;
- **ROI**: this is calculated as the ratio between the EBIT adjusted and the average net invested capital. The ROI is used as to measure the profitability of invested capital;
- **Net financial debt**: this is calculated pursuant to the CONSOB Communication dated July 28, 2006, and in compliance with ESMA/2013/319 Recommendations. Net financial debt represents the borrowings from banks and other financial institutions net of cash and cash equivalents, *"Other financial assets at fair value through the Income Statement",* current financial receivables (included in the financial statements under *"Other receivables"*) and, current derivative financial instruments included in the total net financial (liquidity)/debt position (included in the financial statements under current assets as *"Derivative financial instruments"*);
- **Net financial (liquidity)/debt position**: this measure represents the net financial debt less *"Non-current financial receivables"* (included in the financial statements under *"Other receivables"*) and non-current derivative financial instruments included in the net financial (liquidity)/debt position (included in the financial statements under non-current assets as *"Derivative financial instruments"*). Total net financial (liquidity)/debt position is an alternative measure to net financial debt which includes non-current financial assets;
- **Net financial (liquidity)/debt position without IFRS 16**: this measure is calculated by excluding lease obligations detected following the application of the new standard IFRS 16 – Leases from the net financial (liquidity)/debt position;
- **Net financial (liquidity)/debt position without IFRS 16 / EBITDA adjusted without start-up costs without IFRS 16**: this is calculated as the ratio between the net financial (liquidity)/debt position without IFRS 16 and the EBITDA adjusted without start-up costs without IFRS 1. It is used to measure the sustainability of debt;
- **CapEx (Capital Expenditures) or Investments in property, plant & equipment and intangible assets without IFRS 16**: these are calculated as the sum of investments (increases) in intangible assets and investments (increases) in property, plant and equipment, excluding the increases relative to the rights of use;
- **Investments in property, plant & equipment IFRS 16**: this is calculated as the increases relative to the rights of use detected during the application of the new standard IFRS 16 – Leases;
- **Impact of depreciation on investments**: is calculated by dividing the investments (increases) in property, plant and equipment with the depreciation for the period. The ratio of investments to depreciation is used to measure the ability to maintain or restore amounts for property, plant and equipment.