



**2023 RESULTS** **2024-25**  
**INDUSTRIAL PLAN UPDATE**



POWER IS NOTHING WITHOUT CONTROL

**Transcript**

**Milan, 6<sup>th</sup> March, 2024**



## **MARCO TRONCHETTI PROVERA** - *Executive Vice Chairman*

Good afternoon, ladies and gentlemen, welcome to our presentation. Today, together with the Management team, we will review the achievements reached so far, and discuss the updated plan for '24-'25 deep diving into commercial and technology priorities. Looking ahead, a new Industrial Plan will be presented at the end of 2025 or beginning of 2026.

In the last 3 years, we have faced a challenging context characterized by an economic slowdown with a GDP growth that was 1 percentage point lower than expected, growing geopolitical tensions, high inflation and interest rates, that reached their peak in the last decade, introduction of new and more stringent regulations on CO<sub>2</sub> emissions in both Europe and the US.

In this scenario, Pirelli leveraged on a resilient business model, focused on High Value; an efficiencies program supported by digitization; a flexible organization ready to implement mitigation plans; an increasingly local-for-local manufacturing structure, and an accelerated and effective decarbonization roadmap. The results achieved prove the effectiveness of our strategy: performance was better than expected and allowed us to consolidate our positioning in the industry.

In the past 3 years: we increased our focus on High Value, which, in 2023, accounted for 75% of the Group's Sales. We improved profitability with an Adjusted Ebit margin of 15.1%. This result was the highest among the Tier 1 players. Our sound and steady cash generation allowed us to decrease the debt and cut the leverage by half, from 3.65 at the end of 2020 down to 1.56 times the Adjusted EBITDA in 2023. We accelerated the decarbonization process in our plants by cutting CO<sub>2</sub> emissions by 51% compared to 2015, becoming one of the most responsive players in this area. These important results were achieved through the strong commitment of the whole company.

Looking ahead to the next two years, the geopolitical and macroeconomic context will remain volatile, and we forecast a moderate global GDP growth in both years (+2.3% in 2024 and +2.6% in 2025), below the assumptions of the previous Plan (+3.1%) especially in the US and Europe.

Still high inflation in 2024 (4.7%, almost double the previous Plan assumption) but gradually improving in 2025, +3.1%, the previous indication was +2.6% ; interest rates are declining, but still higher than the forecasts in our previous Plan, both in Europe and in the United States.

The industry macro trends offer important opportunities. High Value is confirmed as the fastest growing segment, +5% per year between 2023 and 2030, compared to a basically

stable Standard segment. Sustainability is becoming an increasingly influential factor for end consumers and for OEMs, who in turn are setting challenging decarbonization targets. Electric vehicles: approximately 40% of all new Premium and Prestige cars will be electric in 2025, and this incidence will double by 2030. Connectivity keeps spreading: 32% of the global car parc will be connected by 2025, 60% by 2030, with consumers ever more inclined to use connectivity solutions in their cars. In this context, Pirelli aims at reinforcing its distinctive positioning, leveraging on: our technical superiority, which is the basis of our historical leadership in Premium & Prestige and is being further enriched with new competences through the collaborations with the emerging EV players. Our iconic Brand, that combines tradition with innovation, remains a distinctive factor in the purchasing choices of consumers; our constant ability to innovate that allows us to look at Connectivity as the most interesting value creation opportunity. Pirelli leads in this technology, thanks to its Cyber tyre system, that has been the first to be integrated into a car system.

Lastly, our leadership in sustainability. We want to be a driving force in the automotive ecological transition across the value chain. Indeed, ours is the most ambitious decarbonization plan in the industry. We aim at becoming the first tyre player to achieve Carbon Neutrality in 2030 and Net Zero in 2040, as we will see in the following presentations. This target allows us, on the one hand, to comply with regulations in advance and, on the other, to meet customer and consumer requirements thus giving us a competitive edge.

Now, Mr. Casaluci, the floor is yours.

**ANDREA CASALUCI** - *Chief Executive Officer*

Thank you, thank you Mr Tronchetti and good afternoon. We will now continue with the presentation of the main achievements for 2023; then the outlook for '24 and '25; how our strategy is evolving, and finally, we will provide an update on our targets for the next two years.

Let's begin with 2023 results that confirmed the resilience of our business model. We closed 2023 with 6.65 billion Euro Sales and an organic growth of 6.8%, driven by a strong price/mix improvement. Adjusted Ebit exceeded one billion euro, with an EBIT margin of 15.1%, supported by internal levers. Net income amounted to 496 million euro, due to operating performance and tax benefits. Solid cash generation: 509 million Euro Net Cash Flow before dividends, above target, thanks to an efficient inventory management.

Based on these results, the Board of Directors will propose to the next Shareholders' Meeting the distribution of a dividend of €0.198 per share with a payout ratio of 40%, in line with the shareholder remuneration policy approved in March 2021.

In terms of sustainability, our commitment to guarantee health and safety resulted in a decrease of the Accident Frequency Index to 1.7, with a 15% drop compared with 2022. Significant acceleration in decarbonisation, where we cut our plant emissions by 51% (Scope 1 and 2) and suppliers' emissions (Scope 3) by 18%, exceeding 2025 Science Based Targets. Strong push on eco and safety products with the launch of the P ZERO E, with more than 55% of bio-based and recycled materials. A significant result that places Pirelli in the leading position for materials innovation. Our commitment was recognized by the major ESG indices, where we rank at the highest levels. As for the Tyre market, a demand recovery is foreseen for 2024 and 2025 (around +1%), driven by High Value, the fastest-growing segment with a growth rate 6 percentage points higher than that of the Standard.

High Value market trend is confirmed to be in line with our 2021 Industrial Plan assumptions, while the weakness of the Standard segment weighs on the overall demand.

Focusing on High Value, the two fastest growing segments are: tyres 19" up, which will account for over 50% of High Value in 2025; Electric Vehicles tyres, where we have the leadership, with a total market (Original Equipment and Replacement) expected to reach 90 million tyres in 2025 compared with about 50 million in 2023. In line with the previous Plan, we aim to strengthen our leadership in High Value; with the Commercial programs, we will accelerate in EV and Specialties, taking growth opportunities in North America, Europe and Asia Pacific. With the Operations programs, we aim to strengthen the resilience of our Value Chain and increase efficiencies.

Finally, the Innovation programs to accelerate and exploit Cyber Tyre development opportunities.

In reaching these objectives, Pirelli can count on the strength, passion and commitment of all its People, led by an expert Management Team with a deep knowledge of the industry. In 2023, we introduced a new company structure, designed to make the decision-making process smoother. Engagement is another key factor: it reflects a consistent and performance-oriented corporate culture.

Let's now deep dive into the Plan, starting from the commercial strategy.

In the next two years, we estimate that the share of tyres 18 inches up is going to increase further. In the Replacement channel, where we aim at increasing our market share, growth will be driven by the 'pull-through', due to the wide homologation portfolio increasingly

oriented to EVs and Specialties, and 'push-through', thanks to an expansion of the product range. In Original Equipment we keep our focus on improving the mix by concentrating on tyres 19 inches up and EV tyres. Finally, we continue to decrease our exposure to 17 inches and below tyres, concentrating sales in the regions that we define as Standard and focusing on the most profitable segments.

As we said, part of the growth in the Replacement channel is given by past OE homologations and by the high loyalty rate of 80%. We have the widest Premium and Prestige homologation portfolio in the industry, we continue to feed the Replacement demand with our homologation strategy in OE, which is increasingly focused on 19 inches up, accounting for over 90% of new homologations; Specialties, due to reach a weight of 70% in 2025, and EVs, which will account for 67% of new homologations by the end of 2025. Our offering with a high technological content is distinctive and includes: Safety and mobility oriented solutions, like Seal Inside tyres and the new Run-Forward technology; solutions for the new eco-friendly mobility, like the Noise Cancelling System and ELECT; Cyber, to meet the challenges of connected mobility, which Mr Misani is going to explain in more detail. Another driver for growth in Replacement is the widening of the product range. Between 2021 and 2023, we successfully launched 7 new product lines per year that will drive the growth of revenues in the next 2 years.

In '24 and '25, we are planning a further expansion of our range with 10 new products per year, focusing more and more on solutions for EVs and sustainability: 5 new global lines, with a focus on sustainable materials, ELECT technology and extended mobility; 10 new regional lines, to better cover among others the All Season segments in Europe, Asia Pacific and United States; 5 lines dedicated to new fast-growing segments like, for instance, All Terrain in the United States.

In the Original Equipment, as already mentioned, we aim to grow in the electric segment. For the EV market, despite the short-term slowdown, we expect a strong growth in the Premium & Prestige segments. At present, EVs account for 25% of Premium & Prestige car production. This is expected to reach 40% in 25 and double in 2030.

Pirelli is well-positioned to make the most of this opportunity: we can count on our solid partnership with Premium and Prestige carmakers both traditional and new pure EV players; and we continue to extend our EV homologation portfolio, reaching a target of more than 900 homologations by 2025.

We have the ELECT technology for all product families, ensuring high level of safety and performance. We aim at doubling EV volumes between '23 and '25. This growth will still be

driven by OE, whose weight on 19 inches up volumes will increase from the 25% in 2023 up to 40% in 2025.

The High Value market is concentrated in North America, Europe and Asia Pacific, that together account for 95% of 18" up volumes.

In North America, the largest High Value market, we intend to strengthen our positioning by extending the range of dedicated products, to cover key segments such as 'all terrain'; consolidating the partnership with local OEMs on iconic American models; expanding the distribution network, and with our brand, boosted by the partnership with Formula 1.

We confirm our leadership in Europe with a selective approach in Original Equipment while, in Replacement, we are taking growth opportunities in high-potential segments, such as All Season.

Finally, in Asia-Pacific, we will increase our focus on Southeast Asia and Pacific markets, where we have limited market share; exploit opportunities with Chinese EV carmakers, and leverage on digitization to expand our distribution network.

Our commercial strategy is supported by our Brand. In High Value, the brand is a key factor in the purchasing choices of consumers. The Pirelli brand represents an element of differentiation, as it is not only recognised globally, but also perceived as prestigious, sporty and High Tech.

This is the result of more than 150 years of history and heritage, combined with a continuous evolution in tune with our consumers, always keeping in mind sustainability and inclusion.

But why try to explain the Pirelli brand with words when I can show it to you in a video.

-Video-

**ANDREA CASALUCI** - *Chief Executive Officer*

Now, moving to Operations, we have 3 main priorities to support the execution of our strategy. First, keep strengthening the resilience of our supply chain, end-to-end.

As an example, we aim at covering 90% of demand through local-for-local production. Second, maintain a high level of efficiency, always driven by digitization and automation initiatives.

We aim at obtaining about 370 million euro efficiencies between 2023 and 2025.

Third, accelerate decarbonisation, as mentioned before, with a Plan that places us in a leading position in the industry.

Our first target is to make the supply chain more resilient. We can count on a manufacturing structure, which is increasingly High Value oriented, which by 2025 will account for 78% of total capacity, and more local-for-local, as in the case of the Joint Venture in KSA.

Moreover, we keep working on risk management of the Supply Chain, leveraging on the experience gained in the last years in managing emergencies by extending the risk monitoring activities throughout the Supply Chain; increasing local-for-local sourcing of materials to reduce risks associated with logistics and transportation. An example here is the already announced acquisition of Hevea Tec in Brazil.

Finally, adopting AI and new technologies to support risk monitoring, such as real-time visibility of shipments that allowed us to promptly react to the Red Sea Crisis. Moving to the Efficiency Program, the three-year period 2023-2025 is the third phase of the cost competitiveness program launched in 2020. We aim at achieving about 370 million euro in efficiencies in 3 years, equal to around 7% of the cost base in 2022, while accelerating from 92 million in 2023 to about 135-140 million in both 2024 and 2025.

Compared to what indicated in the 2021 Industrial Plan, we expect to generate about 70 million euro more in the three-year period. The projects remain the same, but the initiatives see an extra boost from digitisation and innovation.

Some of the initiatives, we are currently developing, are: modularity in product development; electrification of the curing processes; plant automation and digitization.

Finally, let's switch to the decarbonization program, where we keep accelerating. We have revised the SBTi targets for the third time, after reaching the previous targets two years in advance. In defining the new targets, we standardized the base year to 2018; we adapted to the new Science Based Target Initiative protocols, which include perimeter changes for Scope 1, 2 and 3; therefore, we have recalculated 2023 data, based on the new parameters. Our goal is to achieve Carbon Neutrality by 2030, reducing Scope 1+2 absolute CO<sub>2</sub> emissions by 80% vs 2018 and offsetting residual emissions. We aim at Net Zero by 2040, with at least 90% reduction of our emissions and those from the entire supply chain, in line with the 1.5 degrees of the Paris Agreement.

To achieve these goals, we have designed a clear roadmap. Namely, for Scope 1+2 emissions we are working on more than 90 energy efficiency projects with a total investment of 50 million euro between 2022 and 2025; a transition process towards 100% electricity from renewable sources by 2025; a project to electrify 75% of the curing presses (up to 100% in Europe) by 2030, with a 22 million Euro investment per year between 2024 and 2030.



These projects will allow us to achieve Carbon Neutrality in 2030 for Scope 1 and 2. Meanwhile, we are reducing Scope 3 emissions through some key programs.

Engaging with Suppliers accounting for more than 90% of emissions in order for them to share primary data, report to CDP and set SBTi targets; pushing on bio-based and recycled materials innovation, targeting to reach 40% of use in our total production by 2030 and 80% by 2040. The combination of the two will allow us to achieve the Net Zero target by 2040. Let's now talk about 2024-2025 targets, where we expect low-single-digit organic growth of the topline, about 4% in 2024, which will be partially eroded by Forex volatility, on which we remain cautious; gradual improvement of profitability from 15% in 2023 up to 16% in 2025, supported by internal levers; increasing Cash Generation (around 8% of revenues), ensuring a leverage of one times Adjusted EBITDA by 2025.

Based on the solid Cash Generation outlook, the dividend policy has been revised up. In 2025, we expect it to be approximately 50% of the 2024 consolidated net profit. Please note that the previous Industrial Plan assumed a payout ratio of 40%.

We updated our sustainability targets, which are already fully integrated into our growth strategy. We have developed a plan in line with the ongoing sustainability transition process and in response to the evolving scenario. In the slide, we have outlined the main targets, but you will find the complete picture in the appendix uploaded on the website.

I would like, anyhow, to highlight the strong commitment to safety that has always been a key priority for Pirelli; the acceleration on decarbonization with a 60% reduction of our emissions and a 27% reduction of suppliers' emissions; eco and safety product development with an increasingly high percentage of bio-based and recycled materials.

Despite the dramatic change of the external scenario, the targets I just illustrated lead us to confirm the same profitability and cash objectives as in the previous Plan. Namely: 2025 revenues at 6.9 billion Euro (average estimate about 6.8 to about 7.0 billion), around 1 billion more due to the inflationary boost; adjusted EBIT at approximately 1.1 billion euro, in line with our estimate in March 2021; however, with a lower margin due to the strong inflationary impact; 2021-2025 cumulative net cash flow before dividends at 2.5 billion euro, in line with our estimate in March 2021. Net Financial Position / Adjusted EBITDA ratio at one times. Now, before leaving the word to Mr Misani, who will talk about future challenges and the way we are getting ready to tackle them, I'd like to conclude by highlighting one of our major strengths: the ability to innovate ahead of the main trends in this industry.

We have driven the premiumization of the tyre market through a close cooperation with Premium and Prestige OEMs introducing the concept of "perfect fit".



We have accelerated the electrification of the automotive industry and in 2019, more than four years ago, we launched the first tyre with a specific technology for electric vehicles.

We are focusing on sustainability as a key differentiator of our offering, and finally, connectivity will redefine the interaction between the user and the vehicle, and tyres will play a leading role in this transformation thanks to our Cyber Tyre system.

Thank you so much and I now leave the floor to Mr. Misani.

**PIERO MISANI** - *Chief Technology Officer*

Thank you, Mr. Casaluci, and good afternoon, Ladies and Gentlemen.

To contribute to the results in the Plan and support Pirelli leadership in the High Value, our innovation will move in three directions.

First of all, products, where innovation is focused on consolidating our leadership in EVs, through a further development of the Eco-Safety Design program and the increasing use of sustainable materials.

Second, processes and manufacturing technologies, where innovation is aimed at developing the Future Factories, increasingly based on the pervasiveness of digitization, IIoT, automation and electrification.

Third, the even more connected automotive business, where, based on our CyberTyre, we keep on developing connectivity with OEMs, vehicles, as well as infrastructures and end users.

But let's start with the product. As we heard from Mr Casaluci, we achieved the objective set in the previous Plan by becoming the leader in the EVs business, as proven by the over 500 homologations closed so far.

In this endeavour, we leveraged on the ELECT technology package, which meets the specific needs of EVs, like low rolling resistance to increase the battery range, better wear resistance, noise comfort, both inside the vehicle and outside, what we call Pass by Noise. ELECT is not a specific product line, it's a technology that Pirelli applies to all segments, from Summer to Winter and All Season tyres, for Cars and SUVs, to always offer customers the best solution for each specific application.

In the Plan time horizon, we continue to develop this technology to further improve performance and expand our customer base.

As far as the acceleration of our products road map is concerned, all new products are developed using what we call Eco-Safety Design, in other words, the ability to improve product sustainability parameters, like Mileage and Wear Rate, Rolling Resistance, Acoustic

Comfort, also by means of the Pirelli Noise Cancelling System Specialty, and all of this with the use of innovative materials coming from bio-based or recycled sources.

But at the same time, we are also improving product safety features, like wet braking and aquaplaning, performance at worn, and, when required, ensuring Extended Mobility with the Run Forward technology.

In 2023, we have been the first in the market to launch a new Sustainable UHP tyre: the P ZeroE product line, a true flagship of Eco-Safety Design, because it has a triple A European label, Rolling Resistance, Wet Braking and Noise, which, together with an improved Mileage, lead to a 24% reduction of CO<sub>2</sub> emissions compared to previous products. And all of this was done using more than 55% of bio-based and recycled materials, as validated by the third-party Bureau Veritas. But let me say, P Zero E is just a first step that makes us confident and allows us to improve our internal targets for an ever-increasing use of bio-based or recycled materials. In fact, in 2025, we will launch our Best Product with at least 70% sustainable materials, while the value of such materials will reach 30% of the whole product range.

Our vision to 2030 raises these percentages above 80% for Best Product and 40% for the entire product range. By using the specific logo to identify all products with over 50% bio-based or recycled materials, such gradual reduction of fossil content will be transparent to consumers and will be validated by third parties such as Bureau Veritas mentioned before. These raw materials will also be certified as compliant with ISCC or FSC, as in the case of natural rubber.

Besides the technical details, we can show in this chart how complete is our roadmap, with the materials that will become available for production and their timeline to fulfil our ambition to be able to use 100% bio-based or recycled materials by 2040. Recycled materials will not just come from end-of-life tyres, like, for example, carbon black through pyrolysis, but also from waste coming from other industries, like recycled polyester, the already well known silica from rice husk, oils from recycling processes and, last but not least, from pulp and paper waste like the lignin and material that we have already used in P ZeroE to partially replace Carbon Black.

To achieve these targets and align with our Circular Economy approach, we are working in three different innovation streams.

The first, consistent with our open innovation model, is about working with the best raw material suppliers of Polymers, Fillers and Chemicals to develop new JDAs. Today, we already have 13 JDAs to develop exclusive materials for Pirelli. But at the same time, we

closed the acquisition of HeveaTec, a natural rubber transformer in Brazil, with the aim to develop, starting both from natural rubber and latex, new technologies to transform this material and gradually replace synthetic polymers with bio-degradable natural ones. Finally, through a JV with a selected partner and, consistent with our focus on High Value, we are developing advanced pyrolysis processes, that in our labs already allowed us to obtain high performance grade carbon black from end-of-life tyres, with the final objective to replace 50% of carbon black content in a tyre with this new material. Consider that typically, currently available grades of Recycled Carbon Black from pyrolysis, do not exceed 15% of such content in Premium tyres.

The speed of product innovation, the acceleration in the introduction of sustainable materials will be accompanied, in the manufacturing area, by efficiency, quality and flexibility program to make the industrial processes consistent with these transformations. To shape the future factories, manufacturing will move along two axes.

The first one, we call large scale high-tech plants, with a capacity typically above 10 million pieces, like those in Romania, Shandong in China and Mexico for Premium tyres and their OEM applications.

The second one, the small lot high-tech plants, typically located in Italy and Germany, for the flexibility, quality and efficiency level necessary for our leadership in the Prestige segment. In these small lot volumes high-tech plants we shall work on process innovation, mainly on the second generation of the continuous mixing process, but also on making semi-finished products manufacturing processes more flexible. At the same, we will keep investing in the deployment and further development of robotized processes.

Process standardization, electrification of the curing presses and automation, mainly in the finishing area will become programs used in both large scale and small lot plants.

To support and accelerate this transformation, we have already relaunched the Pirelli Manufacturing Excellence program, PME, to optimize all shop-floor activities and flows, using standard methods and cost analysis tool. And all of this will be supported by an Upskilling and Reskilling program of human resources. It has already started and, in the next 3 years, will reach more than 80% of the total workforce. It will become a powerful enabler for the development of digitization, IIoT projects that guarantees 50% of the efficiencies indicated in the Plan.

But the challenge of digitization can be better understood when we talk of connectivity. The Automotive business is rapidly becoming even more connected also thanks to the acceleration in the introduction of Electric Vehicles and assisted driving systems.

We expect 32% of the car parc will already be connected in 2025, and this percentage will almost double by 2030. In this rapidly evolving scenario, through our CyberTyre technology, data collected by the sensor integrated into the tyre will be processed in real time to optimise car stability and control, to improve safety aspects, to contribute to consumption saving, and also to plan predictive maintenance on the tyre itself.

Let's see how all this takes place by following the data flow. The sensor in the tyre measures and generates pressure, temperature and acceleration raw data and unambiguously indicates in real time which tyre type is mounted and its characteristics. These data are then sent to a Receiving Control Unit in the vehicle and processed by algorithms specifically developed to implement the different functionalities. Then, these data can be transferred to Pirelli Cloud or used directly onboard the vehicle for safety and control. The data stored in the Cloud can be further be processed to implement functions for infrastructures, fleets or end-users.

Finally, gathered data are very important as they allow to integrate a big quantity of data from the field into product development virtualization systems; we name this flow crowdtesting.

It's particularly important because knowing real usage conditions of our products, with a large amount of data and in a more detailed and objective manner, we can improve efficiency and effectiveness of virtual design methodologies, in order to speed up development of new products.

For the Cyber technology, we have two go-to-market strategies. The first targets OEM and car connectivity. The second is orientated to services and based on the interaction with the end-user. Let's start with the first one. Pirelli has been a pioneer in the integration of processed tyre sensor data into vehicle systems, with the well-known McLaren project. Recently, we have expanded the customer base not only to Pagani in the Prestige segment, but also to Audi, Tesla, just to mention a couple of examples in the Premium market. We intend to continue working together with OEMs to make an increasing use of processed tyre data to improve performance and safety. But this is not all. We have already started to work in order to pre-integrate the Cyber Tyre data in the Vehicle Control System. This allows us to advance and enable more features in the vehicle dynamics and, above all, to accelerate the introduction of CyberTyre technology in the larger Premium market. As for servitization, we have already entered the partnership for the monitoring of road infrastructures with MOVYON, a company of Autostrade per l'Italia Group. In 2024, the first MOVYON vehicle fleet with Pirelli sensorised tyres is going to map the Italian motorway in order to perform a

more pervasive monitoring of the road surface and a better road management and maintenance.

We have also started two financed scale-up projects within MOST, Centro Nazionale Mobilità Sostenibile, or, in English, National Sustainable Mobility Centre, to further develop these technologies in other different applications. Last but not least, we are going to develop services linked to connected tyres, based on sensors, for different types of end-users, dealers, and fleets.

Here is a video that shows Pirelli Cyber Tyre and what it enables. Thank you.

**PIERO MISANI** - *Chief Technology Officer*

Thank you everybody, I will now leave the floor to Mr. Bocchio.

**FABIO BOCCHIO** - *Chief Financial Officer*

Thank you, Mr. Misani and good afternoon all.

Let's now review our 2023 results. We end the year with 6.65 billion Revenues, above the November Guidance. Profitability at 15.1% with Adjusted Ebit of just above 1 billion euro. Cash generation before dividends of 509 million euro, about 50 million euro more than expected, thanks to our solid operating performance and efficient working capital management. Please, note that the 2023 figure does not include the acquisition of Hevea-Tec, the closing of which was signed on the 3<sup>rd</sup> January 2024 at an Enterprise Value of approximately 21 million euro.

The Negative Net Financial Position of 2.26 billion euro, with leverage significantly better than the 2023 target. Analysing more in detail our performance, Pirelli closed the year with revenues up by 0.5%, and +6.8% when we exclude forex and hyperinflation in Argentina and Türkiye.

High Value sales account for 75% of the Group's total revenues, it was 71% in 2022.

The volume trend, which was negative 1.8% in 2023, shows the different dynamics between High Value and Standard Segment. We increased our market share in High Value Replacement, while keeping a selective approach on High Value Original Equipment and Standard. It is worth noting how volumes developed in the fourth quarter (+2.1%) outperforming main peers.

The Price/Mix was +8.6% in full-year 2023 and +2.7% in Q4 and exceeded our expectations of about +8% in the November guidance. It was the highest among Tier 1 players. It was

supported by price increases, aiming at offsetting input cost inflation and the FX impact, and the product mix improvement.

Foreign Exchange had a negative impact, it was -6.3% in 2023 and -10.6% in Q4, in line with the November guidance. This is due to the weakening of the United States Dollar, Renminbi and emerging market currencies against the Euro, as well as the hyperinflation impact in Argentina and Türkiye.

Pirelli closed 2023 with an adjusted EBIT of just over 1 billion euro, with an improvement of 24 million euro over the previous year, and a margin of 15.1%, due to the strong contribution of the internal levers that more than offset the headwinds of the external scenario. More in detail, the price mix and efficiencies more than compensated for the volume decline, the increase in raw material costs, affected by forex volatility, input cost inflation, namely labour, following the renegotiation of contracts, energy, which discounts the impact of hedging, made in 2022, and the increase in logistics, especially in regional transportation costs. Internal levers also covered: the negative impact of Forex, reflecting Mexican Peso revaluation, with Mexico being the production hub for North America; the increase of amortization and other costs, the latter being linked to R&D and marketing activities.

In the fourth quarter, the Adjusted EBIT amounted to 219 million euro, basically in line with last year. Margin improved to 14.7%, it was 14.2% in Q4 2024, however lower than in the previous quarters due to the seasonality of the business.

Let's move now to Net Income dynamics, which grew 14% year-on-year, thanks to the improvement in the operating performance, lower net financial expenses, where the interest rates increase in the Eurozone was offset by a higher valuation at fair value of other financial assets in Argentina, and finally, tax benefits deriving from the Patent Box, with a 2023 Full Year tax rate at 21.3%. Adjusted Net Income was 595 million euro.

At the end of 2023, Pirelli's Net Financial Position stood at -2.26 billion euro, with a cash generation before dividends of 509 million euro, and a leverage ratio of 1.56 times the Adjusted EBITDA. The Operating Cash Flow improved by 16 million, compared to last year, to 1.25 billion euro, thanks to: the adjusted EBITDA growth; investments of 406 million in High Value, to continue improving the mix and quality in all plants and to increase the production capacity in Mexico and Romania; increased rights of use, and a better management of the working capital through a reduction of inventory, mainly raw materials, which reached 20.6% of revenues, with a decline of 1.4 percentage point compared with December 2022.



The weight of receivables, 9.8% of 2023 revenues compared to 9.6% in 2022 - and payables 30.1%, and 29.8% in 2022 - remained unchanged.

At the end of last year, Pirelli's Gross Debt amounted to slightly less than 4 billion euro, taking into account 1.7 billion euro of financial assets, the Net Financial Position is equal to 2.26 billion euro. In the last quarter of the year Pirelli signed a new committed Revolving Credit Facility for 500 million euro, with the objective of increasing the Group's financial flexibility and the liquidity margin. At the end of 2023, our liquidity margin was around 3 billion euro, half of which was committed lines not drawn and half liquidity position. The liquidity margin covers the financial debt maturities up to the first quarter of 2028. The cost of debt was 5.08%, up 104 basis points compared with December 2022. This increase reflects the interest rate hike mainly in the Eurozone, where the Group has most of its financial debt (approximately 78%). Our fixed and floating rate mix remains balanced with about 50% of the debt at a fixed rate.

Finally, in terms of sustainability-linked debt, at December 2023, it accounted for 67.5% of our overall gross financial debt, compared with 48.7% in the previous year.

So far, we talked about 2023. Now, let's address our 2024 and 2025 targets, which Mr. Casaluci just discussed in his presentation.

Let's focus on the main drivers behind these targets. In a still very volatile environment, we are projecting mid-single digit organic growth between about +3.5% and +4.5% in 2024, to be partially eroded by forex headwinds. More in detail, we expect volume growth to be between +1.5% and +2.5% in 2024. We aim to continue to outperform the High Value replacement market, and keep a selective approach on High Value Original Equipment market and further reduce our exposure to Standard business.

Price mix of about +2% in 2024, thanks to continuous mix improvement.

Negative forex impact between -4% and -3% in 2024, mainly due to the weakening of the US Dollar, the high volatility of emerging market currencies as well as the hyperinflation impact in Argentina and Türkiye.

The top-line growth in 2025 is expected to be supported by similar dynamics, and will further benefit from slightly better volume increase and price/mix, as well as lower Forex impact.

We aim to improve profitability by around 0.5 percentage point per year to reach an adjusted EBIT margin of around 16% in 2025.

Now let's analyse in detail our assumptions on Raw Materials, Inflation and Efficiencies. We expect neutral raw materials impact in 2024, including FX impact on commodities. While in 2025, we foresee some raw material headwinds, partly due to the commodities trend, as a



result of the improved GDP growth in the world's major economies, and partly to the continuing volatility of exchange rates. We expect persisting Inflation headwinds until 2025, mainly related to higher labour cost and higher regional transportation cost.

As Mr. Casaluci underlined, we are accelerating our competitiveness program and expect to deliver 275 million euro of cumulated efficiencies during 2024 and 2025.

The improvement in profitability in 2024 will therefore be driven by volume growth, while price/mix and efficiencies will cover the impact of the external scenario, namely forex, raw material and inflation.

In 2025, in addition to the positive volume performance, price/mix and efficiencies will more than offset the negative impact of the external scenario.

Finally, let's talk about the cash flow. Cash Flow conversion in '24 and '25 is expected to be in line with the first phase of our 2021 Industrial Plan. We expect a solid cash generation of 1 to 1.1 billion euro in 2024 and 2025, leading to our leverage target of 1 times Net Debt over Adjusted EBITDA. Our sound cash profile is based on an improving operating performance and efficient working capital management, which will more than cover CAPEX of about 400 million euro each year in '24 and '25, stable at about 6% of revenues, of which over 60% are devoted to technology upgrade, productivity improvement, digitisation and sustainability. Financial income and expenses of approximately 200 million euro per year in both 2024 and 2025, where the positive impact due to lower interest rate will be offset by the hyperinflation impact in Argentina and Türkiye. Higher taxes with a rate between about 28% and 30% in 2024 and 2025, which is mainly related to the cancellation of the Allowance on Equity in 2024, and change in the Patent Box benefit in 2025.

We would like to remind you that our 2024 cash flow guidance, it includes 21 million cashout related to the Hevea Tec acquisition, which was completed in January 2024 instead of 2023 year-end.

This ends my presentation; I now leave the floor to Mr. Tronchetti.

**MARCO TRONCHETTI PROVERA** - *Executive Vice Chairman*

Thank you, Mr. Bocchio. This ends our presentation and so we may now open the Q&A session. The floor is yours.

**AKSHAT KACKER** – *JP Morgan Analyst*

Thank you for the presentation. Three questions, please. The first one on market share opportunities in High Value Replacements, specifically in North America and Asia. Could you just talk about and give us more details in terms of new product launches and the steps that you are taking to grow push through demand in these regions, specifically, and can you also remind us of your market share in High Value Replacement, specifically in China?

The second question is on managing FX volatility and risks: could you just discuss your strategy around mitigating or managing transactional and translational effects for the business going forward. I ask that as in 2023 there were almost 250 million of profit headwinds from FX specifically. And the final question is on standard tyres. Could you remind us what is the size of the business today in terms of volume and what is the new landing point that you are targeting in the medium term. Thank you.

**ANDREA CASALUCI** - *Chief Executive Officer*

Okay, thank you for your questions. I will start from our growth strategy in the High Value in North America and Asia. So, basically, when we talk about North America, which is by far the biggest market in the High Value and in the Tyre industry, is where we see the major opportunities for Pirelli, because our market share today is below the market share we have on High Value in other regions like Europe for example, or Asia.

The strategy is based on the introduction that we started 3-4 years ago, of purely replacement products dedicated to the US consumers. We started with the complete renewal of our all- season product range, and now we rank in the top evaluation in the most important magazines and dealers' evaluation on the All Season as far as the Mileage performance, for example, is concerned.

What we want to address in the coming years is also the All Terrain market, that is quite big, we estimate around 20% of the United States Market, where we still have a very low presence and we are planning to renew our product range, which is part of the 10 new product lines per year that we presented before. It's not only Replacement: in United States we are enhancing our presence in the most iconic US vehicle. In the past Pirelli was recognized mainly as European car maker supplier; years ago we started to deal with the US car makers and now we are fitting iconic vehicles like the F-150, the Dodge Ram, the most important models of Tesla and so on.

Moving into the Asia Pacific, we see opportunities in the introduction of All Season products in China as well, but we also can grow a lot outside China: in Japan, in Southeast Asia, in South Korea, where we still have a relatively small presence, and we can still exploit a lot

the opportunities of our traditional pull through model, so related to Original Equipment homologations. These are the two main pillars.

As far as the landing point on volume, what we can tell you is that in terms of volume in 2025 we now plan to arrive at 65.5 million tyres more or less, with Standard Tyres landing at 21 million. It means that if we compare our Plan to the previous Plan presented in 2021, we are below in terms of volume, but the difference is all concentrated in the Standard segment, mainly driven by our lower presence in Russia and in South America, and also the exit strategy from Standard in Europe that has been accelerated, due to the loss of the Russian source, hence we decided to accelerate our phase out and exit strategy in some less profitable Standard segment.

For the third question related to the risk management, I leave the floor to Mr. Bocchio. Thank you.

**FABIO BOCCHIO** - *Chief Financial Officer*

Thank you. About the question on the Forex, obviously we are living in a still very volatile environment, and that is why we are expecting Forex headwind in both 2024 and 2025, and this is mainly due to the weakness of the US dollar, the volatility of Latin American currencies and the impact of other emerging markets' weaker currencies, such as the Turkish lira and, for example, the Russian Ruble. Obviously, as a policy, we are fully covered with a transactional risk of the Forex; we are not covering the translation risk. But anyhow, as Mr Casaluci was highlighting previously, the increasing local-for-local business from 85% to around 90% in 2025 will contribute to reduce the exposure to the Forex volatility.

**AKSHAT KACKER** – *JP Morgan Analyst*

Thank you so much. One quick follow up, could you remind us your profitability target for the Standard tyre business, please?

**ANDREA CASALUCI** - *Chief Executive Officer*

Yes, in the previous Plan we announced a target of a double-digit profitability on Standard; unfortunately we are not yet there, we still plan to arrive at the double digit, but we have a delay, I would say a couple of years delay, mainly driven by the under-saturation of the Russian plant and the loss of the competitive sources of Russia for Europe, and also the high-inflation impact in South America. So, these two effects were not forecasted and foreseeable in our previous plan, and so in a way now we are trying to recover, through

efficiencies and more selectivity in the Standard, in order to go back to the target of the double digit, I would say with a couple of years delay. Thank you.

**MARTINO DE AMBROGGI** – *Equita Analyst*

Thank you, good afternoon, everybody. The first question is on the BEV tyres; you upgraded your expectations in terms of volumes, but could you provide us what is the starting point in 2023 in terms of sales and profits and what do you expect in 2025?

The second is a more general question, concerning the business plan. Your strategy to focus on the High Value started several years ago was successful, but many other competitors are moving in the same direction, so just wondering if you don't feel the competitive environment could be worse going ahead.

Do you see any consequence from the European investigation which is ongoing?

And the third is just a follow up on the Standard segment profitability. What is the starting point in '23 with and without Russia, just to have an idea where the Standard is without the exceptional situation in Russia. Thank you.

**ANDREA CASALUCI** - *Chief Executive Officer*

Okay thank you. EV tyres, despite the slowdown of the last months in the car registration, we are confident of our forecast for the Premium and Prestige segment: 80% of new car models within 2030 in the Premium and Prestige segment will be electric.

Having said that, in 2023 we sold around 4.5 million tyres in EV, mainly related to Original Equipment because the market is extremely young, and we plan within 2025 roughly to double these volumes. The Original Equipment will remain the biggest contributor, but we will start to see a presence also in the Replacement channel that, I would say, it will represent between 20 and 30% of the total EV volumes in 2025.

EV profitability (Ebit margin) is similar to the one of the High Value segment: high double digit, close to the 20s, is applied to an average selling price, which is roughly 15% higher than the average selling price of a tyre developed for Internal Combustion Engine. As a consequence in absolute value we do expect an improvement of the profitability.

Competition in the High Value segment, of course, is high, which is in a way confirming that our strategy and our business model is the right one, and so the vision of more than a decade ago of Mr. Tronchetti was the right one, so we are happy to see that others are following us. We like competition, and we always target to remain the leader in this segment for two simple reasons, I would say. First, it is our main focus and we have a very consistent exit strategy

from the Standard; second, we will continue to innovate, introducing new technologies in tyres. We started years ago with a marked tyres concept in the Premium and Prestige segment; we are leader in Prestige with a 50% market share. Then we moved into the electric vehicle and we are now accelerating the introduction sustainability as a selling proposition both in the Original Equipment and Replacement. The new frontier, as we have seen in our presentation, is connectivity, the connected tyres, which is already a reality but numbers and impact will arrive in the following years after the 2025. And then there is also a strong acceleration in virtualisation, that is helping us to be faster in introducing new technology. So, innovation and focus are the two answers. And then there is also a long, long-term relationship with the most important car makers, based on trust and again on capability to innovate and provide the right service level, that, in a way, is protecting us as a competitive advantage.

This is also demonstrated by our market share in the EV, which is a brand-new segment very related to performance. Mr. Misani explained why an EV tyre is different from a tyre developer for internal combustion engine and this again has to do with technology and innovation.

On Antitrust, we are very confident that we act always following the anti-trust rules, not only in Europe, but everywhere. We provided the full transparency and access to all the information we have, and we are waiting for the response, but we are very confident. This is an extremely competitive industry and what I can tell, but it is a personal opinion, is that is a bit frustrating to spend the last 20 years of my life to find a way to gain against competition a bit of share, a bit of positioning and then, to have to answer to this question. But ok, we are very confident and wait for the response in the coming future being always full available with the authorities for the investigation.

Today, the profitability of the Standard business is in the range of the mid-high-single digit. I cannot exclude the Russia effect simply because Russia was providing a positive contribution to the profitability of the Standard for Europe, because was a competitive source and today the profitability I just mentioned you is including the exit from Russia effect, so all-in-all we can consider that, without Russia, the standard profitability is between single and high single-digit profitability. Thank you.

**SANJAY BHAGWANI** – *Citi Group Analyst*

Hello and thank you very much for taking my question also.

I have got two questions. The first one is on the follow up on the BEVs. So, if I understood correctly, the price in the High Value tyres, the EV tyres' price is 15% higher and similarly profitability, so my questions is to what extent this accretion of the acceleration of the BEV is already included in your margin end-of-year targets on the Mix side. Is there any scope for further upside, especially to 2025 margins if BEV penetration in Replacement goes up? My second question is on the 2024 outlook, so I'm really trying to reconcile your guidance which looks a bit conservative for margin, especially your guidance for 2024, since all the key drivers are ok: volumes are getting better, prices and mix are still holding up well, FX is OK. So, can you maybe walk us through the drop-through we should be thinking for the volume, price mix and FX and to what extent you are being conservative on the margins. Thank you.

**ANDREA CASALUCI** - *Chief Executive Officer*

Thank you. I will answer the first question, and then I will leave to Mr. Bocchio for the second one. As I said before, the BEV penetration is expected to grow, of course. In our estimation the car production in the BEV is expected to be in 2025 around 20 million of new cars, but what is more important is that, if we focus for a while on the Premium & Prestige, in 2025 is expected to reach 40% of the Premium & Prestige car production, which means roughly 6 million new cars in the BEV. As a consequence, as I said before, we plan to double in 2025 our volumes in the EV Tyres from the 4.5 million tyres we sold in 2023, with Replacement reaching around a couple of millions, so a bit more than 20%/25% in terms of volume.

In terms of return on sales, EBIT margin is similar to High Value, but this EBIT margin is applied to an average selling price which is roughly 15% higher. And this is included in our profitability projection of 2025, at around 16% as a whole company, of course. But why is higher the average selling price? It's because of the technology inside the ELECT tyres. So, it is even more a mixed effects, because the same tyres with the same size and the same diameter with the ELECT has more technology inside, and this technology is what is creating the better ever selling price with, again, same return on sales. I leave to Mr Bocchio second question.

**FABIO BOCCHIO** - *Chief Financial Officer*

Yes, thank you. I will summarize a little bit a few numbers for you. First of all the Organic Growth in 2024 of the Top line is expected to be between 3.5 and 4.5% out of which volumes will be between 1.5% and 2.5%, and price mix about 2%, and you may consider in this price

mix of 2% that we foresee prices to be flattish, while the positive coming from the mix, from the improving mix that is typical from our business model. FX still expected to have a negative contribution and we expect to be between -3% and -4% in 2024 compared to 2023. Another important point to consider in order to gain the half percentage point in the EBIT margin that we are forecasting for 2024 is that our efficiency program will be able to offset the inflation that we are expecting, inflation that mostly will be related to the labour cost renegotiation, regional transportation and the inflation coming from the high inflation markets, while on the other side the price/mix gap will cover raw material and Forex headwind. So, the real engine for the increase in the result will be the volume and the target, as I said, is to increase at least a half percentage point, so from the 15.1% ROS achieved in 2023 to be in the range higher than 15.1% up to 15.5% in 2024.

**MONICA BOSIO** – *Intesa Sanpaolo Analyst*

Thank you very much for taking my question I hope you can hear me, I have a few questions the first one is on the BEV tyres. Thanks for giving us the weight in volumes. I was wondering if you can share with us also the weight in terms of revenues for 2023 and 2025. My second question is on the Replacement market, what are your expectations for 2024 and going forward, and especially, what are your expectation for China? Also on China, can you share with us your exposure to Chinese local players and what could be the balance in a two-years' time? Thank you very much.

**ANDREA CASALUCI** - *Chief Executive Officer*

Thank you, thank you for your question. I will start from the Replacement expectations for the market, including the China view and then I will leave to Fabio Bocchio for a rough estimation of the impact of EV tyres in revenues. We are positive on the High Value market, as we said before. We do expect roughly a growth from 5% to 6% of the High Value market in 2024, which is both valid for both Original Equipment and Replacement. China is following this trend, so we confirm the High Value pace of growth for China in 2024 and in 2025 around 5% as a whole market, also reflected in both channels, around 5% to 6% in Replacement, a bit higher in the Original Equipment. This is the for the whole High Value market.

About our partnership with the Chinese car makers and mainly I will talk about the new EV comers on the Chinese, we follow in China the same strategy we have in all the other markets and regions. So, we partner with Premium car makers. We are not entering in the EV market of the Synergic segment, which is very big in China and offering a lot of



opportunities, but is not our target. We partner with the new car makers, focusing on the electric vehicle and growing very fast in the Premium segment, both in the local market and in the export as well. Just to mention some of them, Li Auto, Sokon, NIO, but also the high end of BYD, so brand, mainly the first ones, that we are basically unknown four/five years ago and now are growing and successfully introducing new car models in the segment.

This is demonstrating that Pirelli is not selective in a specific region or on a specific car maker, Pirelli is following the Premiumization of the car parc and if the Premium car parc or the Prestige car parc is becoming electric, we partner, we support the transition into electric. If the newcomers of the electric vehicles are more from the United States or from China we partner with them and we start a new relationship, a new long-term technical relationship that is also helping us to first de-risk the exposure on the customer base and, second, to learn more from a different way to develop cars.

At the same time, we are supporting the incumbent European car makers into the EV transition. So, it is a premium strategy that is widening the customer base all around the world as far as OE is concerned. Fabio, please.

**FABIO BOCCHIO** - *Chief Financial Officer*

Yes. Regarding the weight of the Elect products on our sales, I have to say that for the year 2023, 2024 and 2025, the weight on volume is pretty similar to the weight on net sales, and that is related to the fact that still for 2023-2025 the majority of the sales of the ELECT product are related to the Original Equipment. Obviously, going forward we expect the part related to the Replacement market to grow. That's why I am expecting going after 2025 the weight on net sales will be much higher than the weight on the volume. For the time being, I can tell you that in 2023, the weight of the ELECT on the 18" and above was between 8% and 9% overall.

**BOSIO MONICA – INTESA SANPAOLO**

Okay, thank you very much. Maybe I didn't catch in the previous question, can you remind the drop through on price mix across the Plan, please?

**FABIO BOCCHIO** - *Chief Financial Officer*

For the Plan in both '24 and '25 what we are expecting is pricing to be in '24 flattish and slightly positive in 2025, driven by the fact that we are expecting raw materials to be a little bit rebounding in 2025. So, obviously there is part of our pricing that is linked to the Original

Equipment and linked to the cost matrix, so there will be an impact coming from that, but there is no major increase in the pricing for this year, for next year and the price mix is fully related to the improvement in mix, so you may consider that the vast majority of the price/mix guidance is coming from mix. So, the drop through is the usual drop through, overall price is 100%, but on mix is between 60 to 65%.

**ROSS MC DONALD** – *Morgan Stanley Analyst*

Hi, there. Yeah, McDonald Ross from Morgan Stanley. Thank you very much for the update. I have three questions, please. First one on R&D expenses; just given the new product roll out, the 20 product lines you are talking about, and the sustainable tyre acceleration that you're rolling also, how would that impact your R&D expenses on sales in '24 and '25, please?

And secondly, on your 2024 guidance, I can see you're guiding to net interest expense being flat at 0.2 billion euros. Just curious if you can be a little bit more specific around net interest expense going forward, are you expecting that to be slightly higher than the current 2023 level or broadly in line?

And then third question on tyre wear, I can see you are guiding to quite large improvements in wear rates by 2030. Obviously that's good for the environment, it's good for the consumer also, but it could be an issue for the Pirelli business model as tyres are structurally lasting longer. Can I just understand how I should think about that, you know, in my model. Should I be assuming a longer wear rate for Pirelli tyres or are you keeping the tyre lifespan the same by using less tread? I would be really interested to understand that.

**ANDREA CASALUCI** - *Chief Executive Officer*

Ok, thank you. Thank you so much.

First question, the R&D expenses, we assume they are around 6% and we maintain, so growing the net sales we will support as a consequence, but this is the core of our activities and so we keep on this ratio and we do consider this as the optimal one to support our roadmap of technologies. As far as the tyre consumption I leave to Piero Misani, which is the most expert in the Company.

**PIERO MISANI** - *Chief Technology Officer*

Thank you. As you correctly highlighted, the tyre wear improvement will not be fully reflected into higher effective mileage. But part of it is cashed - let me say - to reduce the tyre weight,

to reduce then the amount of rubber that will be generated by the abrasion. In the case of the P ZERO E, for example, I mentioned that we had up to 42% increase in tyre wear. Of course, we have not translated this 100% in more mileage, but only the half of it has been used to increase the true mileage of the tyre to make it in line also with the fact that being fitted mainly to EV tyres we have to compensate, let me say, the fact of E-vehicles to wear more the tyre.

**MC DONALD ROSS** – *Morgan Stanley Analyst*

Thank you. Can I maybe just follow up? I think I understood that correctly. So, aren't the expenses for '24 a rising to 6% up from 4.3% of sales in '23 and then there was a question also on financial expenses, I'm wondering how you see those progressing versus '23.

**ANDREA CASALUCI** - *Chief Executive Officer*

Yes, R&D expenses on High Value sales will remain around 5.5% and 6%, and Fabio will answer on the question on interest expenses.

**FABIO BOCCHIO** - *Chief Financial Officer*

I will take the question on the interest, and first of all remind that on the Full year 2023 the Net Financial Expenses stood at 194 million euro. Now, for 2024 and 2025 we expect a lower interest charge as a consequence of the reduction of debt and the expected decrease of the interest rates; on the other side, we are expecting higher volatility, especially related to the hyperinflation in countries such as Argentina and Turkey, so overall we maintain a guidance of around 200 million of impact per year.

**GEORGE GALLIERS** – *Goldman Sachs Analyst*

Thank you for taking my questions. I had two questions regarding the Connected or Cyber Tyre. The first one was whether you could help us to potentially size the market there. On slide 40, you very helpfully gave us the potential cars that you expected to be connected. But do you see a very high, almost a 100% of connected cars having some kind of Connected Tyre on them, or will the penetration start quite low and grow in coming years and any insights or colour around that would be very helpful.

Second question I had, was with respect to the biggest opportunity economically from the Connected tyres. Do you see it coming from the sell-up of connected tyres and the higher price point which, presumably they command or do you think the bigger economical

opportunity in the medium term will be the R&D and Manufacturing efficiencies and learnings that you are able to make as a result of the data from these tyres. Thank you.

**ANDREA CASALUCI** - *Chief Executive Officer*

Thank you. So, regarding the penetration of the connected car park what we can confirm is what we presented in terms of different pace of growth of connected cars between the EV and the traditional one, and so this is what we plan and where we see the big opportunities of this fast growing market, while if we move into a pricing estimation or a value creation estimation inside our numbers, is too early to have this and this will be part of our next industrial plan, because we are now defining the sizing of the market, but also the different applications and opportunities related to a connected tyre.

You mentioned already some, integrating the tyre with the dynamic of the vehicle and so to be a contributor in the performance and safety of a car, which is the first, I would say, priority for us now and so be part of the development of the new way of designing the dynamic of the vehicles. Second opportunity is to provide data to infrastructure and to support the maintenance of infrastructure, and a third potential application is to provide a new way of having a predictive maintenance of the tyre and so it has to do with the servitisation to the end users that will be able more and more to plan well in advance the tyre change at the right time without losing money, but at the same time without losing nothing in terms of safety. And then there is also the opportunity to use data back from the tyres crowd testing, as Misani explained before, to improve the development of our new product, so has again to do with better performance and more value to our products.

So, as you can see, there are a lot of potential opportunities. We are sizing all these opportunities and we are accelerating the introduction of the technology in order to be ready in the next Industrial Plan to translate all these roadmap of technology and first marketing activities we have already in place into consistent numbers and Business Plan.

Thank you so much.

**EDOARDO SPINA** – *HSBC Analyst*

Hi, thank you very much for taking my question. I have 2. The first is on merger & acquisition and financial leverage. If I recall correctly, a couple of years ago, in 2022 you mentioned that once the Net debt-to-EBITDA went below 1.5 times that's when you could start look again at the use of cash and potential M&A. So, given that we are approaching that level, I was wondering if you have any internal discussion about M&A at this stage at all and if you

are looking in the future for something. I think it would be very interesting to understand the growth prospect for the next decade beyond tyres, if any.

And the second question is on the regulation: you already touched a little bit about the durability of the tyre and the fuel consumption, but I understand the European Union is evaluating the opportunity for some restrictions on the emission of particulate matters from the tyres, so I would like to ask first of all if you expect some regulation in Europe to actually come in the near term, if you expect other regions to follow, maybe the US. And finally, if you think what would be the impact on Pirelli vis-à-vis the cheaper tyres and potentially also from big competitors. Because I understand Pirelli focused a lot on the performance and maybe a little bit less on the durability. So, I was wondering about this. Thank you very much.

**ANDREA CASALUCI** - *Chief Executive Officer*

Thank you. So, as far as the M&A strategy, priority one today - as we mentioned - the priority of our balance sheet is to reach the leverage of 1 within 2025, but in the meanwhile, of course, we are looking and evaluating, analysing, different opportunities. So far, I would say that the most important opportunities that we see in front of us are in the field of materials, and that has to do with Sustainability, we have the small example of Hevea-Tec acquisition already in 2023, finalised in beginning of '24. But this is just a first small example of where we can accelerate our M&A strategy in the future, because this is opening opportunities to increase the percentage of bio-based and recycled materials, is not only natural rubber, is also pyrolysis and carbon black opportunities, and so on. So, the field of new materials and innovation.

Another big opportunity we already discussed is coming from connectivity and so creating an ecosystem of alliances and opportunities to enlarge our knowledge mainly in the side of digital and algorithms and to accelerate the introduction of these technologies. These are two examples of where we are evaluating possible future opportunities. As far as the tyre road wear particle, the most important regulation that we have in front of us is by far the Euro 7, announced in Europe. We fully support the introduction of the Euro 7 and that is expected for the car tyres, if I'm not wrong, to be applied within July 2028 and we are accelerating all the development of more durable products, as Mr. Misani said before. It's not right that is not the first performance we look at. On the contrary, all the new product lines that we are introducing today as a minimum target of 30% of reduction in the wear, in the mission of particles. So, we fully support the introduction of this regulation and we do expect that this will have possibly even a positive impact on the value of product, because

will rise the technological barrier and only the players with the technology and the capability to develop more durable and with lower tyre road wear particle emission. Tyres will have a competitive advantage, so we are fine with that.

**GIANLUCA BERTUZZO** – *Intermonte Analyst*

Hi everybody and thank you for taking my questions, I have a couple of them: can you talk about the contribution of your Equity Investment line in the P&L? What are the driving forces here and what do you expect going forward?

A second one is a follow-up to Ross' question on tyre wear, there are any plan, in terms of tyre labelling to prevent also tyre duration? I am talking at legislative level. Thank you.

**PIERO MISANI** - *Chief Technology Officer*

Thank you for the question. I will start from the tyre wear. As anticipated, Euro 7 is gonna regulate non-gas emission, non-exhaust emission, and then regulate brakes and tyres. The current status is that it has been completed a first stage of methodology setting, just at the end of the last year, and the Community will take one year to evaluate the levels, to evaluate the clusters, so we do expect that by the Q1 2026 there will be a definition inside Euro 7 of the clusters, so labels basically and which will be the limits for these labels.

**FABIO BOCCHIO** - *Chief Financial Officer*

I will take the question from the results from Equity Investment which, you are right, in 2023 we were pretty good, compared to 2022, and they are coming mainly from the results of the two JVs that we had with local partners in Indonesia for the production of motorcycle tyres and in China for the production of some car tyres. Those two JVs generated a good operating performance, so obviously we received part of the dividends related to the two JVs.

**BERTUZZO GIANLUCA** - *Intermonte Analyst*

Ok, thank you. Is there any plan to buy out these minorities?

**FABIO BOCCHIO** - *Chief Financial Officer*

Not for the time being. We are not foreseeing any buy out in our plan for 2024 and 2025.

**MICHAEL ASPINALL** – *Jefferies Analyst*

Thanks and good afternoon. Thanks for taking the question. Just thinking about your continued shift to sustainable materials, are those recycled and bio-based materials cost-competitive with kind of more legacy materials or do you expect to see higher prices of those more sustainable tyres offset a higher cost.

**ANDREA CASALUCI** - *Chief Executive Officer*

Thank you. I would like to evaluate our sustainability roadmap at 360 degrees for answering you to this very important question, yes, and I tell you why, because in the short term we do expect a higher cost of these materials because the demand will be most probably higher than the offers in the coming years, in the short term. In the long term we do expect rebalance of demand and offer, and so, again, a more stable cost of these materials.

But if I look at the sustainability roadmap at 360 degrees, I don't see these as a cost. I see these as an opportunity in terms of global efficiencies for the company, because on one side, most probably we will pay a bit more for these materials. On the other side, we expect a lot of efficiencies coming from the reduction of energy consumption and also electrification of our factories, so all in all the balance we see in the coming four or five years is positive, so we do expect a positive impact on the global efficiencies of the company, putting together a higher cost of some materials and the better efficiencies of our factories.

All this, keeping aside the commercial opportunity, because first of all we do this because of ESG reasons, and then we do expect that in some markets with some products we also have the opportunity to grow in terms of revenues thanks to the selling proposition of sustainability, but this will come later. If you look only at the Efficiency Plan, we see these two effects more or less balanced or even slightly positive. Thank you.

**MICHAEL ASPINALL** - *Jefferies Analyst*

OK, great and one follow up, just a very quick one on your dividend payout policy, just checking that your leverage target of one times net debt adjusted EBITDA, by the end of the plan includes a step up directly to 50% in 24 and 25 from 40% this year.

**FABIO BOCCHIO** - *Chief Financial Officer*

I take the question. No, our policy as it was explained is in 2024 a payout of 40% of the net result and in 2025 a payout of 50% of the result of 2024. And this is already included in the number so to arrive at the end of 2025 with a leverage ratio of around 1.0 the Adjusted EBITDA.



**MARTINO DE AMBROGGI** – Equita Analyst

Thank you. Two more questions. One, still on connectivity. I was wondering if you, probably you are looking for or you need a Joint Venture or a Partnership, I don't know, a car components maker, car maker? I don't know if you are looking at it in order to maximize the potential value of connectivity which will come later on.

And the second is on the press release, because reading your press release about the Shareholding structure, the Golden Power and so on. Could you clarify what are the next steps and the potential implications on the Shareholding structure, if any? Thank you.

**ANDREA CASALUCI** - *Chief Executive Officer*

Thank you. As far as potential opportunities in the future to create alliances, joint venture, or maybe acquisition with some partners. As I said before, I do see this more in the side of algorithm, data management, or a capability to integrate our system with a dynamic of the vehicles more than on a hardware producer of components of cars. Anyhow, we are in a phase of evaluating all the opportunities we may need with a clear target to accelerate the introduction of the technology into the market. Thank you.

**MARCO TRONCHETTI PROVERA** - *Executive Vice Chairman*

As far as the second question related to control, after the DPCM decision, the Golden Power Decision and the implementation of the DPCM, the Board of Statutory auditors and the Company management started an analysis regarding the permanence of the control by Marco Polo Italy over Pirelli. Meanwhile, also Marco Polo is doing its own analysis. The process has not come to an end until now and we decide to keep the declaration of control of Marco Polo, until now has not been modified, obviously if the conclusion will be different, the declaration will be modified. So, that's the situation. We will inform the market as soon as the board achieves a conclusion.

**MODERATOR**

There are no more questions registered at this time. I leave the floor back to Mr. Tronchetti.

**MARCO TRONCHETTI PROVERA** - *Executive Vice Chairman*

So, thank you very much. This meeting has come to an end. I thank you, everybody, and I wish you a good evening.