

# 1Q 2017 Financial Results



# KEY MESSAGES

> **Transformation into a pure Consumer tyre player** on-going, with the implementation of "new value generating programs" aimed at strengthening Prestige and Premium positioning and at capturing new trends in mobility

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> **New value generating programs for the medium term:**

- › **conversion of Aeolus capacity into Pirelli brand** production to expediting the development of the business in China (the engine of the Premium global growth);
  - › **strengthening Prestige and Premium** position along the entire value chain (from new capacity increase up to trade and consumer engagement initiatives)
  - › **accelerated reduction in exposure to segment with low profitability**
  - › **start up of new activities** (Cyber and Velo)
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> **Sound 1Q results:**

- › **Strong Premium outperformance** across markets, now representing 68% of sales
- › **volume growth on high value segment** more than compensating the accelerated reduction of non Premium exposure
- › **top industry price/mix improvement**
- › **solid profitability** with adjusted EBIT improvement backed by internal levers (price/mix, volume and efficiencies)

**EBIT margin YoY trend** (15.3% in 1Q 2017 vs 17.2% in 1Q 2016) reflects the impact of the above mentioned new value generating programs and the time lag between price increases (effective from April 1<sup>st</sup> 2017) and raw material costs hike

# AGENDA

**1**

1Q 2017 RESULTS

**2**

APPENDIX

# PIRELLI KEY FINANCIAL RESULTS

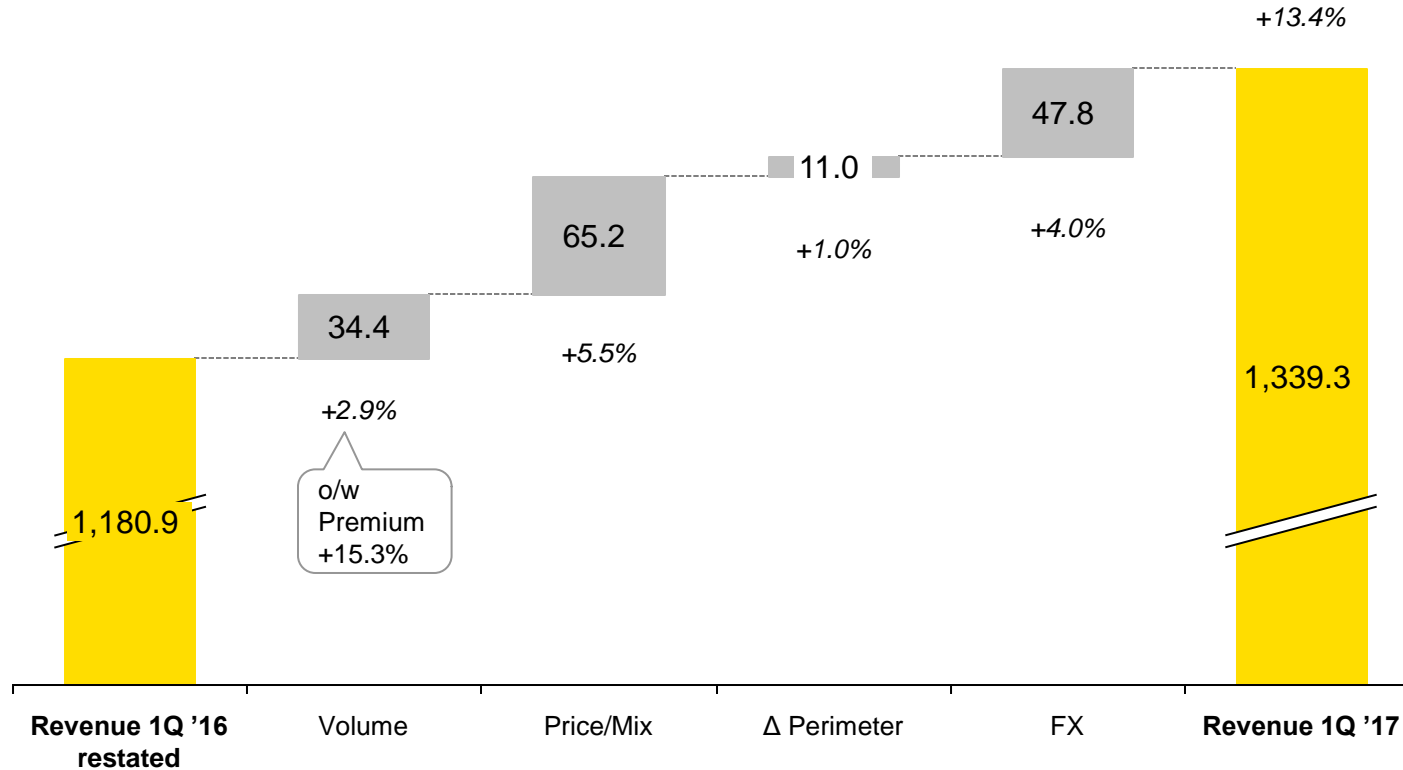
€ million

	1Q '16 reported	1Q '16 restated <sup>1</sup>	1Q '17	Δ vs 1Q '16 restated <sup>1</sup>	1Q Highlights
<b>Revenues</b>	<b>1,436.0</b>	<b>1,180.9</b>	<b>1,339.3</b>	+13.4%	Sound organic growth sustained by: <ul style="list-style-type: none"> <li>▶ strengthening on Premium</li> <li>▶ top industry price/mix (+5.5%)</li> <li>▶ volume growth (+2.9%) despite the accelerated exit from non-Premium</li> </ul>
<i>Organic Growth<sup>2</sup></i>				+8.4%	
EBITDA before non recurring items & restr. costs	<b>290.0</b>	<b>261.5</b>	<b>270.3</b>	+3.4%	
<i>Margin</i>	20.2%	22.1%	20.2%	-1.9 p.p.	
EBIT adjusted <sup>3</sup>	<b>215.5</b>	<b>203.6</b>	<b>205.0</b>	+0.7%	<ul style="list-style-type: none"> <li>▶ EBIT improvement, with internal levers which more than compensated rising raw mat. costs, inflation and other costs related to business development</li> <li>▶ PPA: additional amortization, due to allocation of purchasing price paid by Marco Polo, arising from Pirelli / Marco Polo merger</li> </ul>
<i>Margin</i>	15.0%	17.2%	15.3%	-1.9 p.p.	
Amortization from PPA	0.0	(26.2)	(26.2)		
Non recurring items & restr. costs	(15.3)	(11.3)	(10.1)		
<b>EBIT</b>	<b>200.2</b>	<b>166.1</b>	<b>168.7</b>	+1.5%	
<i>Margin</i>	13.9%	14.1%	12.6%	-1.5 p.p.	
Results from Equity Investments	(42.5)	(42.5)	(3.1)		<ul style="list-style-type: none"> <li>▶ Decreasing financial charges, thanks to lower cost of debt (5.42% vs. 5.98% in 1Q '16); 1Q '16 results was impacted by the extinction of the U.S. Private Placement bond loan</li> </ul>
Financial Income / (Charges)	(82.7)	(133.7)	(77.0)		
<b>EBT</b>	<b>75.0</b>	<b>(10.1)</b>	<b>88.6</b>		
<i>Tax Rate</i>	46.1%	n.m.	44.1%		
<b>Net income before disc. operations</b>	<b>40.4</b>	<b>(30.4)</b>	<b>49.5</b>		
Discontinued operations	0.0	(19.7)	(76.6)		
<b>Net Income</b>	<b>40.4</b>	<b>(50.1)</b>	<b>(27.1)</b>		
<b>Attributable Net Income</b>	<b>39.8</b>	<b>(50.7)</b>	<b>(27.9)</b>		

<sup>1</sup> Industrial in disc. Operations; <sup>2</sup> Excluding exchange rate effects and perimeter change; <sup>3</sup> Before amortization of PPA, non recurring items and restructuring costs

# REVENUES BRIDGE

Δ YoY change  
(in € million and %)



Top line quality improving:

- ▶ +15.3% Premium volumes growth more than offsetting the Non Premium trend (-9.2%) due to the accelerated exit from low profitability segments
- ▶ price/mix acceleration vs previous quarters (+5.5% vs. +3.6% of Consumer in 4Q 2016, +4.5% in 3Q 2016) thanks to product and geographical mix improvement, and price increases in emerging markets

# 1Q 2017 PERFORMANCE BY REGION

## Group Sales

## Group EBIT Margin adjusted<sup>2</sup>

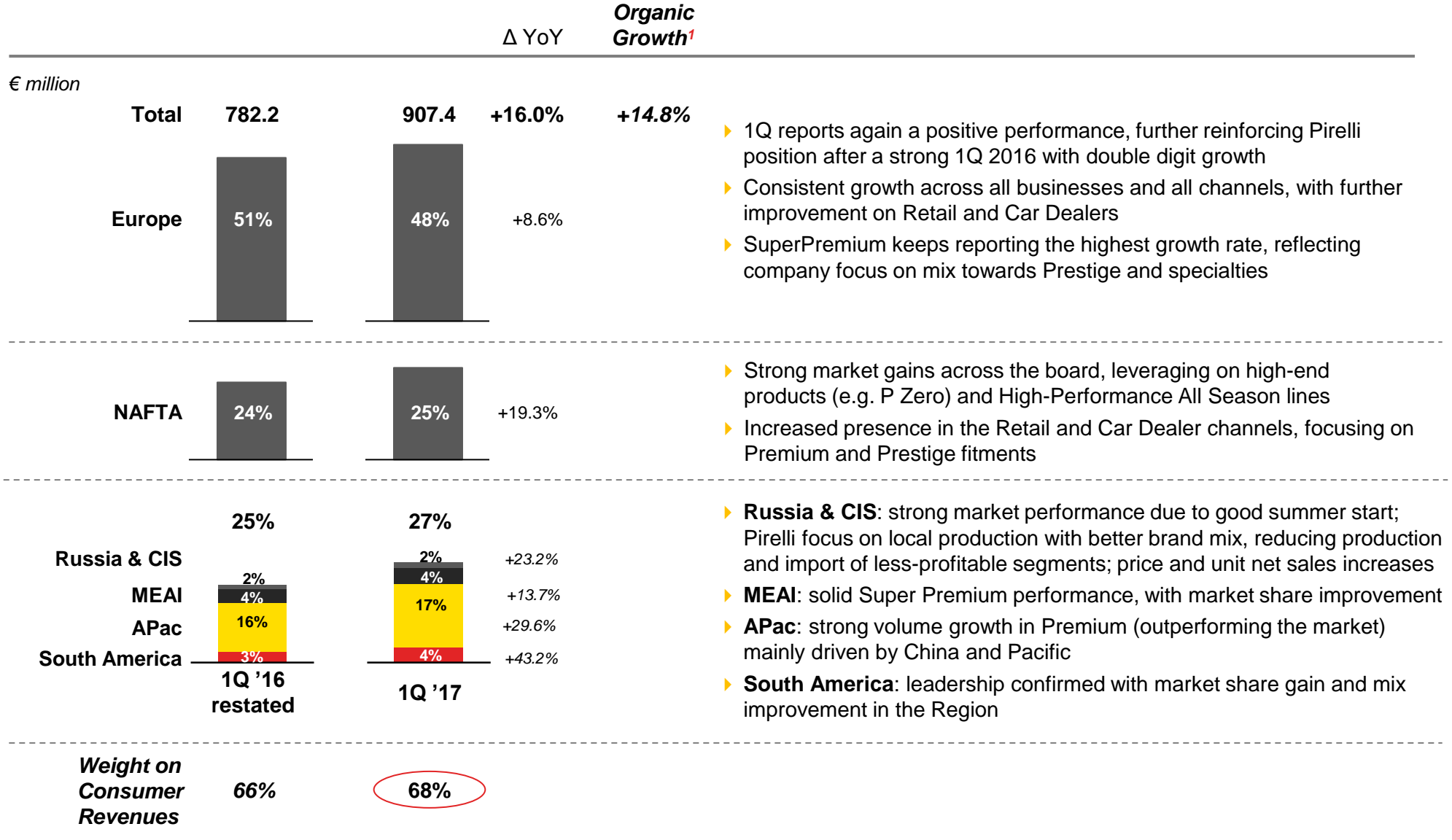
€ million		Δ YoY	Organic growth <sup>1</sup>		
<b>Total</b>	<b>1,180.9</b>	<b>1,339.3</b>	13.4%	<b>+8.4%</b>	<b>15.3% (-1.9 pp YoY)</b>
<b>Europe</b>	45%	42%	+7.9%	<b>+8.9%</b>	<b>Europe Mid-teens</b>
<b>NAFTA</b>	18%	19%	+16.5%	<b>+13.7%</b>	<b>NAFTA Twenties</b>
<b>Russia &amp; CIS</b>	37%	39%	+18.7%	<b>+5.3%</b>	<b>Russia High-single digit</b>
<b>MEAI</b>	3%	5%	+14.3%	<b>-16.9%</b>	<b>MEAI Mid-teens</b>
<b>APac</b>	13%	14%	+2.4%	<b>+3.8%</b>	<b>APac Twenties</b>
<b>South America</b>	16%	17%	+26.6%	<b>+22.7%</b>	<b>South America Mid-single digit</b>
			+18.8%	<b>-3.2%</b>	
	<b>1Q '16 restated</b>	<b>1Q '17</b>			

<ul style="list-style-type: none"> <li>▶ Discounting the impact of “new value generating programs” and the time lag between price increases and raw material costs hike</li> </ul>
<ul style="list-style-type: none"> <li>▶ Solid Premium performance</li> </ul>
<ul style="list-style-type: none"> <li>▶ Top group profitability backed by a successful Premium strategy</li> </ul>
<ul style="list-style-type: none"> <li>▶ Russia: accelerated exit from low profitable segment</li> <li>▶ MEAI: solid performance despite the Turkish Lira devaluation</li> <li>▶ APac: top group profitability supported by the strong Premium development</li> <li>▶ S. America: accelerated exit from low profitable segment, conversion to Premium on-going, increased export to N. America</li> </ul>

<sup>1</sup> Excluding exchange rate effects and perimeter change; <sup>2</sup> before amortization of PPA, non-recurring items and restructuring costs

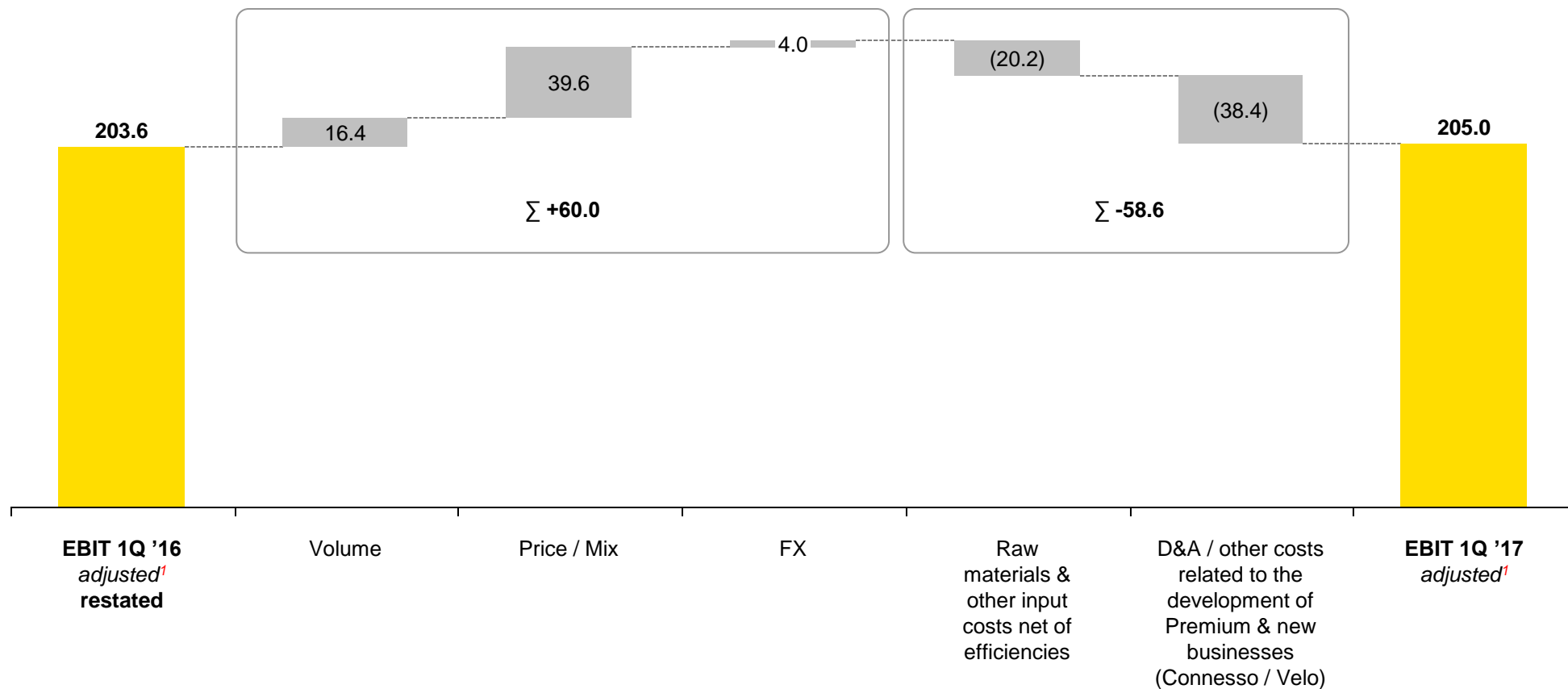
# 1Q 2017 PREMIUM PERFORMANCE BY REGION



<sup>1</sup> Excluding exchange rate effects

# OPERATING PERFORMANCE

€ million

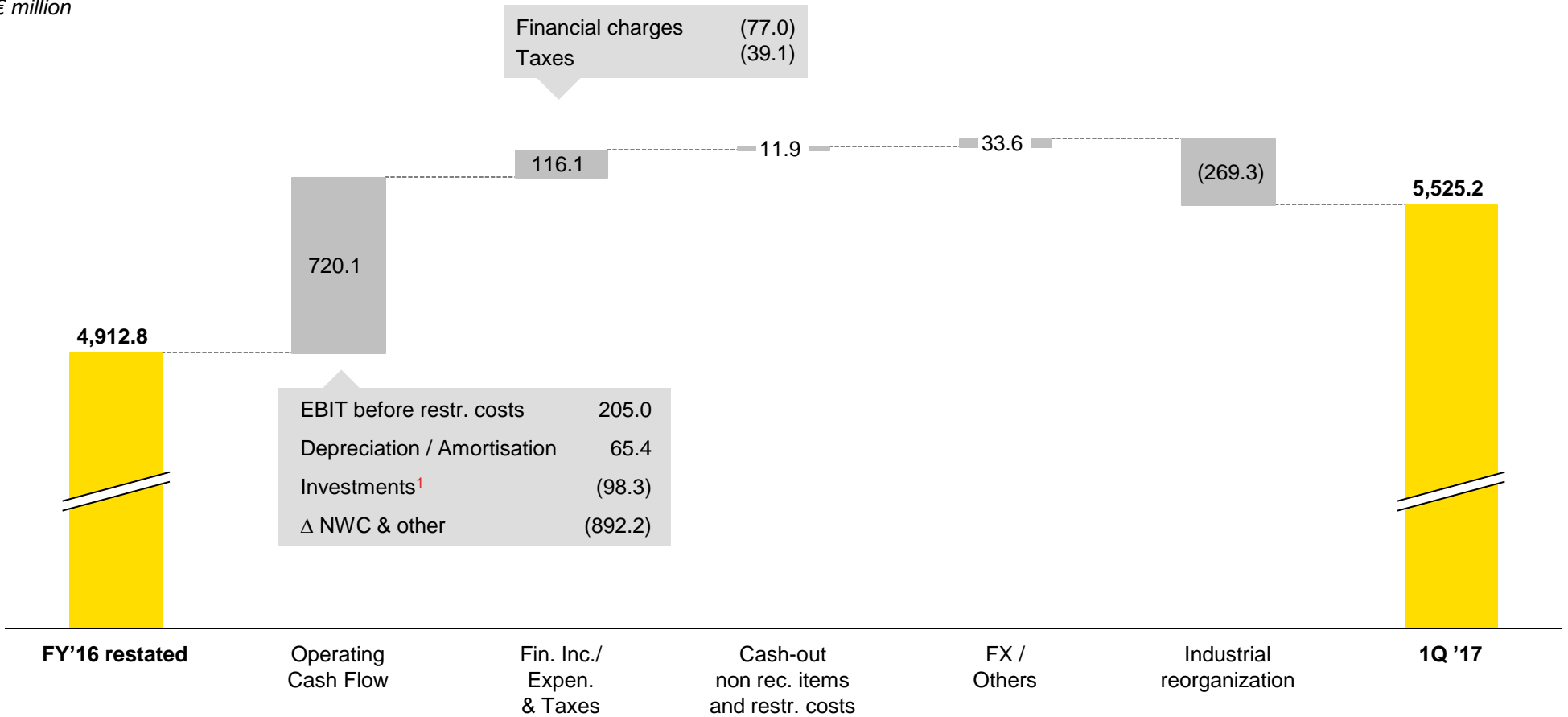


<sup>1</sup> before amortization of PPA, non recurring items and restructuring costs;



# 1Q 2017 NET FINANCIAL POSITION

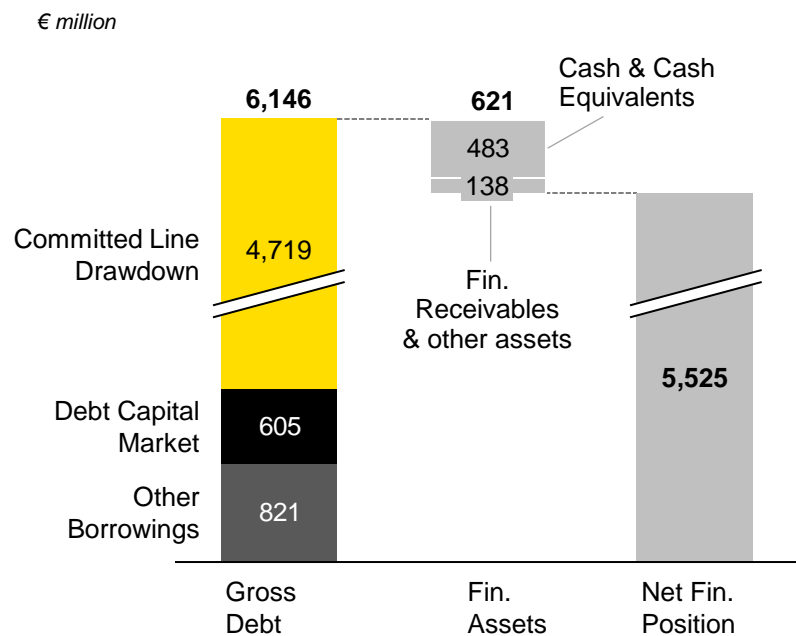
€ million



<sup>1</sup> Tangible and intangible investments

# PIRELLI DEBT STRUCTURE AS OF MARCH 31, 2017

## Net Financial Position

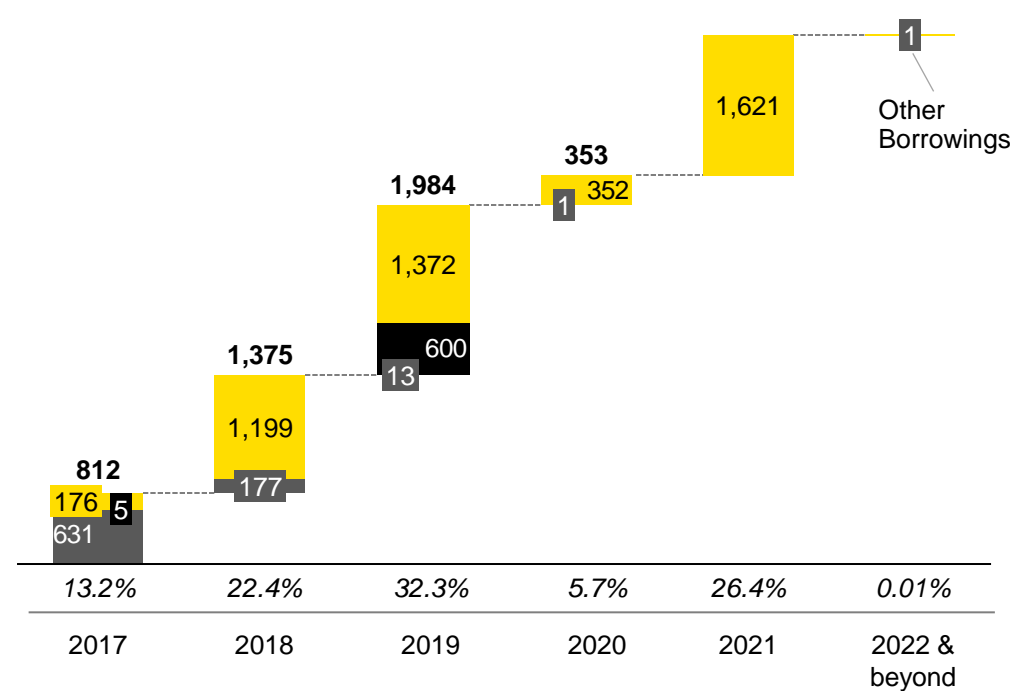


## Liquidity Profile

€ million

Liquidity position	482.9
Total committed lines not drawn due 2020	914.1
<b>Liquidity Margin</b>	<b>1,397.0</b>

## Gross Debt Maturity



## Debt Profile

- ▶ Cost of debt 5.42%
- ▶ Gross debt profile: ~70% Fixed and ~30% Floating
- ▶ Average debt maturity: ~2.4 years

# AGENDA

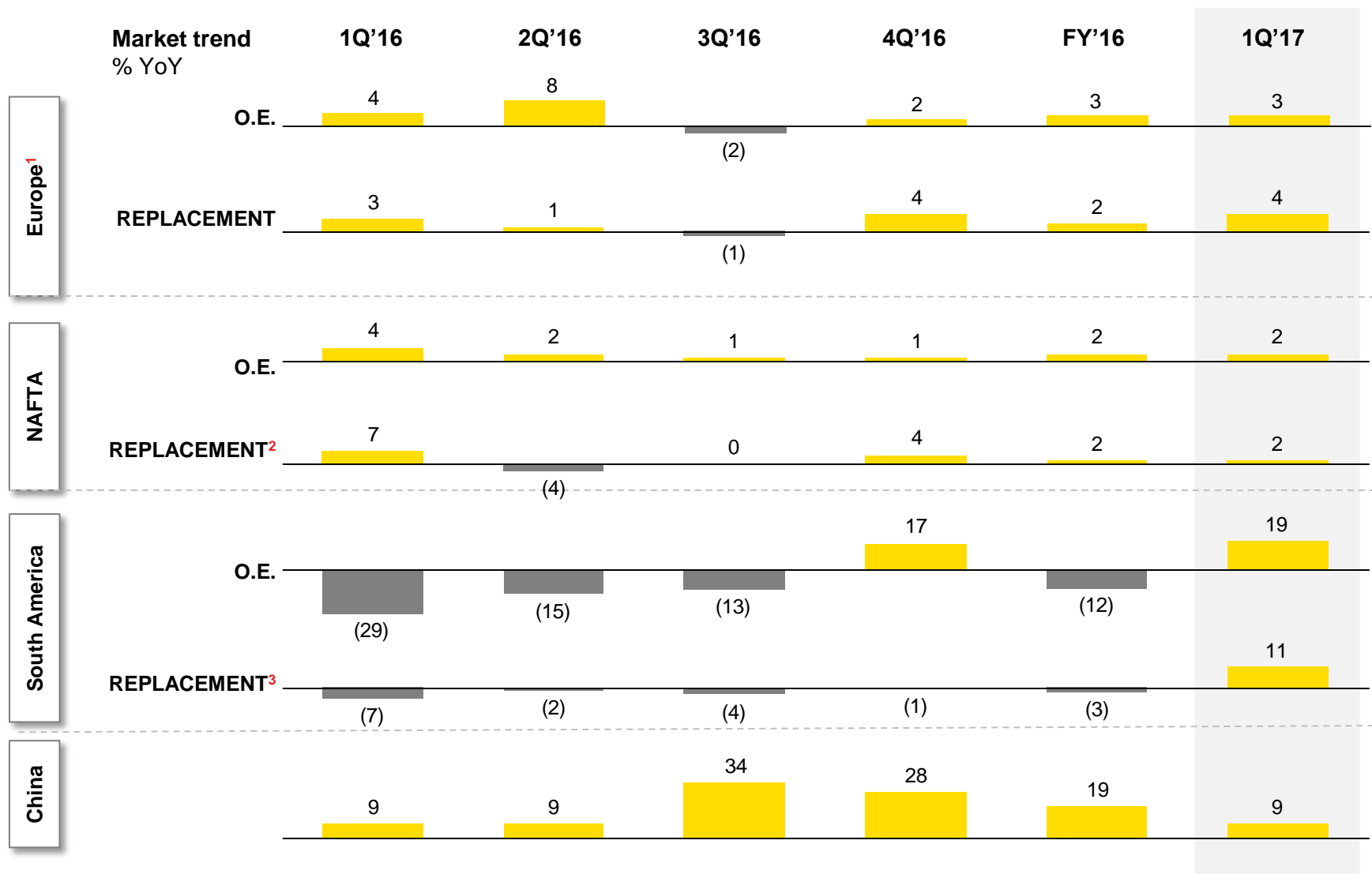
**1**

1Q 2017 RESULTS

**2**

APPENDIX

# CONSUMER BUSINESS: KEY MARKET TRENDS



<sup>1</sup> Russia excluded, Turkey excluded; <sup>2</sup> NAFTA Replacement includes imports; <sup>3</sup> South America Replacement restated to include Brazilian imports

Source: Local tyre manufacturer associations

# PIRELLI BALANCE SHEET

<i>€ million</i>	<b>31/12/2016<sup>1</sup></b>	<b>31/03/2017</b>
<b>Fixed assets related to continuing operations</b>	<b>10,299.2</b>	<b>9,213.6</b>
Inventories	1,055.6	925.5
Trade receivables	679.3	1,044.8
Trade payables	(1,498.5)	(1,062.2)
<b>Operating net working capital related to continuing operations</b>	<b>236.4</b>	<b>908.1</b>
Other receivables / payables	(310.7)	118.3
<b>Net Working Capital related to continuing operations</b>	<b>(74.3)</b>	<b>1,026.4</b>
Net invested capital held for sale	-	118.3
<b>Net invested capital</b>	<b>10,224.9</b>	<b>10,358.3</b>
<b>Equity</b>	<b>3,274.9</b>	<b>3,002.9</b>
<b>Provisions</b>	<b>2,037.2</b>	<b>1,830.2</b>
<b>Net Financial Position</b>	<b>4,912.8</b>	<b>5,525.2</b>
<b>Total financing and shareholders' equity</b>	<b>10,224.9</b>	<b>10,358.2</b>
<i>Attributable Net Equity</i>	<i>3,134.1</i>	<i>2,929.1</i>

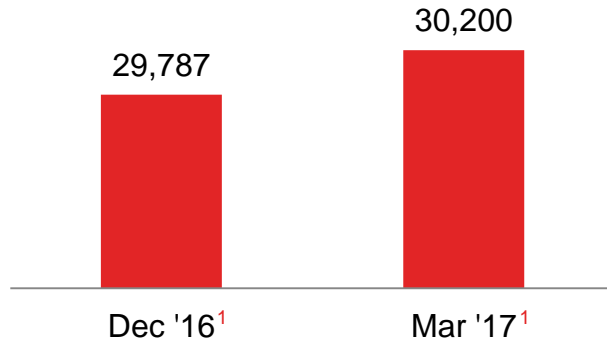
<sup>1</sup> Reported

# PIRELLI GROUP CASH FLOW

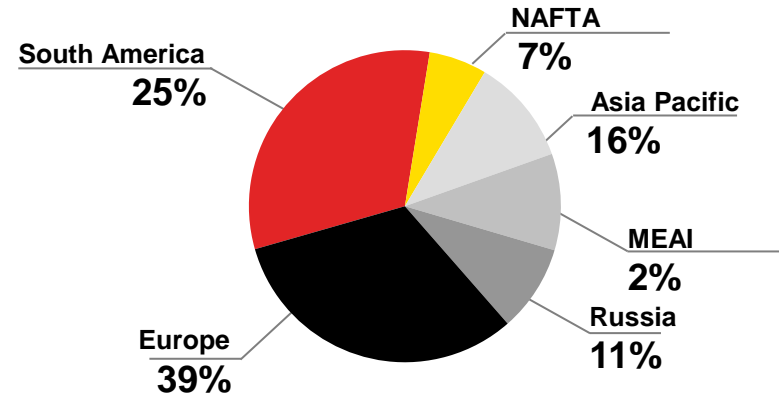
	1Q '16 reported	1Q '17
EBIT before non recurring items & restructuring costs	203.6	205.0
Amortization and depreciation	57.9	65.4
Capital expenditures	(70.0)	(98.3)
Change in working capital / other	(783.8)	(892.2)
<b>Operating Cash Flow</b>	<b>(592.3)</b>	<b>(720.1)</b>
Financial income / expenses	(133.7)	(77.0)
Fiscal charges	(20.3)	(39.1)
<b>Net operating cash flow</b>	<b>(746.3)</b>	<b>(836.2)</b>
Financial investments / disinvestments	(5.2)	(1.7)
Release deferred tax liabil. incl.in fiscal charges	(6.4)	(6.6)
Minorities	-	(5.5)
Other dividends paid	-	-
Cash-out for non recurring items & restructuring costs	(17.7)	(11.9)
Exchange rates difference / other	(62.7)	(19.8)
<b>Net cash flow before dividend paid/extraordinary operations</b>	<b>(838.3)</b>	<b>(881.7)</b>
Industrial reorganization	59.3	269,3
<b>Net cash flow</b>	<b>(779.0)</b>	<b>(612.4)</b>

# MARCH 2017 PIRELLI PEOPLE

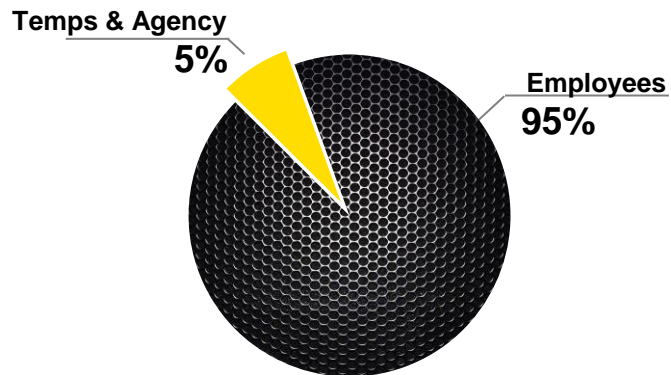
## Headcount



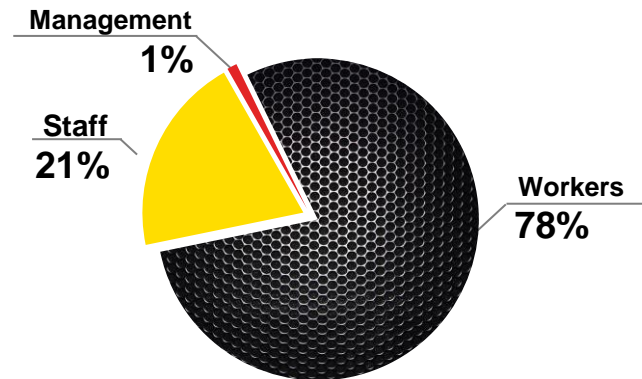
## People by Region



## People by Contract

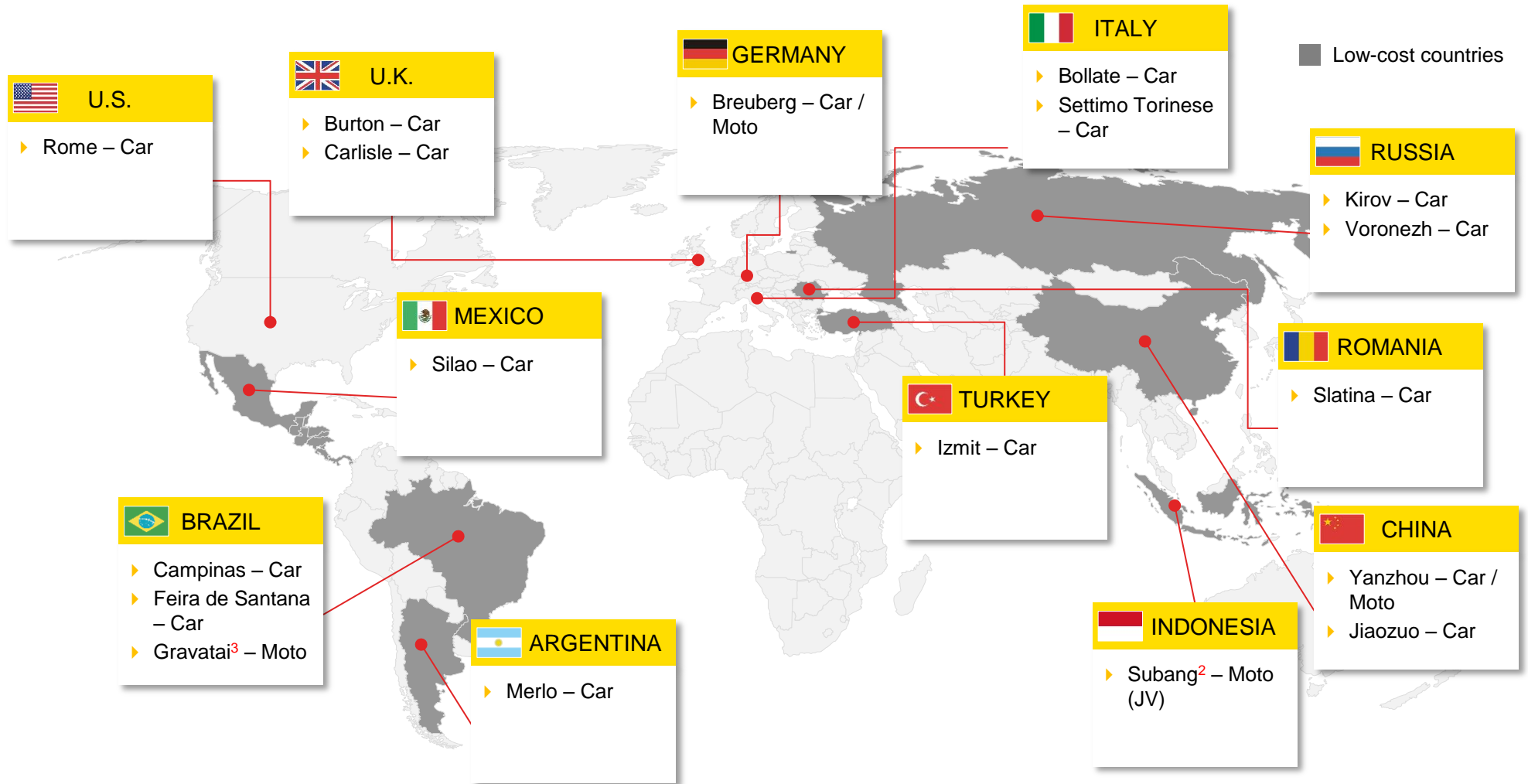


## People by Cluster



<sup>1</sup> Without Venezuela headcount, including Aeolus Consumer headcount

# PIRELLI PLANTS IN THE WORLD<sup>1</sup> AS OF MARCH 31<sup>ST</sup> 2017

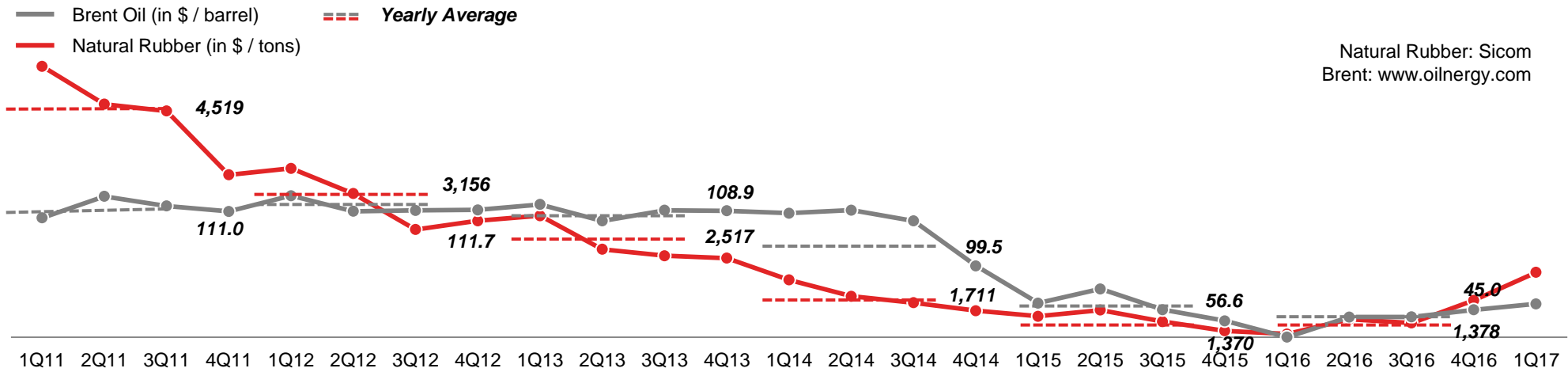


<sup>1</sup> Excluding Venezuela, deconsolidated since 31<sup>st</sup> December, 2015; <sup>2</sup> Joint Venture - not consolidated line by line; <sup>3</sup> production capacity in off-take



# RAW MATERIALS

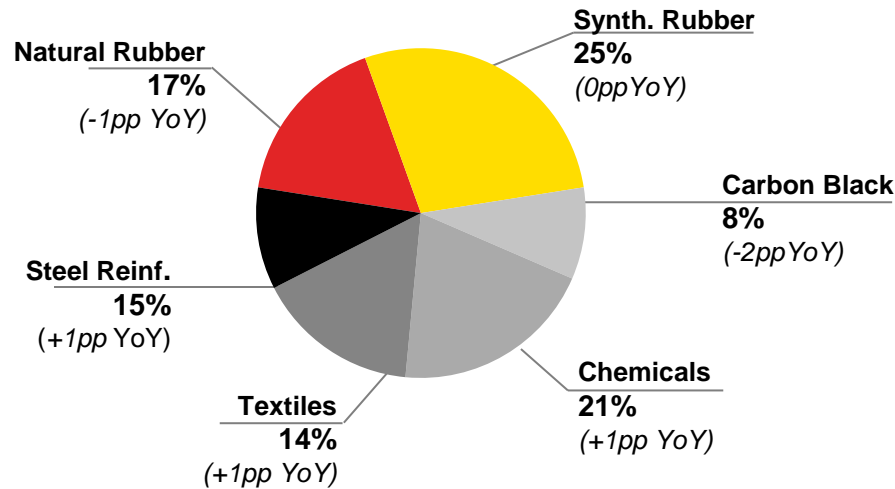
## Raw Material Price Trend



## 1Q 2017 Mix (Based on Purchasing Cost)

**34%**

Raw mat. costs on sales



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