PRESS RELEASE

Pirelli board approves results for 3 months ended 31 March 2016

- **Further Premium growth with revenues accounting for 67.1% of Consumer business**
- **Significant price/mix growth: +6.1% thanks to price increases and better sales' mix**
- **Efficiencies of 30.5 million euro (21.1 million euro in Q1 2015), in rapid progress compared with the 4-year 2014-2017 plan for 350 million euro**
- **Operating result (Ebit before non-recurring and restructuring charges) increasing to 215.5 million euro (+4.2% compared with Q1 2015 on like-for-like basis)**
- **Continuing improvement of Consumer business profitability, at 17.1%**
- **Increased profitability in the Apac, Nafta and Europa areas**
- **Industrial Business impacted by persistent weakness of South America**

Milan, 12 May 2016 – The Board of Directors of Pirelli & C. SpA met today and approved the group's results for the three months which ended on March 31, 2016. It should be noted that Pirelli de Venezuela C.A. was deconsolidated at the end of 2015: the operating results for 2015, for the purposes of comparison, are presented applying the same perimeter of first quarter 2016. The following are the main elements which characterized the quarter:

- **Revenues** were 1,436.0 million euro, with organic growth (applying the same perimeter and net of the forex effect of negative 9.3%) of 5.1%, thanks to the significant improvement of the price/mix component (+6.1%) as a result of price increases in emerging markets, greater sales in the Replacement channels and the diverse geographic and product mix. This performance more than offset the slight reduction in volumes (-0.8%, mainly in emerging markets and the *Industrial* business) and reduction of sales of other activities (-0.2%).
- Further reinforcement of **Premium**, with volume growth of 11.7%, above the global premium market trend (+10%) and organic revenue growth of 10.5% to 781.9 million euro. Premium accounted for 67.1% of Consumer revenues, a decided (?) increase from 61.2% in the same period of 2015 (with the same perimeter).
- **Ebitda before non-recurring and restructuring charges** was 290 million euro, an increase of 2.5% compared with 282.9 million euro in the same period of 2015 with the same perimeter, with an Ebitda margin of 20.2%, an increase from 18.9% in the same period of 2015 with the same perimeter;
- **Ebit before non-recurring and restructuring charges** was 215.5 million euro, an increase of 4.2% compared with 206.9 million euro in the first quarter of 2015 with the same perimeter, with an Ebit margin increasing to 15% (13.8% in the first quarter of 2015 with the same perimeter). This result benefits from, among other things, the achievement of 30.5 million euro in efficiencies (21.1 million euro in the first quarter of 2015), which is the implementation of the 4-year 2014-2017 plan of 350 million euro;

- At the **geographic level,** profitability improved in Europe, Apac and Nafta thanks to significant growth in the Premium segment.

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The **result from participations** was negative 42.5 million euro mainly attributable to the impact deriving from devaluations and value adjustments of affiliates Fenice S.r.l. and Prelios S.p.a., as well as Rcs.

The **total net result** was 40.4 million euro (84.6 million euro in the same period of 2015) and reflects, as well as the negative impact of the result of participations, the 30.6 million euro increase in net financial charges, mainly due to the early repayment of the US Private Placement bond loan.

The **net cash flow from operations** improved, passing from -688.9 million euro in the first quarter of 2015 to – 499.9 million euro in the first quarter of 2016, thanks to the management of working capital.

Investments totaled 74 million euro (85.6 million euro in first quarter 2015), mainly earmarked for increased Premium capacity in Europe, Nafta and China, as well as improvements in mix.

The **total net cash flow** was negative 704.6 million euro, an improvement compared with -753.3 million euro in the first quarter of 2015, when the entry included a positive impact of 24.4 million euro deriving from a payment trance from the disposal of the steelcord activities.

The **net financial position** was negative 1,903.7 million euro, compared with 1,946.6 million euro in the same period of 2015 with the same perimeter and 1,199.1 million euro on December 31, 2015.

Employees on March 31, 2016 numbered 35,899 (37,527 in the first quarter of 2015 and 36,753 at the end of December 2015)

<u>Tyre activities</u>

Sales on March 31, 2016 totaled 1,435.1 million euro, with organic growth, applying the same perimeter, of 5.3% (-4% including a negative forex effect of -9.3%), thanks to the positive performance of the *Consumer business* (+6.9% organic growth), while the *Industrial business* (+0.1% growth with the same perimeter and excluding forex) reflects the persistent slowdown of the market in South America and negative forex impact (-15.4%).

Volumes declined overall by 0.8%, the sum of the opposite performances of the *Consumer* business (+1.7%), thanks to the positive Premium performance (+11.7%), and the *Industrial* business (-10.1%). The latter reflects the weakening of demand in South America and the slowdown of Original Equipment in China. *Consumer* volumes were supported by the mature markets (+8.3%), whose dynamics more than offset the continual weakness of emerging markets (-1.1%).

The improvement of the **price/mix** (+6.1% in the first quarter of 2016) was supported by the performance of the *Consumer* business (price/mix +5.2%, thanks to the improved product mix, the greater weight of the Replacement channel and improved geographic mix) and the *Industrial business* (+9.1%, as a result of price increases mainly in South America and other emerging countries to counter forex volatility).

The **operating result (Ebit) before non-recurring and restructuring charges** in the first quarter of 2016 amounted to 216 million euro, an improvement of 3.4% compared with the figure with the same perimeter in 2015, with a margin of 15.1% (14% on March 31, 2015 with the same perimeter). The improvement of the operating result benefited from the positive contribution of the price/mix component and efficiencies. The **operating result (Ebit)** was 200.7 million euro (compared with 206.8 million euro in the same period of 2015 with the same perimeter) and reflected 15.3 million euro in non-recurring and restructuring charges due to processes of rationalization and costs relative to the activities under way for the integration of Pirelli's *Industrial* segment with the *Industrial* assets of CNRC.

At the geographic level, **Apac** registered the highest profitability of all the geographic areas, reaching the *twenties* level, an improvement compared to the previous year, while the revenues' performance (-1.6% excluding forex effects) discounts the high comparison basis (+30.8% revenue growth in the first quarter of 2015, lower sales in the *Industrial* and Consumer non-Premium compared with the continuing growth of Premium, also thanks to the reinforcement of the Original Equipment which counts new homologations with European and local brands. The strategic focus on top-of-the-range compensated for the negative impact of the devaluation of the yuan and market price falls. The **Nafta** area saw an improvement of Ebit to the *twenties* level from the previous *high-teens*, with Premium revenues growing 11.3%. Profitability in **Europe** also improved to *mid-teens* levels from the previous *low-teens*, with revenues posting organic growth of 1.7%, while the **Meai** area registered stable profitability at the *high-teens* level, with revenues posting organic growth of 20.9%. The continuation of the difficult economic situation in **South America** and in **Russia**, and forex, had instead an impact on revenues and profitability in both areas, the worsening compared with the corresponding prior period.

- In the ***Consumer Business (Car/Light Truck and Moto tyres)*** sales totaled 1,165.7 million euro, with organic growth with the same perimeter of 6.9% (-1% including the negative forex effect of 7.6%). The organic growth of revenues reflects the improvement of the price/mix (+5.2%) linked to the growing weight of Premium, to the sales' mix and price increases in South America, and the positive contribution of volumes (+1.7%), thanks to the growth of Apac, Nafta, Europa and Meai which compensated the falls in South America and Russia.

  Premium is confirmed as the main lever of growth, with revenues with the same perimeter growing 8.4% to 781.9 million euro compared with the same period in 2015 (+10.5% before the forex impact) and volumes growing by 11.7%. Premium accounted for 67.1% of the Consumer business increasing from 61.2% in the first quarter of 2015.

  The **operating result (Ebit) before non-recurring and restructuring charges** was 199.6 million euro, an increase of 12.5% compared with 177.4 million euro in the same period of 2015 with the same perimeter, with an Ebit margin of 17.1%, an increase from 15.1% previously.

- The ***Industrial Business (tyres for Industrial vehicles)*** sales were 269.4 million euro, substantially stable with the same perimeter and excluding forex impact. Taking forex effects into account, sales declined by 15.3% compared with 317.9 million euro in 2015 with the same perimeter. Volumes eased 10.1% mainly as a result of the contraction of the market in Latin America and the slowdown of the market in China. The price/mix performance was positive (+9.1%) thanks to the improved product and channel mix and the progressive price increases in South America and other emerging countries.

  The **operating result (Ebit) before non-recurring and restructuring charges** came to 16.4 million euro, equal to 6.1% of sales (10.2% in the same period of 2015 and with the same perimeter). The profitability performance discounts the continuing decline in volumes and the negative forex impact: in the face of which Pirelli is implementing new efficiency plans.

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It should be noted that on May 6, 2016 the deed for the merger between Marco Polo Industrial Holding and Pirelli S.p.A. was stipulated. The merger will take judicial effect on June 1, 2016, while the accounting and fiscal effects – as foreseen in the merger plan – will be retroactive beginning from January 1, 2016.

Group – Pirelli & C. Spa

(in millions of euro)

	03/31/2016	03/31/2015 reported	12/31/2015 reported
Net sales	**1.436,0**	**1.568,4**	**6.309,6**
Gross operating margin before non-recurring and restructuring expenses	290,0	291,9	1.242,7
% of net sales	20,2%	18,6%	19,7%
Operating income before non-recurring and restructuring expenses	215,5	213,4	918,5
% of net sales	15,0%	13,6%	14,6%
Non-recurring and restructuring expenses	(15,3)	(3,3)	(68,2)
Operating income (loss)	**200,2**	**210,1**	**850,3**
% of net sales	13,9%	13,4%	13,5%
Net income (loss) from equity investments	(42,5)	(2,5)	(41,4)
Financial income/(expenses)	(82,7)	(52,1)	(328,2)
Net income (loss) before tax adjusted (*)	**75,0**	**155,5**	**480,7**
Loss from deconsolidation of Venezuela		-	(559,5)
Total net income (loss) before tax	**75,0**	**155,5**	**(78,8)**
Tax expenses	(34,6)	(54,1)	(182,5)
Tax rate % on net income (loss) before tax adjusted	46,2%	34,8%	38,0%
Impairment of deferred tax assets	-	-	(107,6)
Net income (loss) from continuing operations	**40,4**	**101,4**	**(368,9)**
Net income (loss) from discontinued operations	**-**	**(16,8)**	**(14,6)**
Total net income (loss)	**40,4**	**84,6**	**(383,5)**
Net income (loss) adjusted (**)	**40,4**	**84,6**	**298,2**
Net income attributable to Pirelli & C. S.p.A.	39,8	82,0	(391,4)
Operating fixed assets	**3.674,9**	**4.055,3**	**3.780,5**
Inventories	1.068,2	1.142,5	1.053,9
Trade receivables	1.006,7	1.063,7	676,2
Trade payables	(945,8)	(1.072,4)	(1.313,1)
Operating Net working capital	**1.129,1**	**1.133,8**	**417,0**
% of net sales (°)	19,7%	18,1%	6,6%
Other receivables/other payables	(85,0)	111,5	(107,6)
Total Net working capital	**1.044,1**	**1.245,3**	**309,4**
% of net sales (°)	18,2%	19,8%	4,9%
Total Net invested capital	**4.719,0**	**5.300,6**	**4.089,9**
Equity	**2.292,3**	**2.877,1**	**2.343,5**
Total Provisions	**523,0**	**690,6**	**547,3**
Total Net financial (liquidity)/debt position	**1.903,7**	**1.732,9**	**1.199,1**
Equity attributable to Pirelli & C. S.p.A.	2.230,6	2.811,4	2.280,1
Investments in property, plant and equipment and intangible assets	74,0	85,6	391,4
Research and development expenses	56,7	53,1	214,4
% of net sales	3,9%	3,4%	3,4%
Research and development expenses - Premium	46,5	44,1	176,5
% on sales Premium	5,9%	6,1%	5,8%
Employees (headcount at end of period) (***)	35.899	37.527	36.753
Industrial sites (number) (***)	18	19	19

(°) in interim periods net sales are calculated on the annual basis

(*) excluding the impact from deconsolidation of the Venezuelan subsidiary
(**) excluding the impact from deconsolidation of the Venezuelan subsidiary, impairment of deferred tax assets and net income (loss) from discontinued operations

(***) 2016 figures do not include the results of the Venezuelan subsidiary

Data by business sector

(in millions of euro)

	A			B			A+B = C			D		C+D		
	Consumer			**Industrial**			**Total Tyre**			**Other business**		**TOTAL GROUP**		
	1 Q 2016	1 Q 2015		**1 Q 2016**	1 Q 2015		**1 Q 2016**	1 Q 2015		**1 Q 2016**	1 Q 2015	**1 Q 2016**	1 Q 2015	
		excl. Venez.	reported		excl. Venez.	reported		excl. Venez.	reported				excl. Venez.	reported
Net sales	**1.165,7**	1.177,6	1.237,4	**269,4**	317,9	327,9	**1.435,1**	1.495,5	1.565,3	**0,9**	3,1	**1.436,0**	1.498,6	1.568,4
Gross operating margin before non-recurring and restructuring expenses	**263,3**	239,5	246,3	**26,9**	45,0	47,2	**290,2**	284,5	293,5	**(0,2)**	(1,6)	**290,0**	282,9	291,9
Operating income (loss) before non-recurring and restructuring expenses	**199,6**	177,4	182,0	**16,4**	31,4	33,3	**216,0**	208,8	215,3	**(0,5)**	(1,9)	**215,5**	206,9	213,4
Non-recurring and restructuring expenses	**(10,8)**	(1,6)	(1,6)	**(4,5)**	(0,4)	(0,4)	**(15,3)**	(2,0)	(2,0)	**-**	(1,3)	**(15,3)**	(3,3)	(3,3)
Operating income (loss)	**188,8**	175,8	180,4	**11,9**	31,0	32,9	**200,7**	206,8	213,3	**(0,5)**	(3,2)	**200,2**	203,6	210,1

Cash flow statement

(in millions of euro)

	1 Q	
	2016	**2015**
Operating income (loss) before non-recurring and restructuring expenses	215,5	213,4
Amortisation and depreciation	74,5	78,5
Investments in property, plant and equipment and intangible assets	(74,0)	(85,6)
Change in working capital/other	(715,9)	(895,2)
Operating net cash flow	**(499,9)**	**(688,9)**
Ordinary financial income/(expenses)	(82,7)	(52,1)
Ordinary tax expenses	(34,6)	(54,1)
Ordinary net cash flow	**(617,2)**	**(795,1)**
Financial investments/disinvestments	(5,1)	(14,4)
Other dividends paid to third parties	-	(7,6)
Cash Out for restructuring	(19,5)	(6,4)
Differences from foreign currency translation/other	(62,8)	45,8
Net cash flow before Steelcord units disposal	**(704,6)**	**(777,7)**
Impact Steelcord units disposal	-	24,4
Net cash flow	**(704,6)**	**(753,3)**