PRESS RELEASE

BOARD OF PIRELLI & C. S.P.A. APPROVES RESULTS FOR YEAR ENDED 31 DECEMBER 2016

- **Growth of all main economic indicators in 2016**
- **Further strengthening of Premium: volumes grow by 14.2% and revenues represent 64.0% of the Consumer business (61.5% in 2015)**
- **Improvement of price/mix: +5.0% thanks above all to the sales mix**
- **Progressive improvement in volumes, growth of 2.1% (+5.1% in fourth quarter)**
- **Efficiencies of 90.5 million euro: reaching 79% of 4-year 2014-2017 target of 350 million euro**
- **Profitability growth, with a total Adjusted Ebit margin of 14.8% (14.4% in 2015 on like-for-like basis). Record profitability for the Consumer business with an adjusted Ebit margin of 16.8% for the year (16.2% in 2015 on like-for-like basis)**
- **Significant improvement of net financial position**
- **Europe sees increased profitability. Apac and Nafta remain most profitable areas**
- **Investment in Research & Development of 228.1 million euro, equal to about 4% of total revenues (6% of Premium segment revenues)**
- **The process of Pirelli's transformation continues**

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*As an effect of the acquisition by Marco Polo Industrial Holding S.p.a. of Pirelli and its subsequent merger by incorporation of Marco Polo Industrial Holding S.p.A. into Pirelli, following the Purchase Price Allocation (PPA) conducted on the basis of that which is established in the relevant accounting principles, greater amortizations were booked mainly referable to immaterial assets identified in the context of this operation. The "**EBIT adjusted**" excludes – beyond non-recurring and restructuring charges - also amortization that refer to intangible assets identified in the PPA.*

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Milan, 31 March 2017 – The Board of Directors of Pirelli & C. S.p.A. has reviewed and approved the group's results for the year ended on December 31, 2016. The results for **2016** show growth in the main economic indicators.

Revenues amounted to 6,058.4 million euro, with organic growth of 7% at the annual level (on a like-for-like basis and net of forex effects, which were negative 5.4%) and of 8.7% in the fourth quarter. The revenue trend benefitted from strong growth – both in the Consumer and Industrial businesses – of the **price/mix** component (+5.0%) in particular thanks to improvement in the sales mix, as well as price increases in emerging markets.

Volumes' performance was positive (+2.1% in 2016, +5.1% in the fourth quarter) thanks to the Consumer business (+3.5% during the year, +4.8% in the fourth quarter). The performance of Industrial volumes, negative at the annual level (-3.8%) as a result of the weakness of the South American market, registered growth in the fourth quarter of 6.5% thanks to the business's recovery in the region, above all in the Replacement channel.

Premium saw improvement with volume growth of 14.2%, above the Premium market's global trend (+9.4%). The segment posted organic growth of 12.3% to 3,244.6 million euro, accounting for a total of 64% of *Consumer* revenues, up from 61.5% in 2015 on a like-for-like basis.

The **Adjusted Ebit** (operating result before non-recurring and restructuring charges and amortization of intangible assets identified in the context of PPA) was 896.6 million euro (860.5 million in 2015 on a like-for-like basis), with an **Adjusted Ebit margin** growing to 14.8% compared with 14.4% in 2015 on a like-for-like basis. The improvement can be attributed to internal levers such as volumes' growth, price/mix and efficiencies achieved to contrast forex volatility, increased raw material costs and inflation in emerging markets. **Efficiencies** totaled 90.5 million euro, bringing the total of efficiencies achieved since 2014 to 277.3 million euro, equal to 79% of the 4-year 2014-2017 target of 350 million euro.

The **operating result (Ebit**) was 724.2 million euro (compared with 786.1 million in 2015 on a like-for-like basis) and mainly reflects 66.6 million in non-recurring and restructuring charges linked to rationalization processes and costs related to reorganization activities of the Industrial segment and 105.8 million euro relative to amortizations for intangible assets resulting from the acquisition of Pirelli assets by Marco Polo.

The **total net result** was 147.6 million euro compared with -383.5 million in 2015. This figure included a loss of 559.5 million for the de-consolidation of Venezuela and a negative impact of 14.6 million euro deriving from the operational activities disposed of. The **result from equity investments** was negative 20 million euro (-41.4 million euro in the same period of 2015).

The **net cash flow from operations** shows a net improvement, passing from 701.4 million in 2015 to 882.7 million euro in 2016, thanks to the management of working capital, and after having sustained **investments** of 372.2 million euro (391.4 million in 2015), mainly earmarked for increases of Premium capacity in Europe, Nafta and China, as well as improvements in the mix.

The **total net cash flow** – before dividends and the effects deriving from the merger with Marco Polo Industrial Holding and from the re-organization of the industrial activities – was positive for 383.1 million euro (192.1 million euro in 2015) and include approximately 200 million euro of inflows deriving from the sale of some shareholdings (mainly the disposal of the investment held by Eurostazioni S,p.A. in Grandi Stazioni Retail) and real estate assets.

The **net financial position** on 31 December 2016 was negative 4,912.8 million euro, an improvement of 418.2 million compared with 5,331.0 million euro at the end of 2015. The positive performance stems mainly from the high level of cash generation, as well as an inflow of 266 million euro deriving from the entry, with a stake of 38%, of the Chinese fund Cinda into the capital of Pirelli Industrial in the context of the reorganization project of the industrial business.

Investments in **Research & Development** totaled 228.1 million euro, equal to about 4% of total sales, of which 191.0 million euro for activities linked to Premium products (about 6% of the segment's sales).

At the geographic level, **Apac** registered, together with Nafta, the highest profitability of all the macro-areas, remaining at the twenties level. Revenue performance improved (organic growth +12.1% in 2016 and +25.4% in the fourth quarter) which include the sales of Jiaozou Aeolus Tyre from October 1, 2016. On a like-for-like basis, growth was 9% at the annual level and 17.9% in the fourth quarter, thanks to the positive performance of the Consumer business and the strengthening of the Original Equipment channel thanks to new homologations with European and local brands.

Nafta posted an Ebit margin at the *twenties* level, in line with 2015, with organic revenue growth of 12.0% in 2016 (+18.6% in the fourth quarter) thanks to the good performance of Premium and Super Premium.

Profitability in **Europe** improved to *mid-teens* level thanks to the 10.0% Premium revenue growth, supported by the good performance of sales both in the Original Equipment and Replacement channels. Organic revenues grew by 5.1%.
Meai registered stable profitability at the *high-teens* level, with organic revenues growth of 7.2%.
The reduction of profitability in **South America** (*mid-single-digit*) was mainly due to the performance of the *Industrial* business which discounted the market's weakness, while profitability in the *Consumer* segment was confirmed at the *high single-digit* level. During the year, revenues at the organic level registered progress of 6.0% (-6.6% including forex effect of -12.6%). There was a marked improvement in performance in the fourth quarter with revenues growing 12%, in particular in the *industrial* business, with a volume increase above the market's.
Forex volatility and the weakness of the market had a negative impact on the results in **Russia** (revenues down 1.0% net of forex) with profitability at *break-even* level, an improvement compared with the first nine months of 2016 thanks to a marked recovery in the fourth quarter (organic revenue growth of 9.6%, underpinned above all by the good performance of price/mix and a forex effect of +6.5%.

- In the ***Consumer*** *Business* ***(Car/Light Truck and Moto tyres)*** sales totaled 5,068.5 million euro, with organic growth on a like-for-like basis of 8.2% (+5.3% including the negative 4.4% forex effect and a variation in perimeter due to the *Consumer/Industrial* reorganization. The organic revenue growth reflects a 4.7% improvement of the price/mix (linked to the increasing weight of Premium, the sales mix and price increases in emerging markets) and the positive contribution from volumes (+3.5% in 2016 and +4.8% in the fourth quarter of 2016), thanks to growth in Apac, Nafta, Europe and Meai which offset the decline in South America and Russia. In the fourth quarter, revenue growth at the organic level and on a like-for-like basis was +8.2%.

  Premium is confirmed as the main driver of development, with organic revenue growth of 12.3% to 3,244.6 million euro (+9.7% after forex impact) and volumes grew 14.2%. There was a marked improvement in the Premium performance in Europe, North America and Apac where Pirelli is consolidating its positioning thanks to continuous product innovation, to the strong connection with car makers with a growing portfolio of homologations and a greater penetration of selected distribution channels. Premium revenues accounted for 64.0% of the *Consumer* business (61.5% in 2015).

  Profitability touched a record with an **adjusted Ebit margin** of 16.8% for the year (16.2% in 2015), 17.8% in the fourth quarter thanks to the value strategy and continuing efficiencies**. Adjusted ebit (operating result before non-recurring and restructuring charges and amortization of intangible assets in the context of PPA)** was 850.7 million euro, an increase of 9.0% from 780.4 in 2015 on a like-for-like basis.

- In the ***Industrial Business (tyres for industrial vehicles)*** sales totaled 987.7 million euro, with an organic growth on a like-for-like basis of 2.6% (-13.4% the overall revenue decline including a negative forex impact of 9.9%, and -6.1% impact of the perimeter variation due to the *Consumer/Industrial* reorganization. Volumes fell by 3.8% (+6.5% in the fourth quarter) mainly as a consequence of the contraction of the South America market and the slowdown in the China market. The price/mix performance was positive (+6.4%) thanks to the improvements of the product and channel mix and the progressive price increases in South America and other emerging countries.

Adjusted ebit (the operating result before non-recurring and restructuring charges and amortization of intangible assets identified in the context of PPA) was 48.1 million euro, equal to 4.9% of sales (7.7% in 2015 on a like-for-like basis). The profitability performance discounts a decline in volumes, higher raw material costs and the negative forex impact. There was a marked improvement in business in the fourth quarter with revenue growth of 12.1% (organic growth) underpinned by a recovery in business in South America and profitability of 5.9%.
In the course of 2016 there was significant progress on the group's **sustainability** targets, in line with the 2013-2017 Sustainability Plan with Vision through 2020. Significant results included growth in the sales of

‘Green Performance’ tyres (62.9% of Tyre sales against 56.5% in 2015) and increase in the rate of waste recovery at 92%. Investment in training reached an average of 9.8 work days per employee, up from 8.6 a year earlier.

Employees on 31 December 2016 numbered 37,050 (compared with 35,856 at the end of December 2015).

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The process of Pirelli’s transformation continues

Over recent months, Pirelli’s process of transformation has in the meantime proceeded, in line with the industrial project delineated in 2015 with the launch of the partnership with ChemChina.

This path has led to:

- the creation of a “pure Industrial tyre company” while the activities relative to the proposed integration between Pirelli Industrial and Aeolus Tyre Co. Ltd.(“Aeolus”), a company listed on the Shanghai stock exchange, are proceeding. The focus of the Industrial business will allow further technological and volumes’ growth, with the preparation of an autonomous investment plan which is centred on the production of tyres that are fully dedicated to the specific segment. Independent and still more efficient management of the production cycle, centred on the rationalization of the tyre range based on the different product lines, will be added to the growth path described in the investment plan.
- the creation of the sole “pure Consumer tyre company” in the sector through Pirelli’s full focus on this segment, in view of the company’s future listing on the stock exchange.

To ensure an autonomous growth path and independent group strategies, the two areas of activity – Consumer and Industrial – have been separated into two distinct companies controlled by their common shareholder Marco Polo International Italy following the assignation to the latter by Pirelli of the shares of TP Industrial Holding, the company into which the industrial assets of Pirelli were conferred. TP Industrial Holding and Pirelli are thus 100% controlled by Marco Polo International Italy, the vehicle of the partnership between CNRC (65%), Camfin (22.4%) and Long-Term investments Luxemburg (12.6%). The Board of Directors of TP Industrial Holding has been renewed and assigned the role of Chairman to Ren Jianxin (Chairman of Pirelli), of Vice Chairman to Marco Tronchetti Provera (Executive Vice Chairman and CEO of Pirelli) and of Chief Executive Officer to Paolo Dal Pino (CEO of Pirelli Industrial).

Further, with effect from April 1, 2017, as a consequence of the completion of the separation of the Industrial business from Pirelli’s consumer activities, Pirelli Industrial will change its company name to “Prometeon Tyre Group S.r.l.” (“PTG”).

Industrial activities

In line with the above mentioned transformation process of Pirelli, the following steps have already been taken:

- transfer of 10% of Pirelli Industrial to Aeolus in exchange for the ceding to Pirelli Tyre of 80% of the consumer activities of Aeolus. In the context of this operation, an equity value of 700 million euro was attributed to Pirelli Industrial;
- entry of China Cinda (HK) Holdings Company Limited (CINDA), a wholly-owned subsidiary of China Cinda Asset Management Co., Ltd. (stock code: 01359.HK), into the capital of Pirelli Industrial through its vehicle High Grade (HK) Investment Management Limited with the acquisition of a stake of 38% for approximately 266 million euro, in line with the equity value on which the previous transaction between Pirelli Tyre and Aeolus was based. The entry of CINDA, finalized in early 2017, widened Pirelli Industrial’s shareholder structure also in view of its full integration with

Aeolus: the capital of Pirelli Industrial (now PTG) is 52% held by TP Industrial, 38% by CINDA and 10% by Aeolus;

- the already mentioned assignation by Pirelli of the shares of TP Industrial Holding to Marco Polo International Italy with the aim of ensuring its full autonomy and independent growth. For the purpose of financial independence, a refinancing for a total of 600 million euro was simultaneously concluded in favour of Pirelli Industrial, having a 3-year duration (renewable to a maximum of 5 years) with Bank of America Merrill Lynch International Limited, China Construction Bank (Europe) S.A., HSBC Bank plc. and ING Bank N.V., Milan branch.

Pirelli a "pure Consumer tyre company"

With the birth of "Prometeon Tyre Group S.r.l" (PTG), Pirelli will be entirely focused on the Consumer business, thus becoming the sole "pure Consumer tyre company" in the sector, in view of its future listing on the stock exchange.

On the basis of these assumptions, Pirelli is continuing with preparations for its IPO (Initial Public Offering), with the goal of proceeding – as already announced and taking advantage of the best opportunities offered by the market – with the launch in the first half of 2018 on the Milan stock exchange or, however, one of the major bourses at the international level.

From the strategic point of view, as announced on October 19, Pirelli foresees:

- the strengthening of its leadership in high profitability segments (Premium and Prestige);
- a business model always more focused on the end consumer (Consumer Centric Approach);
- the monitoring of new business opportunities offered by "new and sustainable mobility" (Cyber Tyre and Vélo);
- totally digitized industrial, commercial and management processes, which are more efficient and based on predictive modelling made possible by the use of big data analytics

In line with this strategy, Pirelli recently previewed at the Geneva Motor Show the coloured edition of the P ZERO™ and WINTER SOTTOZERO™ tyres, as well as PIRELLI CONNESSO™, a platform integrated with Pirelli's Premium and Prestige tyres which, thanks to a sensor connected to an app, supplies information to the driver on some of the tyre's fundamental parameters as well as a series of personalized services. The coloured edition of P ZERO™ and WINTER SOTTOZERO™ and PIRELLI CONNESSO™, available in the prestige segment, will subsequently be extended to the Premium segment.

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Group – Pirelli & C. Spa

(in millions of euro)

	12/31/2016	12/31/2015 Pirelli Group reported	12/31/2015 Pirelli Group reported (excl. Venez.)	12/31/2015 (**)
Net sales	**6.058,4**	**6.309,6**	**5.962,5**	**2.208,8**
Gross operating margin before non-recurring and restructuring expenses	1.183,2	1.242,7	1.155,7	499,0
% of net sales	19,5%	19,7%	19,4%	22,6%
Adjusted operating income (loss)	**896,6**	**924,7**	**860,5**	**387,1**
% of net sales	14,8%	14,7%	14,4%	17,5%
Adjustment: - amortisation of intangible assets included in PPA	(105,8)	(6,2)	(6,2)	(33,1)
- non-recurring and restructuring expenses	(66,6)	(68,2)	(68,2)	(34,8)
Operating income (loss)	**724,2**	**850,3**	**786,1**	**319,2**
% of net sales	12,0%	13,5%		14,5%
Net income (loss) from equity investments	(20,0)	(41,4)		(28,2)
Financial income/(expenses)	(440,3)	(328,2)		(234,9)
Adjusted net income (loss) before tax (*)	**263,9**	**480,7**		**56,1**
Loss from deconsolidation of Venezuela		(559,5)		
Total net income (loss) before tax	**263,9**	**(78,8)**		**56,1**
Tax expenses	(116,3)	(182,5)		(38,2)
Adjusted tax rate % on net income (loss) before tax	44,1%	38,0%		68,1%
Impairment of deferred tax assets	-	(107,6)		-
Net income (loss) from continuing operations	**147,6**	**(368,9)**		**17,9**
Net income (loss) from discontinued operations	**-**	**(14,6)**		**-**
Total net income (loss)	**147,6**	**(383,5)**		**17,9**
Net income attributable to the Parent Company	135,1	(391,4)		n\a
Operating fixed assets	**10.299,2**			**10.361,4**
Inventories	1.055,6			1.053,9
Trade receivables	679,3			676,2
Trade payables	(1.498,5)			(1.320,1)
Operating Net working capital	**236,4**			**410,0**
% of net sales	3,9%			n\a
Other receivables/other payables	(310,7)			(111,0)
Total Net working capital	**(74,3)**			**299,0**
% of net sales	(1,2%)			n\a
Net invested capital	**10.224,9**			**10.660,4**
Equity	**3.274,9**			**3.281,6**
Provisions	2.037,2			2.047,8
Net financial (liquidity)/debt position	**4.912,8**			**5.331,0**
Equity attributable to the Parent Company	3.134,1			3.209,6
Investments in property, plant and equipment and intangible assets	372,2			
Research and development expenses	228,1			
% of net sales	3,8%			
Research and development expenses - Premium	191,0			
% on sales Premium	5,9%			
Employees (headcount at end of period)	37.050			
Industrial sites (number)	19			

(*) excluding the impact from deconsolidation of the Venezuelan subsidiary in 2015

(**) data from consolidated financial statements of Marco Polo Industrial Holding S.p.A. restated as consequence of the completion of the Purchase Price Allocation

Data by business sector

(in millions of euro)

	A			B			A+B = C			D		C+D		
	Consumer			Industrial			Total Tyre			Other business		TOTAL GROUP		
	12/31/2016	12/31/15 (Pirelli Group)		12/31/2016	12/31/15 (Pirelli Group)		12/31/2016	12/31/15 (Pirelli Group)		12/31/2016	12/31/15 (Pirelli Group)	12/31/2016	12/31/15 (Pirelli Group)	
		excl. Venez.	reported		excl. Venez.	reported		excl. Venez.	reported				excl. Venez.	reported
Net sales	**5.068,5**	4.812,8	5.048,2	**987,7**	1.140,9	1.252,6	**6.056,2**	5.953,7	6.300,8	**2,2**	8,8	**6.058,4**	5.962,5	6.309,6
Gross operating margin before non-recurring and restructuring expenses	**1.093,5**	1.020,2	1.084,4	**91,0**	142,3	165,1	**1.184,5**	1.162,5	1.249,5	**(1,3)**	(6,8)	**1.183,2**	1.155,7	1.242,7
Adjusted operating income (loss)	**850,7**	780,4	822,4	**48,1**	88,4	110,6	**898,8**	868,8	933,0	**(2,2)**	(8,3)	**896,6**	860,5	924,7
Amortisation of intangible fixed assets included in PPA	**(104,6)**	(6,2)	(6,2)	**(1,2)**	-	-	**(105,8)**	(6,2)	(6,2)	-	-	**(105,8)**	(6,2)	(6,2)
Non-recurring and restructuring expenses	**(53,1)**	(53,3)	(53,3)	**(13,3)**	(13,0)	(13,0)	**(66,4)**	(66,3)	(66,3)	**(0,2)**	(1,9)	**(66,6)**	(68,2)	(68,2)
Operating income (loss)	**693,0**	720,9	762,9	**33,6**	75,4	97,6	**726,6**	796,3	860,5	**(2,4)**	(10,2)	**724,2**	786,1	850,3

Cash flow statement

(in millions of euro)

	1 Q		2 Q		3 Q		4 Q		TOTAL	
	2016	2015 Pirelli Group reported adjusted	2016	2015 Pirelli Group reported adjusted	2016	2015 Pirelli Group reported adjusted	2016	2015 Pirelli Group reported adjusted	2016	2015 Pirelli Group reported adjusted
Adjusted operating income (loss)	217,1	215,0	215,1	239,5	222,8	207,3	241,6	262,9	896,6	924,7
Amortisation and depreciation (excl. PPA amortisation)	72,9	76,9	73,6	78,2	70,6	76,5	69,5	86,4	286,6	318,0
Investments in property, plant and equipment and intangible assets	(74,0)	(85,6)	(82,0)	(103,2)	(82,4)	(73,0)	(133,8)	(129,6)	(372,2)	(391,4)
Change in working capital/other	(715,9)	(895,2)	101,4	151,6	(51,7)	(113,7)	737,9	707,4	71,7	(149,9)
Operating net cash flow	**(499,9)**	**(688,9)**	**308,1**	**366,1**	**159,3**	**97,1**	**915,2**	**927,211**	**882,7**	**701,4**
Financial income/(expenses)	(82,7)	(52,1)	(198,1)	(61,3)	(102,6)	(67,1)	(56,9)	(147,7)	(440,3)	(328,2)
Tax expenses	(27,2)	(54,1)	(25,9)	(63,7)	(28,6)	(52,4)	(34,6)	(119,9)	(116,3)	(290,1)
Ordinary net cash flow	**(609,8)**	**(795,1)**	**84,1**	**241,1**	**28,1**	**(22,4)**	**823,7**	**659,495**	**326,1**	**83,1**
Financial (investments) / disinvestments	(5,2)	(14,4)	-	(0,4)	-	-	(1,5)	6,6	(5,2)	(14,8)
Disposal of real estate	-	-	-	-	16,1	-	75	-	16,1	-
Disposal of investments	-	-	11,1	-	-	-	97,9	-	11,1	-
Dividends paid to non-controlling interests	-	(7,6)	(2,4)	(2,5)	-	-	0,3	-	(2,1)	(10,1)
Cash Out for non-recurring and restructuring expenses	(19,5)	(6,4)	(11,4)	(2,6)	(8,8)	(3,7)	(17,4)	(15,4)	(57,1)	(28,1)
Reversal of impairment in Venezuela included in financial expenses	-	-	-	14,2	-	9,1	-	0,7	-	24,0
Reversal of release of the provision for deferred tax liabilities included in tax expenses	-	-	-	-	(22,1)	-	(7,4)	-	(29,5)	-
Financial expenses included in the acquisition debt	-	-	122,2	-	-	-	-	-	122,2	-
Deferred taxes included in tax expenses	-	-	-	-	-	-	-	107,6	-	107,6
Exercise of Fenice share options	-	-	-	-	-	(12,2)	-	-	-	(12,2)
Reversal of Bidco Facility costs post-merger / other adjustments of refinancing included in financial expenses/income	-	-	-	-	-	-	23,0	-	23,0	-
Differences from foreign currency translation/other	(70,1)	45,8	(33,1)	(37,4)	13,7	22,5	(103,4)	5,1	(192,9)	36,0
Net cash flow before dividends paid / extraordinary transactions	**(704,6)**	**(777,7)**	**170,5**	**212,4**	**27,0**	**(6,7)**	**890,2**	**764,1**	**383,1**	**192,1**
Dividends paid by Parent Company	-	-	-	(179,5)	-	-			-	(179,5)
Impact Steelcord disposal	-	24,4	-	35,6	-	(14,4)			-	45,6
Impact from deconsolidation of the Venezuelan subsidiary	-	-	-	-	-	-	-	(277,7)	-	(277,7)
Change NFP Bidco from 01/01 to 05/31	-	-	(134,3)	-	-	-			(134,3)	-
Proceeds from the disposal of 38% Pirelli Industrial to Cinda	-	-	-	-	-	-	266,0	-	266,0	-
Bidco Facility costs post-merger / adjustments of refinancing	-	-	-	-	-	-	(23,0)	-	(23,0)	-
Impact from NFP of Aeolus Car	-	-	-	-	-	-	(73,6)	-	(73,6)	-
Net cash flow	**(704,6)**	**(753,3)**	**36,2**	**68,5**	**27,0**	**(21,1)**	**1.059,6**	**486,4**	**418,2**	**(219,5)**