PRESS RELEASE

Board of Pirelli & C. S.p.a. approves results for the 9 months to 30 September 2016

- **Growth in the principal economic indicators following an acceleration during Q3 2016**
- **Premium segment stronger with volume up 14.2% (+15.9% in Q3) and revenues representing 64.6% of total Consumer business**
- **Improved overall price/mix effect: +5.5% linked to higher prices and a better sales mix**
- **Steady in improvement in overall volume, up by 1.2% (+3.7% in Q3)**
- **Efficiencies worth 68.1 million euro. Already achieved 73% of the 2014-2017 target of 350 million euro**
- **Profitability improved, with Adjusted EBIT of 14.4% (14.1% in the same period of 2015, on a like-for-like basis)**
- **Adjusted ebit margin Consumer business reaches 16.4% (15.7% in the same period of 2015, on a like-for-like basis)**
- **Industrial business affected by persistent weakness in South America**
- **Profitability improvements in Europe and NAFTA. Apac remains the most profitable area**

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As an effect of the acquisition by Marco Polo Industrial Holding S.p.A. of Pirelli and the subsequent merger for 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 by the relevant accounting principles, greater amortizations have been booked on the income statement mainly linked to intangible assets identified in the context of that operation. The heading "Ebit adjusted" in the income statement excludes – beyond non-recurring and restructuring charges – also the amortizations related to intangible assets identified in the PPA.

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Milan, 16 November 2016 – Meeting today, the Board of Directors of Pirelli & C. S.p.A. examined and approved the results of the Group for the period ended 30 September 2016. Supported also by the acceleration during the third quarter, the results for the first **nine months of 2016** highlight broad improvements in the principal economic indicators. These are discussed below:

- **Revenues** of 4,533.1 million euro, following organic growth of 6.6% (like-for-like basis, after excluding an adverse 6.7% forex effect) due to a marked improvement in the **price mix** (+5.5%) as a result of price rises in emerging markets, increased sales in the Replacement channel and a different geographical and product mix. This organic increase in revenues was founded on the progress of the *Consumer* business (organic growth of 8.2% over the first nine months, +10% in Q3 alone), due to the performance of the *Premium* segment and the expansion of sales in mature markets, Apac and MEAI, while the *Industrial* business (organic growth of 0.3% over the first nine months, +0.1% in Q3) continues to suffer from the weakness of the tyre market in South America and other emerging markets;

- Higher **volumes** (+1.2% in the first nine months of 2016, +3.7% in Q3), due to strong progress by the *Consumer* business (+3.1% in the first nine months, +5.5% in Q3) as a result of sustained growth in mature markets and the sales' recovery in emerging markets. Volumes in the *Industrial* business (-6.2% in the first nine months, -3.8% in Q3) reflect the noted weakness of the truck and agro markets, especially in South America;
- Further growth in the **Premium** segment, where the 14.2% rise in volumes (+15.9% in Q3) outpaced the expansion of the entire Premium market (+9.0% in the first nine months and in the third quarter). The organic revenues of this segment rose by 11.7% to 2,443.1 million euro, contributing 64.6% of total *Consumer* revenues compared with 62.2% in the same period of 2015, on a like-for-like basis;
- **Improved profitability** due to internal levers, such as work on the price mix, and to the efficiencies achieved in order to tackle forex volatility and the contraction of certain markets, principally on the *Industrial* business. In particular, the **EBITDA margin** before restructuring and other non-recurring charges has risen to 19.2%, compared with 19.0% in the same period of 2015 on a like-for-like basis. EBITDA before restructuring and other non-recurring charges amounted to 872.1 million euro (861.9 million euro in the same period of 2015 on a like-for-like basis). The **Adjusted EBIT margin** (operating profit before restructuring and other non-recurring charges and the amortisation of certain intangible assets identified in PPA) has risen to 14.4%, compared with 14.1% in the first nine months of 2015 on a like-for-like basis. Adjusted EBIT amounted to 655.0 million euro (638.2 million euro in the first nine months of 2015 on a like-for-like basis);
- **Efficiency improvements** contributed 68.1 million euro. The efficiencies achieved since the start of 2014 total 254.9 million euro, representing 73% of the 2014-2017 four-year target of 350 million euro;
- In **geographical terms**, profitability has improved in Europe and NAFTA due to strong growth in the Premium segment. Apac remains the most profitable area, with an EBIT margin of more than 20%.

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The adverse **results from equity investments**, -52.7 million euro (-6.2 million euro in the same period of 2015), principally reflect the write-downs and impairment adjustments recorded in relation to Fenice S.r.l. and Prelios S.p.a.

In addition to the loss from equity investments, **total net income** of 22.7 million euro (276.6 million euro in the same period of 2015) reflects the rise in net financial charges by 202.9 million euro due, in the main, to the bank loans arranged in connection with the merger of Pirelli and Marco Polo Industrial Holding S.p.A., as well as to the early repayment of the US Private Placement bond of 150 million dollars.

The **net cash flow from operations** was much improved, from -225.7 million euro in the first nine months of 2015 to -32.5 million euro in the first nine months of 2016, thanks to the management of working capital.

Capital investment totalled 238.4 million euro (261.8 million euro in the first nine months of 2015), mainly to increase Premium capacity in Europe, NAFTA and China, as well as to improve the production mix.

Total net cash flow – before dividends and the effects of the merger with Marco Polo Industrial Holding - improved to -507.1 million euro, compared with -572.0 million euro in the first nine months of 2015.

The **net financial position** was negative 5,972.4 million euro after the effects of the merger of Pirelli and Marco Polo Industrial Holding, which became effective on 1 June 2016 with retroactive accounting and fiscal effects from 1 January 2016. Excluding the effects of the merger, the net financial position as of 31 December 2015 was 1,199.1 million euro (5,331 million euro inclusive of the data for Marco Polo Industrial Holding). The usual performance of working capital, with inflows from the sale of winter products in Europe and Russia in the fourth quarter which coincide with the sell-out activities in the same markets will lead – together with the finalization of some disposals of financial and real estate holdings - to a natural improvement of the net financial position in the coming months.

The total number of **employees** as of 30 September 2016 was 36,763 (36,753 persons at the end of December 2015).

Tyre activities

Sales totalled 4,530.9 million euro in the period to 30 September 2016, following organic growth on a like-for-like basis of 6.7% (+8% in Q3). Inclusive of the adverse 6.7% forex effect, they were unchanged with respect to the same period in 2015. This was mainly due to the performance of the *Consumer* business (organic growth of 8.2%), while the performance of the *Industrial* business (+0.3% like-for-like, excluding the forex effect) suffered from the persistent slowdown in the South American market and the adverse forex effect (-10.7%).

Volumes were 1.2% greater than in the same period of 2015, due to the contrasting performances of the *Consumer* business (+3.1% in the first nine months, +5.5% in Q3), supported by the Premium segment (+14.2% in the first nine months, +15.9% in Q3), and the *Industrial* business (-6.2% in the first nine months, -3.8% in Q3). The latter outcome was mainly due to the weakness of demand in South America.

The improvement in the **price mix** (+5.5% in the first nine months of 2016) was assisted by the performance of both the *Consumer* business (price/mix effect of +5.1%, due to a better product mix, the greater weighting of the Replacement channel, price rises and an improved geographical mix) and the *Industrial* business (+6.5%, due to a better product mix and to an increase in prices, principally in South America and other emerging countries, in order to tackle forex volatility).

Adjusted EBIT (operating profit before restructuring and other non-recurring changes and the amortisation of certain intangible assets identified in PPA) amounted to 656.4 million euro in the first nine months of 2016 (643.8 million euro in the same period of 2015, on a like-for-like basis), with an Adjusted EBIT margin of 14.5% (14.2% in the period to 30 September 2015, on a like-for-like basis). Operating profit (EBIT) of 541.9 million euro (compared with 631.9 million in the same period of 2015, on a like-for-like basis) was principally burdened by restructuring and other non-recurring charges of 35.2 million euro, consequent to rationalisation work and the cost of integrating the *Industrial* assets of CNRC with the Pirelli *Industrial* business, and by the amortisation of 79.3 million euro charged on the intangible assets deriving from the purchase of Pirelli' assets by Marco Polo.

Geographically, **Apac** performed best with percentage profitability again in the twenties, in line with the prior year. Revenues improved (period organic growth of 7.5%, +14.6% in Q3) despite the lower sales of the *Industrial* business and the non-Premium segment of the *Consumer* business. The Premium segment grew due to the strength of the Original Equipment channel, which benefited from the new type approvals received for European and local brands. The strategy of focusing on the top end has helped to limit the adverse impact of the depreciation of the yuan and the decline in market prices. Turning to **NAFTA**, the EBIT margin moved up to the twenties from the low-twenties, following organic revenue growth of 10% in the first nine months (+10.7% in Q3). Profitability also improved considerably in **Europe**, reaching the mid-teens from the low-teens, due to the 12.4% rise in Premium revenues. Organic revenue growth totalled 6.2% during the period (+5.8% in Q3). **MEAI** profitability was stable in the high-teens, with organic revenue growth of 8.1% (+9.2% in Q3). Profitability fell in **South America** (mid-single-digits), mainly due to the performance of the Industrial business, while the profitability of the Consumer business was stable in the high-single-digits. There was organic revenue growth of 5.9% during the first nine months of the year (+6.1% in Q3). Forex volatility and the weakness of the market affected the results in Russia (revenues down by 4.3%, excluding the forex effect, with profitability slightly lower), although there was a marked improvement in Q3 with organic revenue growth of 8.8% on higher volumes (+4.4%).

- Sales of the ***Consumer business (Car/Light Truck and Moto tyres)*** totalled 3,784.0 million euro, with organic growth of 8.2% on a like-for-like basis (+4.8% after the adverse 5.6% forex effect and the change in perimeter attributable to the Consumer/Industrial reorganisation). The organic growth in revenues reflects a 5.1% improvement in the price mix (linked to the increased weight of the Premium segment, the better sales mix and price increases in the emerging markets) and higher volume (+3.1% in the period, +5.5% in Q3 2016) due to the growth in Apac, NAFTA, Europe and MEAI, which offset the contractions in South America and Russia. Organic revenue growth in Q3 amounted to 10% on a like-for-like basis.

  The **Premium** segment continues to represent the principal driver of growth, with organic revenues up by 11.7% to 2,443.1 million euro (+8.8% after the forex effect) and volumes higher by 14.2% (+15.9% in Q3). The growth of the Premium segment was concentrated in the mature markets. Premium segment revenues contributed 64.6% of the total revenues of the Consumer business, up from 62.2% in the first nine months of 2015.

  Adjusted EBIT (operating profit before restructuring and other non-recurring changes and the amortisation of certain intangible assets identified in PPA) amounted to 622.4 million euro, up by 9.5% from 568.6 million euro in the same period of 2015, determined on a like-for-like basis, with an Adjusted EBIT margin of 16.4% compared with 15.7% previously.

- Sales of the ***Industrial business (tyres for Industrial vehicles)*** totalled 746.9 million euro, with organic growth of 0.3% on a like-for-like basis (overall 19.0% reduction in revenues due to an adverse 10.7% forex effect and the change in perimeter attributable to the Consumer/Industrial reorganisation). Volumes fell by 6.2% (-3.8% in Q3), principally due to the contraction of the Latin American market and the slowdown of the Chinese market. The price mix improved (+6.5%) due to the better product/channel mix and steady price increases in South America and other emerging markets.

  Adjusted EBIT (operating profit before restructuring and other non-recurring changes and the amortisation of certain intangible assets) amounted to 34.0 million euro, representing 4.6% of sales (8.2% in the same period of 2015, on a like-for-like basis). The decline in profitability reflects the reduction in volumes, the higher cost of raw materials and the adverse forex effect.

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Group – Pirelli & C. S.p.a.

(in millions of euro)

	09/30/2016	09/30/2015 Pirelli Group reported	09/30/2015 Pirelli Group reported (excl. Venez.)	12/31/2015 (**)
Net sales	**4.533,1**	**4.711,9**	**4.539,1**	**2.208,8**
Gross operating margin before non-recurring and restructuring expenses	872,1	893,4	861,9	499,0
% of net sales	19,2%	19,0%	19,0%	22,6%
Operating income (loss) adjusted	655,0	661,8	638,2	387,1
% of net sales	14,4%	14,0%	14,1%	17,5%
Adjustment: - amortisation of intangible assets included in PPA	(79,3)	(4,6)	(4,6)	(33,1)
- non-recurring and restructuring expenses	(35,2)	(9,1)	(9,1)	(34,8)
Operating income (loss)	**540,5**	**648,1**	**624,5**	**319,2**
% of net sales	11,9%	13,8%		14,5%
Net income (loss) from equity investments	(52,7)	(6,2)		(28,2)
Financial income/(expenses)	(383,4)	(180,5)		(234,9)
Total net income (loss) before tax	**104,4**	**461,4**		**56,1**
Tax expenses	(81,7)	(170,2)		(38,2)
Tax rate % on net income (loss) before tax	78,3%	(36,9%)		68,1%
Net income (loss) from continuing operations	**22,7**	**291,2**		**17,9**
Net income (loss) from discontinued operations	**-**	**(14,6)**		**-**
Total net income (loss)	**22,7**	**276,6**		**17,9**
Net income attributable to the Parent Company	16,7	269,0		n\a
Operating fixed assets	**10.193,8**			**10.361,4**
Inventories	1.027,1			1.053,9
Trade receivables	997,1			676,2
Trade payables	(1.057,0)			(1.320,1)
Operating Net working capital	**967,2**			**410,0**
% of net sales (°)	16,0%			n\a
Other receivables/other payables	8,4			(11,0)
Total Net working capital	**975,6**			**299,0**
% of net sales (°)	16,1%			n\a
Net invested capital	**11.169,4**			**10.660,4**
Equity	**3.188,2**			**3.281,6**
Provisions	**2.008,8**			**2.047,8**
Net financial (liquidity)/debt position	**5.972,4**			**5.331,0**
Equity attributable to the Parent Company	3.118,6			3.209,6
Investments in property, plant and equipment and intangible assets	238,4			
Research and development expenses	173,3			
% of net sales	3,8%			
Research and development expenses - Premium	142,9			
% on sales Premium	5,8%			
Employees (headcount at end of period)	36.763			
Industrial sites (number)	18			

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

(**) data from restated consolidated financial statements of Marco Polo Industrial Holding S.p.A.

Data by business sector

(in millions of euro)

	A			B			A+B = C			D		C+D		
	Consumer			**Industrial**			**Total Tyre**			**Other business**		**TOTAL GROUP**		
	09/30/2016	09/30/15 (Pirelli Group)		**09/30/2016**	09/30/15 (Pirelli Group)		**09/30/2016**	09/30/15 (Pirelli Group)		**09/30/2016**	09/30/15	**09/30/2016**	09/30/15 (Pirelli Group)	
		excl. Venez.	reported		excl. Venez.	reported		excl. Venez.	reported				excl. Venez.	reported
Net sales	**3.784,0**	3.610,4	3.761,6	**746,9**	921,8	943,4	**4.530,9**	4.532,2	4.705,0	**2,2**	6,9	**4.533,1**	4.539,1	4.711,9
Gross operating margin before non-recurring and restructuring expenses	**806,5**	753,7	779,0	**66,3**	112,8	119,0	**872,8**	866,5	898,0	**(0,7)**	(4,6)	**872,1**	861,9	893,4
Operating income (loss) adjusted	**622,4**	568,6	587,0	**34,0**	75,2	80,4	**656,4**	643,8	667,4	**(1,4)**	(5,6)	**655,0**	638,2	661,8
Amortisation of intangible assets included in PPA	**(78,4)**	(4,6)	(4,6)	**(0,9)**	-	-	**(79,3)**	(4,6)	(4,6)	-	-	**(79,3)**	(4,6)	(4,6)
Non-recurring and restructuring expenses	**(27,0)**	(6,2)	(6,3)	**(8,2)**	(1,1)	(1,0)	**(35,2)**	(7,3)	(7,3)	-	(1,8)	**(35,2)**	(9,1)	(9,1)
Operating income (loss)	**517,0**	557,8	576,1	**24,9**	74,1	79,4	**541,9**	631,9	655,5	**(1,4)**	(7,4)	**540,5**	624,5	648,1

Cashflow statement

(in millions of euro)

	1 Q		2 Q		3 Q		Cumulative at 09/30	
	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	655,0	661,8
Amortisation and depreciation (excl. PPA amortisation)	72,9	76,9	73,6	78,2	70,6	76,5	217,1	231,6
Investments in property, plant and equipment and intangible assets	(74,0)	(85,6)	(82,0)	(103,2)	(82,4)	(73,0)	(238,4)	(261,8)
Change in working capital/other	(715,9)	(895,2)	101,4	151,6	(51,7)	(113,7)	(666,2)	(857,3)
Operating net cash flow	**(499,9)**	**(688,9)**	**308,1**	**366,1**	**159,3**	**97,1**	**(32,5)**	**(225,7)**
Financial income/(expenses)	(82,7)	(52,1)	(198,1)	(61,3)	(102,6)	(67,1)	(383,4)	(180,5)
Tax expenses	(27,2)	(54,1)	(25,9)	(63,7)	(28,6)	(52,4)	(81,7)	(170,2)
Ordinary net cash flow	**(609,8)**	**(795,1)**	**84,1**	**241,1**	**28,1**	**(22,4)**	**(497,6)**	**(576,4)**
Financial (investments) / disinvestments	(5,2)	(14,4)	-	(0,4)	-	-	(5,2)	(14,8)
Disposal of real estate	-	-	-	-	16,1	-	16,1	-
Disposal of investments	-	-	11,1	-	-	-	11,1	-
Dividends paid to non-controlling interests	-	(7,6)	(2,4)	(2,5)	-	-	(2,4)	(10,1)
Cash Out for restructuring	(19,5)	(6,4)	(11,4)	(2,6)	(8,8)	(3,7)	(39,7)	(12,7)
Reversal of impairment in Venezuela included in financial expenses	-	-	-	14,2	-	9,1	-	23,3
Reversal of release of deferred tax liabilities included in tax expenses	-	-	-	-	(22,1)	-	(22,1)	-
Financial expenses included in the debt of acquisition	-	-	122,2	-	-	-	122,2	-
Exercise of Fenice share options	-	-	-	-	-	(12,2)	-	(12,2)
Differences from foreign currency translation/other	(70,1)	45,8	(33,1)	(37,4)	13,7	22,5	(89,5)	30,9
Net cash flow before dividends paid / extraordinary transactions	**(704,6)**	**(777,7)**	**170,5**	**212,4**	**27,0**	**(6,7)**	**(507,1)**	**(572,0)**
Dividends paid by Parent Company	-	-	-	(179,5)	-	-	-	(179,5)
Impact Steelcord disposal	-	24,4	-	35,6	-	(14,4)	-	45,6
Change NFP Bidco from 01/01 to 05/31	-	-	(134,3)	-	-	-	(134,3)	-
Net cash flow	**(704,6)**	**(753,3)**	**36,2**	**68,5**	**27,0**	**(21,1)**	**(641,4)**	**(705,9)**