PRESS RELEASE

Pirelli & C. Spa board approves results for 6 months ended 30 June 2016

- **Further growth of Premium with revenues at 65.1% of the Consumer business**

- **Improved overall price/mix: +6% thanks to price increases and improved sales mix**

- **Efficiencies of 51.3 million euros (45.8 million in first half 2015), 68% of 2014-2017 plan's 350 million euros target achieved**

- **Improved profitability with an EBIT (before charges) of 14.5% (14.2% in the same period of 2015 and same perimeter)**

- **Profitability of Consumer business at 16.4% (15.7% in first half of 2015 with same perimeter)**

- **Industrial Business impacted by persisting weakness in South America**

- **Profitability increases in Europe and NAFTA. Apac confirmed as area of greatest profitability**

- **Successful conclusion of debt refinancing**

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Comments on the economic data for the six months ended on 30 June 2016 – if not otherwise indicated – refer to comparisons with economic data for the six months ended 30 June 2015 for only the Pirelli Group and applying the same perimeter.

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Milan, 28 July 2016 –The Board of Directors of Pirelli & C. SpA today reviewed and approved the group's results for the six months ended on 30 June 2016. The semester was characterized by following key elements:

- **Revenues** of 2,968.6 million euro, with organic growth (with the same perimeter and net of negative forex effect of 8.8%) of 5.9%, thanks to great improvement in the price/mix component (+6.0%) because of price increases in emerging markets, higher sales in the Replacement channel and different geographic and product mixes. The increase in revenues at the organic level was underpinned by the performance of the *Consumer* business (+7.4% organic growth) thanks to the performance of the *Premium* segment and mature markets, while the *Industrial* segment (+0.4% organic growth) was impacted by the weakness of the tyre market in South America and other emerging markets. Overall volumes were stable, with different dynamics in Consumer (+1.9%) and Industrial (-7.3%);
- Further reinforcement of **Premium**, with volume growth of 13.4% (+15% solely in the second quarter after +11.7% in the first quarter) above the global Premium market trend (+9.4%). The Premium's organic revenues increased by 11.3% to 1,607.2 million euro, growing to 65.1% of total Consumer revenues from 61.5% in the same period of 2015 (with the same perimeter);
- **Improved profitability** thanks to the effect of internal levers of price/mix and efficiencies achieved to contrast forex volatility and the decline of some markets mainly in the *Industrial* business;

- **EBITDA margin before non-recurring and restructuring charges improved** to 19.5% compared with 19.2% in the same period of 2015 and the same perimeter. EBITDA before non-recurring and restructuring charges was 578.7 million euro (588.0 million euro in the same period of 2015 and the same perimeter);
- **EBIT margin before non-recurring and restructuring charges grew** to 14.5% compared with 14.2% in the first half of 2015 and the same perimeter. This results benefits, among other things, from the achievement of efficiencies of 51.3 million euro (45.8 million euro in the first half of 2015). Since 2014 total efficiencies of 238.1 million euro have been achieved, equal to 68% of the target set in the 2014-2017 4-year plan of 350 million euro. EBIT before non-recurring and restructuring charges of 429.1 million euro (434.8 million in the first half of 2015 and the same perimeter);
- At the **geographic level** profitability improved in Europe and NAFTA thanks to strong growth of the Premium segment. APac was confirmed as the most profitable area with an EBIT margin above 20%.

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The **result from equity investments** was negative 48.8 million euro (-4.0 million in the same period of 2015) mainly due to the impacts of devaluations and value adjustments linked to Fenice Srl and Prelios Spa.

The **total net result** was 8.1 million euro (196.5 million euro in the same period of 2015) and reflects, beyond the negative results from equity investments, the increase of net financial charges of 167.4 million euro, mainly due to bank debt consequent to the merger of Pirelli with Marco Polo Industrial Holding, as well as the ahead of schedule repayment of the US Private Placement bond loan of 150 million dollars.

The **net cash flow from operations** improved, passing from -322.8 million euro in the first half of 2015 to -191.8 million euro in the first half of 2016, thanks to the solid management of working capital.

Total **Investments** amounted to 156.0 million euro (188.8 million euro in the first half of 2015), mainly earmarked for the increase of Premium capacity in Europe, NAFTA and China, as well as mix improvements.

Total net cash flow – before dividends and the effects resulting from the merger of Marco Polo Industrial Holding - was negative 534.1 million euro, an improvement compared with -565.3 million euro in the first half of 2015.

The **net financial position** was negative 5,999.4 million euro. Following the merger between Marco Polo Industrial Holding and Pirelli – which became operational on June 1, 2016, with retroactive accounting effects from January 1, 2016 – the group's net financial position includes 4.14 billion euro of debt contracted by Marco Polo Industrial Holding for the acquisition of Pirelli. On 31 December 2015 – excluding debt derived from the acquisition registered by Marco Polo Industrial Holding, the net financial position, including the Marco Polo Industrial Holding figure, was 5,331 million euro.

On 30 June 2016, **employees** numbered 36,598 (36,753 at the end of December 2015).

<u>Tyre activities</u>

Sales on 30 June 2016 totaled 2,966.9 million euro, with organic growth, with the same perimeter, of 6.0% (-2.8% including the negative forex effect of -8.8%), mainly thanks to the positive performance of the *Consumer* business (+7.4% organic growth), while the *Industrial* business (+0.4% growth with the same perimeter and excluding forex) reflects the persisting slowdown of the market in South America and the negative forex impact (-13.5%).

Volumes were unchanged compared with the same period of 2015, the result of the contrasting performances of the *Consumer* business (+1.9%), thanks to the positive Premium performance (+13.4%), and the *Industrial* (-7.3%). The latter reflects the weakness of demand in South America and the slowdown of Original Equipment in China.

The improved **price/mix** (+6.0% in first half 2016) was underpinned both by the *Consumer* business (price/mix +5.5%, thanks to the improvement of the product mix, greater weight of the Replacement channel and better geographic mix) and the *Industrial* business (+7.7%, as the result of an improved product mix and price increases mainly in South America and other emerging Countries to offset forex volatility).

The **operating result (EBIT) before non-recurring and restructuring charges in the first half of 2016 was** 430.2 million euro (438.4 million euro in first half 2015 with the same perimeter), with an EBIT margin of 14.5% (14.4% on 30 June 2015 with the same perimeter). The **operating result (EBIT)** was 406.7 million euro (compared with 434.9 million in the same period of 2015 with the same perimeter) and reflects 23.5 million euro in non-recurring and restructuring charges due to processes of rationalization and costs relative to the activities under way for the merger of Pirelli's *Industrial* segment with the *Industrial* assets of CNRC (China National Tire & Rubber).

At the geographic level, **APac** posted the highest profitability of all geographic areas, reaching the *twenties* level, stable compared with the prior year. Revenue performance (+4.0% organic growth) improved compared with the first quarter of 2016, but slower compared with the same period of 2015 as an effect of the high comparison basis, the lower sales of the *Industrial* business and *Consumer* non-Premium. Premium confirmed its growth thanks to strengthening in Original Equipment which counts new homologations with European and local brands. The strategic focus on high-end cars has allowed the group to more than compensate for the negative impact of the devaluation of the yuan and fall in market prices. **NAFTA** saw its EBIT margin improve to the *twenties* level from the prior *high-teens*, with Premium revenues growing by 9.2%. There was a net improvement in profitability in **Europe**, to the *mid-teens* level from the prior *low-teens*, with revenues posting organic growth of 6.4%, while **MEAI** registered stable profitability at the *high-teens* level, with revenues posting organic growth of 7.5%. Profitability in **South America** contracted (mid-single-digit) mainly as a consequence of the performance of the industrial business, while profitability in the Consumer segment was confirmed at the high-single-digit level. On the other hand forex volatility had a negative impact on **Russia.**

- In the ***Consumer Business (Car/Light Truck and Moto tyres)*** sales amounted to 2,469.6 million euro, with organic growth, with the same perimeter, of 7.4% (+2.1% including a negative forex effect of 7.5% and the variation in perimeter due to the reorganization in Consumer/Industrial).The organic growth of revenues reflects the 5.5% improvement of the price/mix (linked to the growing weight of Premium, sales mix and price increases in emerging markets) and the positive contribution of volumes (+1.9%), thanks to growth in Apac, NAFTA, Europe and MEAI which offset the decline in South America and Russia.

  Premium is again confirmed as the main growth driver, with revenues, with the same perimeter, growing by 8.1% to 1,607.2 million euro compared with the same period of 2015 (+11.3% before forex impacts) and volumes growing 13.4%. The growth of Premium was concentrated in mature markets. As a percentage of Consumer revenues, Premium grew to 65.1% from 61.5% in the first half of 2015.

  The **operating result (EBIT) before non-recurring and restructuring charges** was 405.7 million euro, increasing by 7% compared with 379.3 million euro in the same period of 2015 with the same perimeter, with an EBIT margin of 16.4%, an increase compared with the prior 15.7%.

- In the ***Industrial Business (tyres for Industrial vehicles)*** sales totaled 497.3 million euro, with growth of 0.4% with the same perimeter and excluding forex impacts of negative 13.5% (the decline in revenues was -21.5% including forex impacts and the variation to the perimeter due to the reorganization of Consumer/Industrial). Volumes fell 7.3% mainly as a consequence of the contraction of the market in Latin America and the slowdown of the market in China. The price/mix performance was positive (+7.7%) thanks to the improvement of the product mix and channels and the progressive price increases in South America and other emerging countries.

The **operating result (EBIT) before non-recurring and restructuring charges** stood at 24.5 million euro, equal to 4.9% of sales (9.3% in the same period of 2015 with the same perimeter). The profitability performance discounts the decline in volumes, higher raw material costs and the negative forex impact.

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In the context of the already announced process of merging the Industrial segment assets held by Pirelli, CNRC and Aeolus, Pirelli and Aeolus approved the transfer by Pirelli Tyre to Aeolus of 10% of Pirelli Industrial and the transfer to Pirelli Tyre of 80% of the car activities of Aeolus, together with the merger into Aeolus of two assets held by CNRC and the formalization of a license contract between Pirelli Tyre and Aeolus for the technology of the Industrial segment. The closing of the operation is expected in the coming months, once, among other things, the necessary government authorizations have been obtained.

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Pirelli also announces the successful conclusion of a 6.4 billion euro debt refinancing with a pool of 19 primary Italian and international banks. The refinancing operation – done for a total cost of below 3.5% - will permit the repayment of maturing debt and the optimization of debt structure.
In detail, the operation is composed of one syndicated refinancing for a total of 4.8 billion euro which attracted demand slightly lower than 2 times the offering and was structured thus:

- Credit line in dollars with 3-year maturity for a total value of 1 billion euro
- Credit line in dollars and euro with 5-year maturity for a total value of 2.8 billion euro.
- Multi-currency revolving facility credit line with a 5-year maturity and total value of 1 billion euro..

In addition to the syndicated refinancing, there is a credit line with 18 month maturity worth 1.6 billion euro, object of a club deal with a select number of credit institutions.

As announced last February, with regard to this operation, Pirelli will not activate the Mergeco Facility put at its disposal by a pool of banks in the context of Marco Polo Industrial Holding's acquisition offer.

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Group – Pirelli & C. S.p.A.

(in millions of euro)

	06/30/2016	06/30/2015 (*)	12/31/2015 (**)	06/301/2015 Pirelli Group reported
Net sales	**2.968,6**	-	**2.208,8**	**3.178,5**
Gross operating margin before non-recurring and restructuring expenses	578,7	-	499,0	609,6
% of net sales	19,5%	-	22,6%	19,2%
Operating income before non-recurring and restructuring expenses	429,1	-	387,1	451,4
% of net sales	14,5%	-	17,5%	14,2%
Non-recurring and restructuring expenses	(23,5)	-	(34,8)	(4,8)
Operating income (loss)	**405,6**	**(0,8)**	**352,3**	**446,6**
% of net sales	13,7%	-	15,9%	14,1%
Net income (loss) from equity investments	(48,8)	-	(28,2)	(4,0)
Financial income/(expenses)	(280,8)	-	(234,9)	(113,4)
Total net income (loss) before tax	**76,0**	**(0,8)**	**89,2**	**329,2**
Tax expenses	(67,9)	-	(47,6)	(117,8)
Tax rate % on net income (loss) before tax	89,4%	-	53,4%	(35,8%)
Net income (loss) from continuing operations	**8,1**	**(0,8)**	**41,6**	**211,4**
Net income (loss) from discontinued operations	**-**	**-**	**-**	**(14,9)**
Total net income (loss)	**8,1**	**(0,8)**	**41,6**	**196,5**
Net income attributable to the Parent Company	4,6	(0,8)	41,1	190,8
Operating fixed assets	**8.791,8**	**-**	**8.879,9**	
Inventories	1.075,4	-	1.053,9	
Trade receivables	964,4	-	676,2	
Trade payables	(1.118,0)	-	(1.320,1)	
Operating Net working capital	**921,8**	**-**	**410,0**	
% of net sales (°)	15,5%	-	n.s.	
Other receivables/other payables	17,3	(0,8)	(110,9)	
Total Net working capital	**939,1**	**(0,8)**	**299,1**	
% of net sales (°)	15,8%	-	n.s.	
Net invested capital	**9.730,9**	**(0,8)**	**9.179,0**	
Equity	**3.195,8**	**(0,8)**	**3.300,7**	
Provisions	**535,7**	**-**	**547,3**	
Net financial (liquidity)/debt position	**5.999,4**	**-**	**5.331,0**	
Equity attributable to the Parent Company	3.131,6	-	3.233,3	
Investments in property, plant and equipment and intangible assets	156,0			
Research and development expenses	114,8			
% of net sales	3,9%			
Research and development expenses - Premium	94,9			
% on sales Premium	5,9%			
Employees (headcount at end of period)	36.598			
Industrial sites (number)	18			

(°) in interim periods net sales are calculated on the annual basis
(*) accounting data of Marco Polo Industrial Holding S.p.A.
(**) data from 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**		
	1 H 2016	1 H 2015 (Pirelli Group)		**1 H 2016**	1 H 2015 (Pirelli Group)		**1 H 2016**	1 H 2015 (Pirelli Group)		**1 H 2016**	1 H 2015	**1 H 2016**	1 H 2015 (Pirelli Group)	
		excl. Venez.	reported		excl. Venez.	reported		excl. Venez.	reported				excl. Venez.	reported
Net sales	**2.469,6**	2.419,3	2.521,7	**497,3**	633,4	652,0	**2.966,9**	3.052,7	3.173,7	**1,7**	4,8	**2.968,6**	3.057,5	3.178,5
Gross operating margin before non-recurring and restructuring expenses	**533,5**	506,1	523,1	**45,8**	84,9	89,5	**579,3**	591,0	612,6	**(0,6)**	(3,0)	**578,7**	588,0	609,6
Operating income (loss) before non-recurring and restructuring expenses	**405,7**	379,3	392,0	**24,5**	59,1	63,0	**430,2**	438,4	455,0	**(1,1)**	(3,6)	**429,1**	434,8	451,4
Non-recurring and restructuring expenses	**(18,1)**	(3,1)	(3,1)	**(5,4)**	(0,4)	(0,4)	**(23,5)**	(3,5)	(3,5)	**-**	(1,3)	**(23,5)**	(4,8)	(4,8)
Operating income (loss)	**387,6**	376,2	388,9	**19,1**	58,7	62,6	**406,7**	434,9	451,5	**(1,1)**	(4,9)	**405,6**	430,0	446,6

Cashflow Statement

(in millions of euro)

	1 Q		2 Q		1 H	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Operating income (loss) before non-recurring and restructuring expenses	215,5	213,4	213,6	238,0	429,1	451,4
Amortisation and depreciation	74,5	78,5	75,1	79,7	149,6	158,2
Investments in property, plant and equipment and intangible assets	(74,0)	(85,6)	(82,0)	(103,2)	(156,0)	(188,8)
Change in working capital/other	(715,9)	(895,2)	101,4	151,6	(614,5)	(743,6)
Operating net cash flow	**(499,9)**	**(688,9)**	**308,1**	**366,1**	**(191,8)**	**(322,8)**
Financial income/(expenses)	(82,7)	(52,1)	(198,1)	(61,3)	(280,8)	(113,4)
Tax expenses	(34,6)	(54,1)	(33,3)	(63,7)	(67,9)	(117,8)
Ordinary net cash flow	**(617,2)**	**(795,1)**	**76,7**	**241,1**	**(540,5)**	**(554,0)**
Financial investments/disinvestments	(5,2)	(14,4)	11,1	(0,4)	5,9	(14,8)
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)	(30,9)	(9,0)
Reversal of impairment in Venezuela included in financial expenses	-	-	-	14,2	-	14,2
Deferred taxes included in financial expenses	-	-	122,2	-	122,2	-
Differences from foreign currency translation/other	(62,7)	45,8	(25,7)	(37,4)	(88,4)	8,4
Net cash flow before Steelcord disposal	**(704,6)**	**(777,7)**	**170,5**	**212,4**	**(534,1)**	**(565,3)**
Dividends paid by Parent Company	-	-	-	(179,5)	-	(179,5)
Impact Steelcord disposal	-	24,4	-	35,6	-	60,0
Change NFP Bidco from 01/01 at 05/31/2016	-	-	(134,3)	-	(134,3)	-
Net cash flow	**(704,6)**	**(753,3)**	**36,2**	**68,5**	**(668,4)**	**(684,8)**