



PRESS RELEASE

PIRELLI & C SpA BOARD APPROVES RESULTS FOR 3 MONTHS ENDED 31 MARCH 2012:

**IMPROVEMENT IN ALL ECONOMIC INDICATORS
AND FURTHER GROWTH IN PROFITABILITY**

PIRELLI & C. SPA

- REVENUES 1,556.5 MILLION EURO, +11.1% COMPARED WITH 1,400.9 MILLION EURO ON 31 MARCH 2011
- OPERATING RESULT (EBIT) AFTER RESTRUCTURING CHARGES 209.4 MILLION EURO (+46.1% COMPARED WITH 143.3 MILLION EURO ON 31 MARCH 2011)
 - EBIT MARGIN ON 31 MARCH 2012 AT 13.5% COMPARED WITH 10.2% FOR THE SAME PERIOD IN 2011
 - CONSOLIDATED NET PROFIT 125.3 MILLION EURO, AN INCREASE OF 54% COMPARED WITH 81.4 MILLION EURO AT END MARCH 2011
- ATTRIBUTABLE CONSOLIDATED NET PROFIT 122.9 MILLION EURO, AN INCREASE OF 48.4% COMPARED WITH THE PRIOR 82.8 MILLION EURO
- NET FINANCIAL POSITION NEGATIVE 1,305 MILLION EURO, AN INCREASE FROM NEGATIVE 737.1 MILLION EURO AT END DECEMBER 2011

TYRE BUSINESS

- REVENUES 1,542.6 MILLION EURO, +11.4% COMPARED WITH 1,384.5 MILLION EURO ON 31 MARCH 2011
 - PREMIUM REVENUES 584.4 MILLION EURO, +29.2% FROM 31 MARCH 2011
- OPERATING RESULT (EBIT) AFTER RESTRUCTURING CHARGES 215.2 MILLION EURO, +41.2% COMPARED WITH 152.4 MILLION EURO ON 31 MARCH 2011
- EBIT MARGIN ON 31 MARCH 2012 GREW TO RECORD LEVEL OF 14% COMPARED WITH 11% IN THE SAME PERIOD OF 2011

2012 TARGETS

- **REVENUE TARGET REVISED TO APPROXIMATELY 6.45 BILLION EURO, AN INCREASE OF 14% COMPARED WITH 2011 (PREVIOUS TARGET: ~6.6 BILLION EURO, UP 17%)**
- **EBIT FORECAST: AT LEAST 800 MILLION EURO, MARGIN ABOVE 12% (PREVIOUS ESTIMATE: MARGIN ABOVE OR EQUAL TO 12%)**
- **INVESTMENT TARGET LOWERED TO APPROXIMATELY 500 MILLION EURO (PREVIOUS ESTIMATE: APPROXIMATELY 560 MILLION EURO)**
- **NET FINANCIAL POSITION TARGET CONFIRMED NEGATIVE AT BELOW 1 BILLION EURO BEFORE DIVIDENDS**

ORGANIZATIONAL MODEL RE-DEFINED. INTRODUCES ROLES OF CTO (CHIEF TECHNICAL OFFICER) AND CCO (CHIEF COMMERCIAL OFFICER) REPORTING TO THE CHAIRMAN AND CEO

Milan, 10 May 2012 – The Board of Directors of Pirelli & C. SpA today reviewed and approved **intermediate results for the 3 months ended 31 March 2012**.

The continual strengthening of production in rapidly growing economies and the focus on the Premium segment, which as well as being the most profitable segment is also the tyre market's fastest growing, enabled Pirelli to end the first quarter of 2012 with further improvements in key economic indicators and profitability, notwithstanding the persistent macro-economic slowdown, particularly in Western economies.

Consolidated revenues on 31 March 2012 totaled 1,556.5 million euro, an increase of 11.1% compared with 1,400.9 million euro in first quarter 2011. The **consolidated operating result after restructuring charges** was 209.4 million euro, with an increase of 46.1% compared with 143.3 million euro in first quarter 2011 and saw the margin on revenues rise by over three percentage points to 13.5% compared with 10.2% in the same period of 2011. The **net result** was 125.3 million euro, an increase of 54% from 81.4 million euro in first quarter 2011.

The **consolidated net financial position** was negative 1,305.0 million euro compared with 737.1 million at end 2011 (negative 712.8 million euro on 31 March 2011), reflecting a normal seasonal variation in the business working capital, as well as payment, of 154.5 million euro, for the acquisition of the Russian plants in Kirov and Voronezh.

For the **Tyre** activities, which represent almost all (99%) group sales, the quarter registered a further increase in sales (+11.4% to 1,542.6 million euro) and a further increase in profitability which reached the record level of 14% compared with 11% in the same period of 2011. In a market context discounting the global economic slowdown, these results were achieved thanks to the continual improvement of the sales mix – increasingly focused on Premium products – and the ability to use the price lever to offset increases in the cost of raw materials, which in the quarter had an impact of approximately 85 million euro, as well as constant improvement in efficiencies, which totaled 26 million euro in the period.

With regard to the Premium segment, in particular, in the first quarter of 2012 revenues grew 29.2% compared with the same period a year earlier in 2011 to 584.4 million euro, and in the Car business represented 52.6% of the total, with an increase of over five percentage points compared with 47.4% in the same period of 2011.

Pirelli & C. SpA Group

At the consolidated level, **revenues** on 31 March 2012 amounted to 1,556.5 million euro, an increase of 11.1% compared with 1,400.9 million euro in first quarter 2011.

The **gross operating margin (EBITDA) before restructuring costs** was 275.8 million euro, an increase of 35.6% compared with 203.4 million euro in the corresponding period of 2011. The **operating result (EBIT) before restructuring charges** reached 211.4 million euro compared with 146.5 million euro in the first quarter of 2011, while the **operating result (EBIT) after restructuring charges** was 209.4 million euro, an increase of 46.1% compared with 143.3 million euro for the first quarter 2011 and equaled 13.5% of revenues, up from 10.2% in the corresponding period of 2011.

The **total net consolidated profit** was 125.3 million euro, an increase of 54% compared with 81.4 million euro in first quarter 2011, while **consolidated net profit attributable** to Pirelli & C. SpA amounted to 122.9 million euro compared with 82.8 million euro (+48.4%) in the corresponding period of 2011.

Consolidated net assets on 31 March 2012 totaled 2,320.1 million euro compared with 2,191.6 million euro at end 2011. The **consolidated net assets attributable to Pirelli & C. SpA** amounted to 2,274.6 million euro compared with 2,146.1 million euro at end 2011. The group's **net financial position** on 31 March 2012 was negative 1,305 million euro against negative 712.8 million euro in the same period in 2011 and 737.1 million euro at end 2011. This dynamics is due to normal seasonal variation in the business working capital and the outlay for the acquisition of the Russian plants in Kirov and Voronezh for 154.5 million euro. The **net cash flow generated by operations** in the first quarter of 2012 was negative 317.1 million euro (negative 207.0 million euro in the first quarter of 2011) and includes investments of 80 million euro (96.9 in first quarter 2011).

The **group employed** 36,068 people at the end of the first quarter 2012 compared with 34,259 on 31 December 2011. The increase was linked to the acquisition of the Russian plants.

Tyre Business

Revenues for the **Tyre** business on 31 March 2012 amounted to 1,542.6 million euro, an increase of 11.4% compared with 1,384.5 million euro in the corresponding period of 2011. Net of the exchange rate effect, organic growth was 11.3%, with a negative variation in volumes of 7.4% and a positive variation of the price/mix component of 16.5% which reflects the focus on the Premium segment and the ability to offset the negative impact of growth in raw material costs through pricing, thanks to the positive drag of the increases progressively made during 2011. The volume performance was negative for both business units (with Consumer down 5.1% and Industrial down 12.3%). It should be noted, nonetheless, that the Premium segment on which Pirelli is focused registered 15.8% volume growth in Consumer compared with a decline of 14.5% in non-Premium.

The **gross operating result (EBITDA) before restructuring charges** was 280.3 million euro compared with 209.5 million in the corresponding period in 2011. The **operating result (EBIT) before restructuring charges** was 217.2 million euro (14.1% of revenues) with an increase of 39.6% compared with 155.6 million euro (11.2% of revenues) in first quarter 2011, while the **operating result after restructuring charges** amounted to 215.2 million euro, an increase of 42.1% compared with 152.4 million euro in first quarter 2011. The Ebit margin (after restructuring) was at the record level of 14% (11% in first quarter 2011). Increases in production costs, particularly the cost of raw materials which had a

negative impact of 85 million euro in the quarter, were amply offset by the price/mix component and industrial efficiency action worth 26 million euro in the quarter.

In the *Consumer (Car/Light Truck and Moto tyres)* business, revenues totaled 1,151.8 million euro, an increase of 17.1% compared with 983.3 million euro in the first quarter of 2011, with a negative contribution in terms of volume of 5.1%, a positive value of 18.8% in terms of price/mix and 0.7% from exchange rates. The operating result before restructuring charges was 184 million euro, compared with 119.7 million euro for the corresponding period of 2011, with a margin on sales rising to 16% from 12.2% in first quarter 2011. In terms of market and compared with the 1st quarter of 2011, the growth involved Nafta in Original Equipment and South America for the Replacement segment. Europe saw declines in both segments.

In the *Industrial business (Industrial vehicle tyres and Steelcord)* revenues totaled 390.8 million euro compared with 401.2 million euro, with a decline of 2.6% compared with the same period of 2011; in organic terms the variation was negative 1.1%, with a volume reduction of 12.3%, only partially compensated by the positive price/mix contribution of +11.2%. The market saw declines in all geographic areas: South America registered a decline of 30% in Original Equipment and 13% in Replacement, while Europe saw a fall of 6% in Original Equipment and 30% in Replacement. In the first quarter of 2012, the profitability of the Industrial division was 8.5%, down by only 0.4 percentage points from 8.9% in the same period of 2011.

Events after 31 March 2012

On **16 April 2012**, Pirelli signed an agreement with the Faria da Silva family for the acquisition of 60% of the capital of Campneus, one of the major tyre distribution chains in Brazil, for a value of around 54 million reais, equal to approximately 22.5 million euro. In line with the 2012-2014 Industrial Plan presented in London last November, this operation enables Pirelli to strengthen its leadership in the Brazil market both in retail and wholesale distribution, promoting the focus on areas where the Premium segment is growing fastest and increasing the number proprietary sales points (Pirelli Pneuc) from the present 48 to 102.

On **24 April 2012**, Pirelli signed an agreement with PT Astra Otoparts, Indonesia's leading company in the production of components for the automotive sector, for the construction of a new factory in Indonesia, Pirelli's first in the country, for the production of conventional motorcycle tyres. The agreement calls for the creation of a joint venture in which Pirelli will hold a majority position of 60% of capital and Astra the remaining 40%. Between 2012 and 2014 the total investment by the joint venture for the construction of the new factory will be approximately 120 million dollars. The new factory is expected to begin operation in the second half of 2013, with an estimated production in 2014 of around 2 million conventional motorcycle tyres that could reach 7 million pieces in 2016 when fully operational. Of these, 3 million will be sold with the Astra brand, while the remaining 4 million – equal to 25% of Pirelli's total world moto production – with Pirelli brands (Pirelli and Metzeler).

2012 Outlook

Faced with a general slowdown in the demand for tyres as a reflection of the present macro-economic crisis, predominantly in Southern Europe, Pirelli has revised its 2012 total volume outlook, reducing it from 0/-1% to -1%/-2%.

In particular, the target for total Consumer volumes has been reduced from +1%/0% to -0.5%/-1.5%, while growth of the Premium segment alone is forecast at approximately 20% (previous indication: at least 20%). The forecast for volumes in the Industrial business is confirmed at -2%/-4%.

The target for an improvement in price/mix of 11%/12% is confirmed, thanks to the focus on Premium and price actions taken in 2011 to offset higher raw material costs. Revenues from the Consumer business are expected to be approximately 4.45 billion euro (previous target: ~4.5 billion euro), net of the contribution from the Russian joint venture, the sales target for which has been revised to approximately 250 million euro (previous target: approximately 300 million euro) as a consequence of greater selectivity in sales.

The revenue target for the Industrial business is confirmed at approximately 1.7 billion euro. Total revenues for 2012 are expected to be approximately 6.45 billion euro (previous guidance: ~6.6 billion euro), with an increase of 14% from 5.65 billion euro in 2011.

The Ebit margin is expected to be above 12% (previous target: equal to or above 12%), with an operating result of at least 800 million euro. The negative impact of raw material costs has been reduced from 140 million euro to 90 million euro.

Investment, taking the slowdown in demand into account, is expected to total approximately 500 million euro, a decrease from the previous estimate of approximately 560 million euro. The forecast net financial position is confirmed negative for an amount below one billion euro before dividends (below 1.1 billion euro after dividend payments of 132.4 million euro).

New organizational model

In a market that is ever more competitive and selective on the product side, while continuing to expand geographically, Pirelli has decided to reinforce its technological and commercial organization, linked to the various businesses, and thus complete the re-definition of the organizational model which began in October 2011. The decision making chain, therefore, will be further shortened in order to accelerate implementation of action plans linked to the Premium strategy. The new strategy replaces the "Executive Office" with two new roles reporting directly to Chairman and Chief Executive Officer Marco Tronchetti Provera. They are Chief Technical Officer (CTO) and Chief Commercial Officer (CCO), positions to be held by Maurizio Boiocchi and Andrea Pironcini respectively. The CTO will have as direct reports the Product, Processes, Quality, Original Equipment and Team Motorsport functions. In particular, the CTO will directly coordinate the OE function so as to optimize relationships with carmakers and increase the efficiency of processes linked to experimentation and product development. The CCO will have as direct reports the Marketing, Sales and Retail functions with the aim of strengthening commercial operations and enhancing co-ordination between geographic areas. The Chairman will also have as direct reports the functions of Staff, Planning and Controlling, Operations and Supply Chain, with the aim of giving cross-over support to all businesses. The Chairman will also have as direct reports Moto, Industrial (truck, agro, steel cord), Products and Services for the Environment and PZero Moda.

From the geographic point of view, in particular, the new model divides the market into eight regions corresponding to the different macro-areas of activity. They are Central Europe, South Europe, North-West Europe, Russia & Nordics, Africa, ME and India, Apac, Latam and Nafta, all supported by the functions listed earlier. The regions will report to the CCO for all commercial and marketing activities.

Conference call

The results for the quarter ended 31 March will be illustrated today, 10 May 2012, at 6.30 pm., at a conference with the participation of the Chairman of Pirelli & C. SpA, Marco Tronchetti Provera, and the top management. Journalists will be able to follow the call by phone without the possibility of asking questions, by dialing in to **+39.06.3348.5042**. The presentation can also be followed in real time at www.pirelli.com in the investor section, where the slides will also be available.

The intermediated report on activities for the three months ended 31 March 2012 will be available to the public at the company's legal headquarters and at Borsa Italiana SpA, and be published on the company's website (www.pirelli.com) by 12 May, 2012.

The Manager mandated to draft corporate accounting documents of Pirelli & C. S.p.A., Francesco Tanzi, declares – as per art. 154-bis, comma 2 of the Testo Unico della Finanza – that the accounting information contained in this press release corresponds to the documented results, books and accounting registers.

In this press release, in addition to the financial performance measures established by IFRS, certain non-IFRS measures originated from the latter are presented although they are not required by IFRS ("Non-GAAP Measures"). These performance measures are presented for purposes of a better understanding of the trend of operations of the Group and should not be construed as a substitute for the information required by IFRS. Specifically, the "Non- GAAP Measures" used are described as follows:

Gross operating profit (EBITDA): this financial measure is used by the Group as the financial target in internal business plans and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of the Group as a whole and for each single segment, in addition to EBIT. EBITDA is an intermediate performance measure represented by the Operating Income from which amortization of material and immaterial fixed assets are subtracted.

Fixed assets: this is the sum of the items "material fixed assets", "immaterial fixed assets", "investments in related companies and JVs", and "other financial as sets".

Funds: this is the sum of the items "funds for risks and charges (current and non current)", "funds for personnel" and "funds for deferred taxes".

Net working capital: this includes all the other items not included in the two items "net equity" and "net financial position".

Net financial position: this represents gross financial debt minus cash and other equivalent liquidity, as well as other financial credits.

Attached are prospectuses related to the profit and loss account, to equity data in summary and to consolidated financial reports. The company notes that these attachments are not subject to review by the auditing company.

PIRELLI & C. S.p.A. GROUP

(million euros)

| | 31/03/2012 | 31/03/2011 | 31/12/2011 |
|--|----------------|----------------|----------------|
| Sales | 1.556,5 | 1.400,9 | 5.654,8 |
| Gross operating profit before restructuring expenses | 275,8 | 203,4 | 834,6 |
| % on sales | 17,7% | 14,5% | 14,8% |
| Operating profit before restructuring expenses | 211,4 | 146,5 | 609,7 |
| % on sales | 13,6% | 10,5% | 10,8% |
| Restructuring expenses | (2,0) | (3,2) | (27,8) |
| Operating profit | 209,4 | 143,3 | 581,9 |
| % on sales | 13,5% | 10,2% | 10,3% |
| Earnings (losses) from investments | 0,5 | 0,8 | (17,3) |
| Financial income (expenses) | (18,7) | (14,8) | (89,5) |
| Pretax profit | 191,2 | 129,3 | 475,1 |
| Income taxes | (65,9) | (47,9) | (162,5) |
| Tax rate % | 34,5% | 37,0% | 34,2% |
| Income (loss) from continuing operations | 125,3 | 81,4 | 312,6 |
| Italian deferred tax assets | - | - | 128,1 |
| Net income (loss) | 125,3 | 81,4 | 440,7 |
| Income (loss) attributable to Pirelli & C. S.p.A. | 122,9 | 82,8 | 451,6 |
| Earnings per share (in euro) (*) | 0,252 | 0,170 | 0,926 |
| Fixed assets | 3.679,1 | 3.142,4 | 3.558,1 |
| Inventory | 1.115,3 | 747,0 | 1.036,7 |
| Commercial credits | 1.059,9 | 953,6 | 745,2 |
| Commercial debts | (1.207,8) | (1.087,4) | (1.382,8) |
| Net working capital operations | 967,4 | 613,2 | 399,1 |
| % of sales | 15,5% | 10,9% | 7,1% |
| Other credits/debts | (245,1) | (196,8) | (243,9) |
| Net working capital | 722,3 | 416,4 | 155,2 |
| % of sales | 11,6% | 7,4% | 2,7% |
| Net capital invested | 4.401,4 | 3.558,8 | 3.713,3 |
| Equity | 2.320,1 | 2.072,0 | 2.191,6 |
| Funds | 776,3 | 774,0 | 784,6 |
| Net financial (liquidity) / debt position | 1.305,0 | 712,8 | 737,1 |
| Equity attributable to the equity holders of Pirelli & C. S.p.A. | 2.274,6 | 2.034,7 | 2.146,1 |
| Equity per share (in euro) (*) | 4,661 | 4,169 | 4,398 |
| Investment in material and immaterial goods | 80,1 | 96,9 | 626,2 |
| R&D investment | 45,9 | 41,0 | 169,7 |
| % of sales | 2,9% | 2,9% | 3,0% |
| Headcount (number at period-end) | 36.068 | 30.344 | 34.259 |
| | 22 | 20 | 21 |

(*) for the intermediate periods the sales data are annualized

Data by Business Sector

(million euros)

| | Tyre | | Others activities (*) | | Total | |
|---|----------------|----------------|-----------------------|--------------|----------------|----------------|
| | 1° Q 2012 | 1° Q 2011 | 1° Q 2012 | 1° Q 2011 | 1° Q 2012 | 1° Q 2011 |
| Sales | 1.542,6 | 1.384,5 | 13,9 | 16,4 | 1.556,5 | 1.400,9 |
| exp. | 280,3 | 209,5 | (4,5) | (6,1) | 275,8 | 203,4 |
| Operating profit (loss) before restructuring exp. | 217,2 | 155,6 | (5,8) | (9,1) | 211,4 | 146,5 |
| Restructuring expenses | (2,0) | (3,2) | - | - | (2,0) | (3,2) |
| Operating profit (loss) (EBIT) | 215,2 | 152,4 | (5,8) | (9,1) | 209,4 | 143,3 |
| % on sales | 14,0% | 11,0% | | | 13,5% | 10,2% |
| Earnings (loss) from investments | | | | | 0,5 | 0,8 |
| Financial income (expenses) | | | | | (18,7) | (14,8) |
| Pre-tax profit | | | | | 191,2 | 129,3 |
| Income taxes | | | | | (65,9) | (47,9) |
| tax rate % | | | | | 34,5% | 37,0% |
| Income (loss) | | | | | 125,3 | 81,4 |
| Net financial (liquidity) / debt position | | | | | 1.305,0 | 712,8 |

(*) In 2012 this item included the Pirelli Ecotechnology group, the Pirelli Ambiente Group and PZero, while in 2011 it included data for the finance and services companies (including the parent company) which from this year are included in Tyre Activities

Cashflow statement

(in millions of euro)

| | 1° quarter | |
|--|----------------|----------------|
| | 2012 | 2011 |
| Operating profit (EBIT) before restructuring charges | 211,4 | 146,5 |
| Amortization | 64,4 | 56,9 |
| Material and Immaterial Investment | (80,1) | (96,9) |
| Variation working capital/other | (512,8) | (313,5) |
| FREE CASH FLOW | (317,1) | (207,0) |
| Financial income/expenses | (18,7) | (14,8) |
| Income taxes | (65,9) | (47,9) |
| OPERATING CASH FLOW | (401,7) | (269,7) |
| Financial Investments/divestments | 3,2 | 24,4 |
| Acquisition minorities in China | (154,5) | - |
| Investment in Russia | (2,2) | (0,7) |
| Dividends paid out by Parent Group | (4,2) | (2,8) |
| Other dividends paid out to third parties | (8,5) | (8,4) |
| Cash Out for restructuring | (567,9) | (257,2) |

