



PRESS RELEASE

PIRELLI BOARD APPROVES RESULTS FOR FIRST QUARTER 2017

- Pirelli “Pure Consumer Tyre Player”
- Revenues increased 13.4% to 1,339.3 million euro (1,180.9 million on March 31, 2016)
- Further strengthening of Premium: volumes grew 15.3% and revenues increased 16%. As a percentage of total revenues, rose to 67.8% (66.2% on March 31, 2016)
- Improvement of price/mix: +5.5% - top in the industry - thanks above all to the sales' mix
- Ebitda 270.3 million euro (261.5 million on March 31, 2016)
- Adjusted Ebit 205.0 million euro (203.6 million on March 31, 2016)
- Adjusted Ebit Margin impacted by launch of new projects and increased raw material costs
- Investments 98.3 million euro (70 million on March 31, 2016)
- Net income before discontinued operations : +49.5 million euro (-30.4 million on March 31, 2016)
- Apac and Nafta confirmed as most profitable areas

As an effect of the assignment by Pirelli & C. S.p.A. to Marco Polo International Italy S.r.l. of the shares of TP Industrial Holding, the company into which Pirelli's Industrial activities had been conferred, the Industrial business is qualified as a “discontinued operation”. The result for the year of the discontinued operation has been reclassified in the income statement under the heading “results of disposed operating activities”. The comparable economic data for 2016 have been thus restated.

Milan, 23 May 2017 – The Board of Directors of Pirelli & C. S.p.A. reviewed and approved group results for the quarter ending on March 31, 2017, which reflect the launch of Pirelli as a “Pure Consumer Tyre Player”, with the implementation of new projects aimed at strengthening its positioning in high-value segments with higher profitability and the development of new activities to take advantage of new trends in mobility.

The results for the first quarter of 2017 were characterized by the following elements:

Revenues totaled 1,339.3 million euro, an increase of 13.4% compared with 1,180.9 million euro in the same period of 2016 once again driven by the focus on the Premium segment and its positive performance. Organic growth was 8.4% and excluding forex impacts (+4%) and the consolidation of the car activities of Jiaozou Aeolus Car (+1%), whose reconversion to the Pirelli brand began in the last quarter of 2016, with the aim of accelerating development in China, the area which will be the Premium segment's growth driver at the world level. The revenue trend benefitted from the strong growth of the

price/mix component (+5.5%, the highest level among peers) due in particular to the improved sales' mix, thanks to the success of high end products, and price increases in emerging markets.

Premium revenues rose 16% to 907.4 million euro, compared with 782.2 million euro in the same period of 2016. As a percentage of total revenues, Premium revenues grew further and reached 67.8%, compared with 66.2% in the first quarter of 2016.

Volumes in the Premium segment saw significant growth of 15.3% - which involved all Regions reaching levels above the market trend (+11%) – which underpinned the trend of **total volumes**, which increased 2.9% over the period. The progressive reduction of exposure to segments of lower profitability, in particular in Russia and Latam, brought, on the other hand, a reduction of 9.1% in non-Premium volumes.

Ebitda before non-recurring items and restructuring costs was 270.3 million euro at March 31, 2017, an increase of 3.4% compared with 261.5 million euro in the same period of 2016.

Adjusted Ebit (operating income before non-recurring items and restructuring costs and amortization of intangible fixed assets included in the PPA) amounted to 205 million euro, an increase of 1.4 million euro compared with 203.6 million euro recorded for the corresponding period of 2016. The improved result was linked to the effect of internal levers such as price/mix, volumes and efficiencies, which more than compensated for the increased cost of raw materials, costs inflation (particularly in emerging markets), higher amortization and depreciation and other costs related to business development.

The Adjusted Ebit margin was 15.3% compared with 17.2% on March 31, 2016 and predominantly reflects new programs that will deliver value in the medium term, as well as the effect of increased raw material costs. In particular:

- the above mentioned consolidation of the car activities of Jiaozou Aeolus Car in China;
- the strengthening of Premium segment positioning along the entire value chain,
- the effort to accelerate the reduction of exposure to segments with low profitability;
- the launch of new activities which meet new end-customer needs such as connectivity and the return to the bicycle business through the Velo project;
- one-off costs attributable to the separation of the Industrial business;
- The time lag between price increases which were effective as of April 1, 2017 for all products and the increase in the cost of raw materials

The **operating result (Ebit)** amounted to 168.7 million euro (166.1 million euro in the corresponding period of the previous financial year) and was impacted by:

non-recurring and restructuring charges of 10.1 million euro due to rationalization processes, costs relating to the reorganization activities of the Industrial segment and 26.2 million euro relative to amortization of intangible assets identified in the context of PPA deriving from the acquisition of Pirelli assets by Marco Polo.

The **result from equity investments** was negative in the amount of 3.1 million euro (-42.5 million euro at March 31, 2016) and was mainly related to the pro-quota result of the Indonesian Joint Venture PT Evoluzione Tyres.

The **net income before discontinued operations** on March 31, 2017 amounted to 49.5 million euro compared with a loss of 30.4 million euro in the first quarter of 2016. Other than the improvement in the operating income and net income from equity investments, the result also reflects the reduction in **net financial expenses** of , 56.7 million euro (77.0 million euro for first quarter 2017 compared with 133.7 million euro for first quarter 2016, impacted by 25.4 million euro linked to the extinction of the US Private Placement bond loan). The reduction of net financial expenses was mainly attributable to the lower cost of debt (5.42% for the first quarter 2017 compared with 5.98% for the first quarter 2016).

The **operating cash flow** on March 31, 2017 was negative 720.1 million euro (-592.3 million in the same period of 2016). The figure reflects, among other things, growth of investments – 98.3 million euro compared with 70 million euro at March 31, 2016 - mainly aimed at increasing Premium segment capacity in Europe and Nafta and at the continuous improvement of the mix and quality.

Net cash flow before dividends and extraordinary operations was negative in the amount of 881.7 million euro compared with a negative result of 838.3 million euro recorded for 2016. The **total cash flow** was negative in the amount of 612.4 million euro (negative in the amount of 779.0 million euro in 2016) and includes the positive effect of 269.3 million euro resulting from the finalization of the Industrial business reorganization.

The **net financial position** on March 31, 2017 was negative in the amount of 5,525.2 million euro (-4,912.8 million euro at December 31, 2016).

At the geographical level, **Apac** registered, along with Nafta, the highest profitability among all the macro-areas, staying at the *twenties* levels. Revenues in the Apac area, above all thanks to the performance of Premium, increased by 26.6% compared with the same period of 2016. Excluding the positive effects of forex (+0.7%) and variation in the perimeter deriving from the consolidation of Aeolus Car (+3.2%) organic revenue growth was +22.7%. **Nafta** registered an Ebit margin in the *twenties* levels, with organic growth in revenues of 16.5% (+13.7% excluding the positive forex effect) thanks to the good performance of Premium and SuperPremium. **Europe** registered profitability in the *mid-teens* level, with revenue growing by 7.8% (+8.9% excluding the negative forex effect), underpinned by the positive performance of Premium. **Meai** registered profitability in the *mid-teens* level, with total revenue growth of 2.4%.

The decline in profitability in **South America** (Ebit margin *mid-single-digit*) was mainly due to a fall in sales in the Argentine market and continuing actions to improve and reconvert the mix. In the course of the quarter, revenues grew by 18.8% (-3.2% at the organic level excluding forex and perimeter variations).

This performance reflects the ongoing focus on the mix, with the progressive reduction of sales in the non-premium segment, the destination of part of the production for exports to North America in consideration of the growing demand for Pirelli Premium products and the shrinking of the car market in Argentina. **Russia** registered growth in profitability (Ebit margin *high single digit* compared with a negative margin in the first quarter of 2016). Total revenues grew by 14.3%: excluding the positive impact of forex, revenues fell 16.9%. This dynamic reflects the strategic focus on more profitable segments, with the progressive reduction in the production and sales of products of brands other than Pirelli.

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(in millions of euro)

	03/31/2017	03/31/2016	12/31/2016	12/31/2016
		Restated *	Restated **	Reported
Net sales	1.339,3	1.180,9	4.976,4	6.058,4
Gross operating margin before non-recurring and restructuring expenses	270,4	261,5	1.083,4	1.183,2
% of net sales	20,2%	22,1%	21,8%	19,5%
Adjusted operating income (loss)	205,0	203,6	849,2	896,6
% of net sales	15,3%	17,2%	17,1%	14,8%
Adjustment: - amortisation of intangible assets included in PPA	(26,2)	(26,2)	(104,6)	(105,8)
- non-recurring and restructuring expenses	(10,1)	(11,3)	(78,9)	(66,6)
Operating income (loss)	168,7	166,1	665,7	724,2
% of net sales	12,6%	14,1%	13,4%	12,0%
Net income (loss) from equity investments	(3,1)	(42,5)	(20,0)	(20,0)
Financial income/(expenses)	(77,0)	(133,7)	(418,8)	(440,3)
Net income (loss) before tax	88,6	(10,1)	226,9	263,9
Tax expenses	(39,1)	(20,3)	(92,5)	(116,3)
Tax rate % on net income (loss) before tax	(44,1%)	ns	(40,8%)	44,1%
Net income (loss) from continuing operations (Consumer)	49,5	(30,4)	134,4	147,6
Net income (loss) from discontinued operations (Industrial)	(76,6)	(19,7)	13,2	-
Total net income (loss)	(27,1)	(50,1)	147,6	147,6
Net income attributable to the Parent Company	(27,9)	(50,7)	135,1	135,1
Fixed assets in continuing operations	9.213,6			10.299,2
Inventories	925,5			1.055,6
Trade receivables	1.044,8			679,3
Trade payables	(1.062,2)			(1.498,5)
Operating Net working capital	908,1			236,4
% of net sales (*)	17,0%			3,9%
Other receivables/other payables	118,3			(310,7)
Net working capital	1.026,4			(74,3)
% of net sales (*)	19,2%			(1,2%)
Net invested capital held for sale	118,3			-
Net invested capital	10.358,3			10.224,9
Equity	3.002,9			3.274,9
Provisions	1.830,2			2.037,2
Net financial (liquidity)/debt position	5.525,2			4.912,8
Equity attributable to the Parent Company	2.929,1			3.134,1
Investments in property, plant and equipment and intangible assets	98,3			372,2
Research and development expenses	56,7			228,1
% of net sales	4,2%			3,8%
Research and development expenses - Premium	50,3			191,0
% on sales Premium	5,5%			5,9%
Employees (headcount at end of period)	30.220			37.050
Industrial sites (number)	17			19

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

(*) the figures refer to the restated consolidated financial statements of Pirelli & C. post merger with Marco Polo Industrial Holding S.p.A. following the completion of the PPA and the classification of the income statement data of the Industrial business in the item "Net income (loss) from discontinued operations"

(**) the figures refer to the restated consolidated financial statements of Pirelli following the classification of the income statement data of the Industrial business in the item "Net income (loss) from discontinued operations"

Cashflow statement

(in millions of euro)

	1 Q	
	2017	2016 Restated
Adjusted operating income (loss)	205,0	203,6
Amortisation and depreciation	65,4	57,9
Investments in property, plant and equipment and intangible assets	(98,3)	(70,0)
Change in working capital/other	(892,2)	(783,8)
Operating net cash flow	(720,1)	(592,3)
Financial income/(expenses)	(77,0)	(133,7)
Tax expenses	(39,1)	(20,3)
Ordinary net cash flow	(836,2)	(746,3)
Financial (investments) / disinvestments	(1,7)	(5,2)
Cash Out for non-recurring and restructuring expenses	(11,9)	(17,7)
Disposal of minority equity investments	(5,5)	-
Reversal of release of the provision for deferred tax liabilities included in tax expenses	(6,6)	(6,4)
Differences from foreign currency translation/other	(19,8)	(62,7)
Net cash flow before dividends paid / extraordinary transactions	(881,7)	(838,3)
Industrial reorganization	269,3	59,3
Net cash flow	(612,4)	(779,0)