INTERIM FINANCIAL REPORT
AT MARCH 31, 2018

PIRELLI & C. Società per Azioni (Joint Stock Company)

Milan Office

Viale Piero e Alberto Pirelli n. 25

Share Capital Euro 1,904,374,935.66

Register of Companies of Milan No. 00860340157

REA (Economic Administrative Index) No. 1055

PIRELLI & C. S.p.A. - MILAN

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Board of Directors[1]

Chairman	Ren Jianxin
Executive Vice Chairman and Chief Executive Officer	Marco Tronchetti Provera
Director	Yang Xingqiang
Director	Bai Xinping
Director	Giorgio Luca Bruno
Independent Director	Laura Cioli
Independent Director	Domenico De Sole
Independent Director	Fan Xiaohua
Director	Ze'ev Goldberg
Independent Director	Marisa Pappalardo
Independent Director	Cristina Scocchia
Independent Director	Tao Haisu
Director	Giovanni Tronchetti Provera
Independent Director	Wei Yintao

Secretary of the Board	Alberto Bastanzio

Board of Statutory Auditors[2]

Chairman	Francesco Fallacara
Statutory auditors	Fabio Artoni
	Antonella Carù

[1] Appointment: August 1, 2017, effective as of August 31, 2017. Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2019.

[2] Appointment: May 14, 2015. Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2017 (Antonella Carù appointed by the Shareholders' Meeting held on June 1, 2017, Alberto Villani and Luca Nicodemi appointed by the Shareholders' Meeting held on September 5, 2017).

	Luca Nicodemi
	Alberto Villani
Alternate Auditors	Fabio Facchini
	Giovanna Oddo

Audit, Risk, Sustainability and Corporate Governance Committee

Chairman – Independent Director	Fan Xiaohua
Independent Director	Laura Cioli
Independent Director	Cristina Scocchia

Committee for Related Party Transactions

Chairman – Independent Director	Domenico De Sole
Independent Director	Marisa Pappalardo
Independent Director	Cristina Scocchia

Nominations and Successions Committee

Chairman	Marco Tronchetti Provera
Director	Ren Jianxin
Director	Bai Xinping
Director	Giovanni Tronchetti Provera

Remuneration Committee

Chairman – Independent Director	Tao Haisu
Director	Bai Xinping
Independent Director	Laura Cioli

Strategies Committee

Chairman	Marco Tronchetti Provera
Director	Yang Xinqiang
Director	Bai Xinping
Director	Giorgio Luca Bruno
Independent Director	Domenico De Sole
Director	Ze'ev Goldberg
Independent Director	Wei Yintao

Independent Auditing Firm[3]	PricewaterhouseCoopers S.p.A.
Corporate Financial Reporting Manager[4]	Francesco Tanzi

The Supervisory Board (as provided for by the Organisational Model 231 adopted by the company) is chaired by Prof. Carlo Secchi.

[3] Appointment: August 1, 2017, effective as of the date of the commencement of trading of Pirelli shares on the Mercato Telematico Azionario (screen-based stock exchange) which is organised and managed by Borsa Italiana S.p.A. (October 4, 2017). Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2025.

[4] Appointment: Board of Directors Meeting on August 31, 2017. Expiry: jointly with the current Board of Directors.

MACROECONOMIC AND MARKET SCENARIO

The recovery of the global economy that characterised 2017, was further strengthened during the first quarter of 2018 although there remained growing risks linked to the trade tensions following the protectionist measures announced by the United States.

In Europe, growth continued with a rise in GDP of +2.5% for the first quarter compared to the first quarter of 2017, which was slightly lower than for the fourth quarter of 2017 (+2.8%). The short-term economic indicators essentially confirmed an expansive scenario, even though the confidence indices for the manufacturing sector demonstrated a decline compared to the peaks recorded at the end of 2017, with the return in March of the European Commission confidence indicators for the EU, to the levels of September 2017.

The US economy recorded a growth in GDP of 2.9% for the first quarter, compared to +2.6% for the fourth quarter of 2017. The new chairman of the Federal Reserve, J. Powell, confirmed a policy of gradual interest rate increases, as shown by the 25 basis point hike in March, aimed at countering the first signs of renewed inflation.

China's GDP recorded a growth rate of +6.8% for the first quarter of 2018 compared to the corresponding period of the previous financial year, consistent with what had been evidenced during the final three months of 2017.

The partial recovery of commodity prices provided support for the Brazilian and Russian economies (an estimated growth for the first quarter of approximately +1.5% year-on-year for both according to the latest estimates) even though the latter has been hit by further sanctions by the United States, sanctions which could have an impact on financial activity in the coming quarters.

Trend in Exchange Rates

The Euro continued to appreciate against the US Dollar during the first quarter with an average exchange rate of USD 1.23, which was up by +4.4% compared to the average rate of 1.18 for the last quarter of 2017, and up by +15% compared to the first quarter of 2017. The British Pound instead remained stable at Euro 0.88 compared to the fourth quarter of 2017, but had depreciated by -3.0% compared to the previous financial year.

The US Dollar was weak not only against the Euro, but also against some of the main currencies of emerging countries. The Chinese Renminbi continued to appreciate against the US Dollar recording an average price of Yuan 6.36 per US Dollar, (up by +4.0% compared to the fourth quarter of 2017 and by +8.0% compared to the first three months of 2017). The Russian Rouble strengthened against the US Dollar during the first quarter (+3.0% compared to the fourth quarter with an average exchange rate of 56.9). This trend however, might not continue in the coming quarters due to the tightening of international sanctions (during the month of April 2018 the Rouble depreciated and traded at more than Roubles 60.00 per US Dollar). The Brazilian Real remained substantially unchanged during the first quarter compared to the US Dollar, recording an average exchange rate of 3.24, consistent with the fourth quarter of 2017, but then devalued in April to more than Real 3.40 per US Dollar.

Despite this appreciation against the US Dollar, the Rouble, the Real and the Renminbi recorded a decline of -11.0%, -16.0% and -6.0% compared to the Euro for the first quarter of 2017.

Trend in Raw Materials

For the first quarter of 2018 the performance of individual raw materials was not homogeneous:

- the average price of oil (Brent) attested itself at USD 67.00 per barrel (up by +22.0% compared to the first quarter of 2017, equal to USD 55.00 a barrel), up by +8.0% compared to the fourth quarter of 2017 (USD 62.00 per barrel) supported by an increase in consumer demand and by the continuation of the agreement between the main oil producing countries to limit the production of crude oil. During the month of April the price of oil reached approximately USD 75.00 per barrel;
- the average price of butadiene for the first quarter of 2018 attested itself at Euro 808 per ton, which was stable compared to the fourth quarter of 2017 (an average price of Euro 800 per ton for the fourth quarter of 2017) but which represented a decline of -41% compared to the first quarter of 2017 (an average price of Euro 1,363 per ton), a period during which there had been a strong rise in the demand for butadiene in Asia, but which subsequently stabilised;
- the price of natural rubber remained substantially stable compared to the fourth quarter of 2017 (+2.0%) with an average price of USD 1,467 per ton, but which had declined by -30% compared to the first quarter of 2017 (USD 2,095 per ton).

Trend in Car Tyre Markets

For the first quarter of 2018 the Car tyre market recorded a decline of -0.6% globally, with different dynamics between the segments and markets. This market trend reflected the elevated comparisons from previous performances: total Car tyre volumes had been up by +6.0% for the first quarter of 2017, the highest growth for the financial year, due to purchases made in anticipation of the price increases implemented as of April 1, 2017.

The New Premium segment (tyres with a rim diameter ≥ 18 inches) was the segment with the highest growth: up by +7.9% globally (+14.3% for the first quarter of 2017), while the Standard segment (tyres with a rim diameter ≤ 17 inches) recorded a decrease in sales of -2.0% (compared to the +4.8% growth for the first quarter of 2017) mainly driven by mature markets (Europe and NAFTA).

In more detail:

- Europe closed the first quarter with Car volumes in decline by -4.1% (+6.0% for the first quarter of 2017) giving evidence of the different dynamics between the New Premium and Standard segments which recorded +5.2% (+15.4% for the first quarter of 2017) and -5.5% (+4.7% for the first quarter of 2017) respectively. On the Replacement channel, sales of New Premium Car tyres recorded a +2.9% growth, limited by an unfavourable comparison (an +18.7% growth for the first quarter of 2017) and due to the delayed start of the summer season. The trend for New Premium is expected to improve during subsequent quarters, also due to a more balanced comparison with respect to the last financial year. For the first quarter of 2018, Standard Replacement sales recorded a decrease of -5.7% (+5.6% for first quarter of

2017). On the Original Equipment channel sales for New Premium grew by +8.0% (+11.5% for the first quarter of 2017) compared to the -4.7% decline in sales for the Standard segment (+1.3% for the first quarter of 2017);

- NAFTA recorded a decline of -2.0% (+2.0% for the first quarter of 2017) with New Premium segment sales up by +7.5% compared to a -5.5% drop for Standard sales. In the Replacement channel New Premium Car tyres sales recorded an increase of +10.3% (+12.8% for the first quarter of 2017) compared to a -5.0% decrease in Standard sales (-0.5% for the first quarter of 2017). The Original Equipment channel recorded a +3.3% performance for the New Premium segment (+4.2% for the first quarter of 2017), compared with a decline of -7.3% for the Standard segment (-0.3% for the first quarter of 2017);

- in Apac, sales of Car tyres recorded a slight decline in the market (-0.2%) compared to +6.0% for 2017. The New Premium segment (+12.6%) recorded sustained growth both on the Replacement channel (up by +11.4% compared to +13.4% for the first quarter of 2017) and on the Original Equipment channel (up by +13.0%, compared to +27.5% for the first quarter of 2017). There was a different trend for the Standard segment with moderate growth on the Replacement channel (+1.0% compared to +6.2% for the first quarter of 2017) and a negative performance for the Original Equipment channel (-5.1% compared to +2.0% for the first quarter of 2017);

- there was a positive trend in volumes in the regions distinguished by a high incidence of sales in the Standard segment with:

    - LatAm which was up by +3.3% driven by Original Equipment (+11.8%) with a +1.7% growth for the Replacement channel;
    - Russia which recorded a +10.7% growth in both the Original Equipment (+20.0%) and Replacement channels (+9.4%);
    - MEAI which was up by +4.5% with an increase of +5.8% in the Original Equipment channel and +4.0% in the Replacement channel.

SIGNIFICANT EVENTS OF THE FIRST QUARTER OF 2018

On **January 11, 2018** Pirelli announced that it had, through an operation reserved for *"qualified investors"* in Italy and institutional investors abroad, successfully completed the sale of the entire investment directly held in Mediobanca S.p.A. - which corresponded to approximately 1.8% of the relative share capital - with a total net collection of euro 152.8 million.

On **January 22, 2018,** as part of the EMTN (Euro Medium Term Note) program approved at the end of 2017 and underwritten on January 10, 2018, Pirelli placed a bond loan with international institutional investors for a nominal amount of euro 600 million, with a five-year duration at a fixed rate. The loan saw the collection of orders amounting to euro 2.4 billion from 280 international investors. The effective yield at maturity is equal to 1.479% and the securities were listed on the Luxembourg Stock Exchange. Furthermore, during the first weeks of January, Pirelli initiated an operation to change the financial conditions of the Group's main banking credit facility - involving a total notional amount of euro 4.2 billion, which included a revolving credit facility for the amount of euro 700 million - which allowed for the reduction of the applied interest margin by 30 basis points.

On **February 26, 2018**, the Pirelli Board of Directors approved the results at December 31, 2017, which were consistent with the course of 2017-2020 Industrial Plan. The net income of the parent company Pirelli & C. S.p.A. was positive to the amount of euro 170.9 million. In accordance with that which was already known by the market, at the Shareholders' Meeting convened on May 15, 2018, the Board of Directors proposed not to distribute any dividends and to carry forward the entire gains for the financial year. In addition to the approval of the Financial Statements, the Shareholders' Meeting was also called to deliberate the merits of the increase in the number of Directors to fifteen, through the appointment of a Director nominated by minority shareholders (as expected by the market as during the IPO) and the renewal of the Board of Statutory Auditors, whose appointment was expiring due to their completed mandate. The Shareholders' Meeting was also called to cast a consultative vote on the Remuneration Policy, as well as to approve, as regards the part related to Total Shareholder Return, the adoption of a new three-year monetary Long Term Incentives plan for the 2018-2020 period (the "LTI Plan") - intended for the entire management sector (approximately 290 people) - which is relative to the objectives for the 2018-2020 period contained in the 2017-2020 Industrial Plan.
The LTI Plan, is as in the past, totally self-financed, in that the relative expenses are included in the financial data of the Industrial Plan, consistent with the variable remuneration mechanisms adopted at international level and based on the performance of Pirelli shares (Total Shareholder Return), in this way allowing for the alignment of the interests of management with those of the shareholders. Participants of the LTI Plan includes amongst others, Marco Tronchetti Provera, the Executive Vice Chairman and Chief Executive Officer of Pirelli.
Finally, the Shareholders' Meeting will be called upon to express its opinion on the renewal of the insurance policy which covers managerial risks for Directors and Statutory Auditors (the so called D&O - Directors & Officers Liability.

On **March 6, 2018** at the Geneva Motor Show, Pirelli presented their Cyber Car technology, the new system for Original Equipment which thanks to a sensor, allows for the interaction between tyre and car.

On **March 15, 2018** Pirelli placed a *"Floating Rate Note"* to the value of euro 200 million with maturity in September 2020. The floating rate bond issue - intended exclusively for institutional investors – allows for the repayment of the existing debt by an equal amount, thereby further optimising the company's financial structure by reducing the cost of debt.

On **March 20, 2018** the euro 600 million bond loan maturing in November 2019, listed on the Luxembourg Stock Exchange, was repaid in advance by the subsidiary Pirelli International Plc. The loan was reimbursed at a price of euro 1,031.15 by way of a Make-Whole Amount for each bond with a value of euro 1,000, to which euro 5.85 was added as interest accrued up until the date of the reimbursement.

On **March 22, 2018** Pirelli - consistent with the 2017-2020 Industrial Plan announced to the financial community the previous financial year during the IPO - presented an investment plan of over euro 250 million for the next three years in LatAm, aimed at the technological upgrade of production facilities and at the development of the High Value segment.

GROUP PERFORMANCE AND RESULTS

In this document, in addition to the financial figures as provided for by the International Financial Reporting Standards (IFRS), alternative performance indicators derived from IFRS were used in order to allow for a better assessment of the of the Group's operating and financial performance. These indicators were:

- EBITDA;
- EBITDA adjusted;
- EBITDA adjusted without start-up costs;
- EBIT;
- EBIT adjusted;
- EBIT adjusted without start-up costs;
- Net Income (loss) related to continuing operations (Consumer) adjusted;
- Fixed Assets related to continuing operations;
- Operating Working Capital related to continuing operations;
- Net Working Capital related to continuing operations;
- Provisions;
- Net Financial (liquidity)/debt Position.

Reference should be made to the paragraph *“Alternative Performance Indicators”* for a more detailed description of these indicators.

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As a result of the assignment by Pirelli & C. S.p.A. to the parent company Marco Polo International Holding Italy S.p.A., during March 2017 of the TP Industrial Holding S.p.A. shares, the company into which almost all of Pirelli's Industrial assets had been merged, and in continuity with the 2017 financial year, some residual activities in China and Argentina relative to the Industrial business, qualified as *"discontinued operations"*. The results for the period for *“discontinued operations”* were classified to the Income Statement as a single item, *"net income (loss) related to discontinued operations"*. The separation process is expected to be completed during the course of the current financial year.

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It is to be noted that the Interim Financial Report at March 31, 2018 was prepared by applying the new accounting standards IFRS 15 - Revenue from Contracts with Customers, and IFRS 9 - Financial Instruments, which came into force as of January 1, 2018. The main impacts deriving from their application were as follows:

- IFRS 15 - Revenue from Contracts with Customers: as a result of the application of this accounting standard, some amounts previously accounted for under costs mainly related to variable considerations paid or payable to indirect customers and mainly linked to achieving sale targets, have been recognised as a reduction in revenues or other revenues, with insignificant impact. The restatement of these amounts did not alter the operating income or equity of the Group at the date of the transition (January 1, 2018);

- IFRS 9 - Financial Instruments: following the application of this standard, the Group's equity, at the date of the transition (January 1, 2018) decreased by euro 1,023 thousand, due to the new model of impairment applied to some financial receivables.

The Group has adopted the two principles retrospectively, taking into account the combined effects deriving from their first application to equity as of January 1, 2018, therefore the comparative data for the first quarter of 2017 has not been subjected to restatement.

Reference should be made to the section in this document *“Financial Statements - Form and Content”*, for details of all the new accounting standards, or amendments to existing accounting standards, that applied as of January 1, 2018.

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The **results for the first quarter of 2018** were characterised by:

- Net sales which amounted to euro 1,310.3 million, which represented an organic growth of +5.7% thanks to the strengthening of the leadership position in the high-end products range in all regions (a +13.4% organic growth for the High Value segment);

- an EBIT adjusted without start-up costs equal to euro 229.4 million, with a margin of 17.5%, which had improved by over one percentage point (16.4% for the first quarter of 2017, equal to euro 219.5 million);

- Net income related to continuing operations (Consumer) which increased to euro 92.4 million (euro 49.5 million for the first quarter of 2017);

- a Net Financial Position which was negative to the amount of euro 3,938.9 million, which represented an increase compared to euro 3,218.5 million at December 31, 2017, due to the seasonality of working capital, but which represented a decline compared to euro 5,525.2 million at March 31, 2017. The change compared to the first quarter of 2017 also reflects the capital increase underwritten by the parent company Marco Polo International Italy S.p.A. in June 2017 for approximately euro 1.2 billion.

The main actions underlying these results and, more generally, actions relative to the implementation of the 2017-2020 Industrial Plan, can be summarised as follows:

- **strengthening of the High Value segment** which for the first quarter of 2018 represented 63.6% of revenues (57.9% for the corresponding period of 2017, therefore a growth of +5.7%). High Value volumes recorded a growth of +12.8% for the first quarter of 2018, with an improvement in the market share for the Car New Premium segment (with Pirelli sales volumes at +18.6% compared to the +7.9% growth of the market). The difference (delta) between the growth trend of the High Value segment and that of Car ≥18 inches was attributable to the growing demand for Specialties with ≥18 inch rim diameters compared to Specialties with lower rim diameters (included in High Value), and to the general slowdown in the Premium motorcycle market (-4.0% for the first quarter of 2018), due to the difficult climatic conditions especially in Europe, which is the main Premium motorcycle market;
- **the progressive reduction of exposure on the Standard segment** with a -10.6% decrease in volumes in Apac, Europe, MEAI, NAFTA and LatAm, mainly due to the reduction of sales of less profitable products, but also in the presence of a non-positive market in Europe and NAFTA (-5.5%). As a result of this impact, the total change in volumes (Cars and Motorbikes) stood at -1.5%;
- **consequent improvement in the price/mix component** which once again asserted itself at the highest level amongst peers: +7.2% for the first quarter of 2018 due to effect of the progressive improvement of the mix, and the price increases put in place as of April 1, 2017.

At the level of the more specific programs, of note is:

- **the strengthening of the partnership** with Prestige and Premium car manufacturers: more than 120 new High Value homologations during the first quarter of 2018, with a portfolio which reached 2,280 high-end homologations. Pirelli was present at the Geneva Motor Show on the latest releases of the Premium and Prestige car manufacturing houses;
- **expansion of the High Value production capacity mainly in Europe and NAFTA**, and the conversion of the Standard segment capacity into High Value in Brazil, predisposing the processes and organisation of manufacturing plants to handle the growing complexity and ever-increasing rim diameters;
- **increased distribution coverage in Europe, NAFTA, APAC and LatAm** with a greater presence on the car dealer, retail client and Pirelli Tier 1 channels, where Pirelli exercises greater control and records higher sales;
- **the development of business programs which intercept new end-customer needs** (such as Cyber and Velo), **projects for the digital transformation of the Company, and the continuation of the conversion of Aeolus brand production into Pirelli brand production** in the manufacturing plant in Jiaozuo for the Car sector acquired from Aeolus.

These activities were reflected in the sustainment of start-up costs of approximately euro 11 million for the first quarter of 2018;

- **the achievement of efficiencies which substantially offset costs inflation,** linked to industrial and product development activities such as the optimisation of raw materials costs, the simplification of products and the reduction of tyre weights, the growth of production in countries with low industrial costs, improved productivity and the simplification of processes, plus the optimisation of energy and other costs.

The **Group's consolidated Financial Statements** can be summarised as follows:

(In millions of euro)	**03/31/2018**	**03/31/2017**	**12/31/2017**
Net sales	**1,310.3**	**1,339.3**	**5,352.3**
EBITDA adjusted without start-up costs	298.0	281.7	1,175.1
% of net sales	22.7%	21.0%	22.0%
EBITDA adjusted	**288.1**	**270.4**	**1,137.7**
% of net sales	22.0%	20.2%	21.3%
EBIT adjusted without start-up costs	229.4	219.5	926.6
% of net sales	17.5%	16.4%	17.3%
EBIT adjusted (°°)	**218.4**	**205.0**	**876.4**
% of net sales	16.7%	15.3%	16.4%
EBIT	**184.0**	**168.7**	**673.6**
% of net sales	14.0%	12.6%	12.6%
Net income (loss) from equity investments	0.8	(3.1)	(6.9)
Financial income/(expenses)	(55.2)	(77.0)	(362.6)
Net income (loss) before tax	**129.6**	**88.6**	**304.1**
Tax expenses	(37.2)	(39.1)	(40.8)
Tax rate %	(28.7%)	(44.1%)	(13.4%)
Net income (loss) related to continuing operations (Consumer)	**92.4**	**49.5**	**263.3**
Eanings/(loss) per share related to continuing operations (in euro per share)	0.09	0.05	0.31
Net income (loss) related to continuing operations (Consumer) adjusted	113.3	75.7	386.8
Net income (loss) related to discontinued operations (Industrial)	(3.3)	(76.6)	(87.6)
Total net income (loss)	**89.1**	**(27.1)**	**175.7**
Net income attributable to the Parent Company	90.4	(27.9)	176.4
Fixed assets related to continuing operations	**8,958.2**	**9,213.6**	**9,121.0**
Inventories	940.2	925.5	940.7
Trade receivables	875.9	1,044.8	652.5
Trade payables	(1,062.5)	(1,062.2)	(1,673.6)
Operating working capital related to continuing operations	**753.6**	**908.1**	**(80.4)**
% of net sales (°)	14.4%	17.0%	(1.5%)
Other receivables/other payables	89.9	158.2	(42.2)
Net working capital related to continuing operations	**843.5**	**1,066.3**	**(122.6)**
% of net sales (°)	16.1%	19.9%	(2.3%)
Net invested capital held for sale	**51.3**	**78.4**	**60.7**
Net invested capital	**9,853.0**	**10,358.3**	**9,059.1**
Equity	**4,267.6**	**3,002.9**	**4,177.0**
Provisions	1,646.5	1,830.2	1,663.6
Net financial (liquidity)/debt position	**3,938.9**	**5,525.2**	**3,218.5**
Equity attributable to the Parent Company	4,205.7	2,929.1	4,116.7
Investments in property, plant and equipment and intangible assets	85.3	98.3	489.4
Research and development expenses	56.3	56.7	221.5
% of net sales	4.3%	4.2%	4.1%
Research and development expenses - High Value	51.3	50.3	199.9
% on sales High Value	6.2%	5.5%	6.5%
Employees (headcount at end of period)	31,267	30,220	30,189
Industrial sites (number)	19	19	19

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

(°°) Adjustments refer to amortization of intangible assets identified during PPA amounting to 28.7 millions of euro (euro 26.2 millions in the first quarter of 2017 and euro 109.6 millions in 2017), non recurring and restructuring expenses amounting to euro 2.4 millions (euro 10.1 millions in the first quarter of 2017 and euro 93.2 millions in 2017) and expenses relating to the retention plan approved by the Board of Directors on February 26, 2018 amounting to euro 3.3 millions.

Group sales amounted to euro 1,310.3 million and recorded an organic growth of +5.7% compared to the previous financial year. Including the exchange rate effect (-7.3%), and the impact deriving from the application of the new accounting standard IFRS 15 - Revenue from Contracts with Customers (-0.6%), the change in revenues equalled -2.2%.

High Value revenues for the first quarter of 2018 which amounted to euro 833.9 million, an organic growth of +13.4% (+7.5% including the negative exchange rate effect of -5.9%) accounted for a 63.6% share of turnover (up by +5.7% compared to the corresponding period of 2017).

The following table shows the market drivers for the **net sales performance**:

	1 Q	
	2018	**2017**
Volume	-1.5%	2.9%
Price/mix	7.2%	5.5%
Change on a like-for-like basis	**5.7%**	**8.4%**
Translation effect	-7.3%	4.0%
Change in scope of consolidation - Aeolus car		1.0%
Adoption of new accounting standard IFRS 15	-0.6%	
Total change	**-2.2%**	**13.4%**

The performance for sales volumes for the first quarter of 2018 (-1.5%) reflected the diverse dynamics within the High Value and Standard segments.

High Value volumes grew sharply (up by +12.8% for the first quarter of 2018), a further strengthening compared to the positive performance already recorded for the first quarter of 2017 (+17.1%), with an improvement in market share in all the main regions. Growth was more pronounced for Car tyres ≥18 inch rim diameters compared to the total High Value segment (+18.6% compared to the +7.9% of the market) thanks to strong demand in Europe and Apac on the Original Equipment channel, driven by the expansion of the homologation portfolio. The differential between the growth trend of the High Value segment and that of Car ≥18 inches was attributable to the growing demand for specialties with ≥18 inch rim diameters, compared to specialties with lower rim diameters (included in High Value), and to the aforementioned slowdown in the Premium motorcycle market (-4.0% for the first quarter of 2018), due to the difficult climatic conditions especially in Europe, which is the main Premium motorcycle market.

There was an opposite trend on the Standard segment which recorded a decline of -10.6% compared to the first quarter of 2017. This trend was impacted by:

- on the one hand, the decline in demand for Standard products in mature markets (Europe -5.5%, NAFTA -5.5% and Apac -1.6%);

- on the other, by Pirelli's decision to accelerate the reduction in volumes of lower profitability products in Europe, LatAm, MEAI and Apac. Particularly in Apac, the decline reflected the gradual reduction in Aeolus brand sales, as a result of the conversion of production towards higher rim diameters and into the Pirelli brand.

The strong price/mix improvement (+7.2% compared to the +5.5 change for the first quarter of 2017) was a result of the implementation of the value strategy and was supported by the growing turnover share of the High Value segment, by the improvement of the mix for the Standard segment, and by the progressive increase in prices implemented as of April 1, 2017 to counter the increase in the costs of raw materials.

The exchange rate performance was negative (-7.3% compared to +4.0% for the first quarter of 2017) due to the strengthening of the Euro against the US Dollar, and the volatility of the Chinese currency and those of emerging countries (Brazil, Russia and Argentina) against the Euro.

The apportionment of **net sales by region** was composed as follows:

	1Q 2018				**1Q 2017**
	Euro\mln	*%*	*yoy*	*Organic Yoy**	*%*
Europe	577.5	44.1%	*1.3%*	*3.1%*	42.6%
NAFTA	243.5	18.6%	*-2.9%*	*10.0%*	18.7%
Asia\Pacific (APAC)	197.3	15.1%	*5.8%*	*12.9%*	13.9%
South America	189.3	14.4%	*-16.7%*	*1.4%*	17.0%
Middle East\Africa\India (MEAI)	57.7	4.4%	*-9.8%*	*-4.1%*	4.8%
Russia and CIS	45.0	3.4%	*10.7%*	*21.2%*	3.0%
TOTAL	**1,310.3**	**100.0%**	***-2.2%***	***5.7%***	**100.0%**

* before exchange rate effect and changes in scope of consolidation and adoption effect of new accounting standard IFRS 15

Europe (44.1% of sales) closed the first quarter with a growth in revenues of +3.1%, up by +1.3% including the devaluation of exchange rates (-0.5%) and the impact deriving from the effect of adoption of the new accounting standard IFRS 15 (-1.3%), almost entirely attributable to the European region. The strengthening of the High Value segment continued during the quarter, with an increase in market share and a growth in revenues of +11.8% net of the exchange rate effect. There was an opposite trend on the Standard segment with a -14.0% decline in revenues net of the exchange rate effect, due to:

- a general decline in market volumes (-5.5% for the first quarter of 2018), due to the delay to the start of the summer season, due to poor weather conditions, and to the difficult basis for comparison (+5.0% growth in market volumes for the first quarter of 2017 in view of price increases);
- an accelerated reduction of exposure to the less profitable products and a decrease in the sales of 17 inch rims on the Original Equipment channel in favour of higher rim diameters.

Profitability (Ebit margin adjusted) in the mid-teens range had increased compared to the previous financial year, especially as a result of the continued improvement of the mix.

NAFTA (18.6% of sales) recorded an organic growth in revenues of +10.0% (-2.9% including the exchange rate effect which was particularly negative at -12.9%), driven by the High Value segment (+10.4% net of the exchange rate effect) and in particular by the growth sustained on the Replacement channel, thanks to the introduction of all-season products and the higher penetration of the retail channel. Profitability (Ebit margin adjusted) was at high-teens level which was slightly lower compared to the previous financial year (in the twenties range), penalised mostly by changes in exchange rates.

Apac (15.1% of sales) confirmed itself as the region with the highest profitability (an EBIT margin adjusted in the twenties range), an improvement compared to the previous financial year. Total revenue performance grew by +12.9% (+5.8% including the negative exchange rate effect of -7.1%), driven by the High Value segment (with organic growth in revenues of +23.3%), thanks to:

- the increased exposure on the Original Equipment channel which counts new supplies and homologations with European and local brands;
- the increased market share for the Replacement channel thanks to the pull-through effect and a wide commercial presence which now counts approximately 4,000 points of sale.

Sales on the Standard segment were down (-13.0%) and reflected:

- the decline in volumes for 17 inch rim diameters in the Original Equipment channel in favour of higher diameters;
- the aforementioned reduction in Aeolus brand sales, as a result of the conversion of production towards higher rim diameters and into the Pirelli brand.

South America (14.4% of sales) recorded an organic growth in revenues of +1.4% and a total negative change of -16.7%, with a negative exchange rate effect of -18.1%. This performance reflected:

- the continuing focus on the mix, with the progressive reduction of sales of less profitable products, particularly those with lower rim diameters within the Standard segment;

- the destination of a portion of production for export to North America in view of the growing demand for Premium Pirelli products and the progressive growth of the mix recorded by the Brazilian factories.

Profitability (Ebit margin adjusted) in the high single-digits range posted growth compared to the first quarter of 2017, (mid-single-digits) due to the continued actions aimed at the improvement and conversion of the mix.

MEAI (4.4% of sales) recorded a negative organic change in revenues of -4.1% (negative at -9.8% including the exchange rate effect) due to the reduction in volumes in the Standard segment of lower and less profitable rim diameters. Profitability (Ebit margin adjusted) in the mid-teens range recorded a slight decrease compared to 2017, impacted by the devaluation of exchange rates particularly in Turkey.

In **Russia** (3.4% of sales) the strategy of focusing on the more profitable segments plus the recovery of the market impacted positively on the results of the first quarter, with a +21.2% increase in revenues net of the exchange rate effect (a growth of +10.7% including the negative exchange rate effect of -10.5%) with further improvement in profitability (an EBIT margin in the mid-teens, compared to the high single-digit range for the corresponding period of 2017).

The **EBIT adjusted without start-up costs** - amounted to euro 229.4 million, representing a growth of +4.5% and euro 9.9 million, compared to the previous financial year (euro 219.5 million). The EBIT margin adjusted without start-up costs attested itself at 17.5%, a growth of +1.1% compared to the previous financial year. Start-up costs which amounted to euro 11.0 million (euro 14.5 million for the previous financial year) were relative to new businesses (Velo and Connesso), to the conversion of Aeolus brand production into Pirelli brand production in the manufacturing plant in Jiaozuo for the Car sector and to activities for the digital transformation of the Company.

The **EBIT adjusted** amounted to euro 218.4 million, representing a growth of +6.5% and euro 13.4 million in absolute values compared to the previous financial year (euro 205.0 million), with a margin of 16.7% which had improved by +1.4% compared to the previous financial year.

As illustrated in the following table, the improved result is linked to the effect of internal levers such as price/mix and efficiencies, which more than offset:

- the rise in the cost of raw materials;
- costs inflation (particularly in emerging markets);
- higher amortisation and depreciation and other costs related to business development;
- the negative exchange rate effect;
- slightly negative volumes due to the reduction in the Standard segment and the unfavourable market situation in Europe and NAFTA.

(In millions of euro)	**1 Q**
2017 EBIT Adjusted	**205.0**
- Internal levers:	
Volumes	(8.0)
Price/mix	62.7
Amortisation, depreciation and other costs related to the development of High Value	(21.4)
Start-up costs	3.5
Efficiencies	9.0
- External levers:	
Cost of production factors: (commodities)	(13.8)
Cost of production factors (labour/energy/others)	(11.4)
Differences from foreign currency translation from consolidation	(7.2)
Change without start-up costs	**13.4**
2018 EBIT adjusted	**218.4**

The **EBIT** which amounted to euro 184.0 million (euro 168.7 million for the corresponding period of the previous financial year) includes the amortisation of the intangible fixed assets identified during the PPA to the amount of euro 28.7 million (euro 26.2 million for the first quarter of 2017), the non-recurring and restructuring expenses mainly for structural rationalisation actions to the amount of euro 2.4 million (euro 10.1 million for the first quarter of 2017), and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018 for the amount of euro 3.3 million.

Income from equity investments was positive at euro 0.8 million (negative at euro 3.1 million for the first quarter of 2017) and mainly refers to the positive impact deriving from the fair value valuation of the investment in Mediobanca S.p.A. held until January 11, 2018 (euro +3.7 million), which was partially offset by the negative result of the Indonesian Joint Venture PT Evoluzione Tyres (euro -2.8 million) valuated using the equity method.

The **net income (loss) related to continuing operations (Consumer)** amounted to euro 92.4 million, compared to earnings of euro 49.5 million for the first three months of 2017. This result is due to the aforementioned improvement in the operating net cash flow and lower **net financial expenses** of euro 21.8 million (euro 55.2 million for the first quarter of 2018 compared to euro 77.0 million for the first quarter of 2017) attributable for euro 11.1 million to the balance between the benefits deriving from the repricing of the Group's main banking credit facility (which occurred in January 2018) and the expenses arising from the early extinction of the bond by Pirelli International Plc (for the amount of euro 600 million, with a fixed coupon of 1.75%. and original maturity in November 2019) carried out through the exercise of the so-called make-whole option. The reduction in financial expenses was also due to the decrease in the Group's financial indebtedness due to the euro 1.2 billion capital increase by the shareholder Marco Polo in June 2017, as well as to the organic cash flow generation of the Group.

The cost of debt attested itself at 5.01% compared with 5.42% for the corresponding period of the previous financial year and 5.36% at December 31, 2017.

Tax expenses for the first quarter of 2018 amounted to euro 37.2 million against net income before tax of euro 129.6 million with a tax rate which attested itself at 28.7%, consistent with the expected tax rate for the 2018 financial year.

The **net income (loss) related to continuing operations (Consumer) adjusted** amounted to euro 113.3 million compared to euro 75.7 million for the corresponding period of the previous financial year.

The net income (loss) related to discontinued operations included the financial data for the first quarter of 2018 of some residual Industrial activities in China and Argentina currently undergoing separation, and was negative to the total amount of euro 3.3 million.

The loss of euro 76.6 million for the first quarter of 2017 included the financial data for the first quarter of 2017 for the entire Industrial Business (which no longer comes under the scope of the Group as a result of the assignment to the parent company Marco Polo in March 2017), as well as the reversal to the Income Statement of the translation differences which matured at the date of the assignment which were negative to the total amount of euro 80.2 million and mainly attributable to the Egyptian company.

The total net income was positive to the amount of euro 89.1 million compared to a loss of euro 27.1 million for the corresponding period of the previous financial year.

The **net income attributable to the Parent Company** amounted to euro 90.4 million compared to a loss of euro 27.9 million for the first quarter of 2017.

Equity went from euro 4,177.0 million at December 31, 2017 to euro 4,267.6 million at March 31, 2018.

Equity attributable to the Parent Company at March 31, 2018 amounted to euro 4,205.7 million compared to euro 4,116.7 million at December 31, 2017.

The change is shown in the table below:

(In millions of euro)	**Group**	**Non-controlling interests**	**Total**
Equity at 12/31/2017	**4,116.7**	**60.3**	**4,177.0**
Adoption of new accounting standard IFRS9	(1.0)	-	(1.0)
Translation differences	(3.2)	2.0	(1.2)
Net income (loss)	90.4	(1.3)	89.1
Other	2.8	0.9	3.7
Total changes	**89.0**	**1.6**	**90.6**
Equity at 03/31/2018	**4,205.7**	**61.9**	**4,267.6**

The **net financial (liquidity)/debt position** was negative to the amount of euro 3,938.9 million compared to euro 3,218.5 million at December 31, 2017.

It was composed as follows:

(In millions of euro)	03/31/2018	12/31/2017
Current borrowings from banks and other financial institutions	849.2	559.2
Current derivative financial instruments	23.6	11.2
Non-Current borrowings from banks and other financial institutions	3,709.0	3,897.1
Non-Current derivative financial instruments	97.5	55.0
Total gross debt	**4,679.3**	**4,522.5**
Cash and cash equivalents	(592.1)	(1,118.5)
Securities held for trading	-	(33.0)
Other financial assets at fair value through income statement	(9.1)	-
Current financial receivables and other assets	(29.5)	(36.5)
Current derivative financial instruments	(17.1)	(21.4)
Net financial debt *	**4,031.4**	**3,313.1**
Non-current financial receivables and other assets	(92.6)	(94.6)
Total net financial (liquidity)/debt position	**3,938.9**	**3,218.5**

* Pursuant to Consob Notice of July 28, 2006 and in compliance with CESR recommendation of February 10, 2005 "Recommendations fot the consistent implementation of the European Commission regulation on Prospectuses".

The **structure of the gross financial debt**, which amounted to euro 4,679.3 million, was as follows:

(In millions of euro)	**03/31/2018**	**Maturity date**					
		2018	**2019**	**2020**	**2021**	**2022**	**2023 and beyond**
Use of unsecured financing ("Facilities")	2,900.8	-	-	1,312.1	-	1,588.7	-
Bond EURIBOR +0,70% - 2018/2020	199.8	-	-	199.8	-	-	-
Bond 1,375% - 2018/2023	592.8	-	-	-	-	-	592.8
EIB loans	20.0	10.0	10.0	-	-	-	-
ISP short term borrowing	200.0	-	200.0	-	-	-	-
Other loans	765.9	632.6	95.8	2.6	1.8	31.7	1.4
Total gross debt	**4,679.3**	**642.6**	**305.8**	**1,514.5**	**1.8**	**1,620.4**	**594.2**
		13.7%	*6.5%*	*32.4%*	*0.0%*	*34.6%*	*12.8%*

At March 31, 2018, the Group had a liquidity margin equal to euro 1,301.2 million composed of euro 700.0 million in the form of a non-utilised nominal credit facilities, and euro 592.1 million in cash and cash equivalents, in addition to other financial assets at fair value through the Income Statement to the amount of euro 9.1 million.

The performance for **cash flows for the period** was as follows:

(In millions of euro)	1 Q	
	2018	**2017**
EBIT adjusted	218.4	205.0
Amortisation and depreciation (excluding PPA amortization)	69.7	65.4
Investments in property, plant and equipment and intangible	(85.3)	(98.3)
Change in working capital/other	(928.8)	(892.2)
Operating net cash flow	**(726.0)**	**(720.1)**
Financial income/(expenses)	(55.2)	(77.0)
Taxes paid	(31.1)	(45.7)
Financial (investments) / disinvestments	155.0	(1.7)
Acquisition of minorities	(18.5)	-
Cash Out for non-recurring and restructuring expenses	(38.2)	(11.9)
Liquidation Drahtcord Saar	-	(5.5)
Differences from foreign currency translation/other	(11.7)	(19.8)
Net cash flow before extraordinary transactions	**(725.7)**	**(881.7)**
Industrial reorganization	5.3	269.3
Net cash flow	**(720.4)**	**(612.4)**

More specifically, the **operating net cash flow** for the first three months of 2018 was negative to the amount of euro 726.0 million (a negative seasonal amount of euro 720.1 million for 2017), after having sustained investments of euro 85.3 million (euro 98.3 million for 2017) which were primarily aimed at increasing the capacity of the High Value segment in Europe and the NAFTA area, at the strategic conversion of the capacity of the Standard segment into High-Value in Brazil, and to the continuous improvement of the quality and mix in all manufacturing plants. The performance for operating net cash flow was mainly linked to changes in the working capital (euro 928.8 million in cash absorption for the first quarter of 2018, compared to euro 892.2 million for the first quarter of 2017), which was impacted by:

- the increase in trade receivables, consistent with the traditional seasonality of business with the start of the summer season (sell-in), whose collections are concentrated in the second quarter;
- the payment of debt linked to investments which are concentrated in the last quarter of the financial year and which are settled during the first few months of the following financial year;
- the reduction of trade payables, in line with seasonality trend of previous years.

The **net cash flow before extraordinary transactions** was negative to the amount of euro 725.7 million. Excluding the collection relative to the sale of the investment in Mediobanca (euro 152.8 million), the net cash flow before extraordinary transactions and the disposal of investments would result as negative to the amount of euro 878.5 million which is consistent with the negative amount of euro 881.7 million recorded for the first quarter of 2017.

Total net cash flow was negative to the amount of euro 720.4 million (negative to the amount of euro 612.4 million for 2017), and includes the positive effect of euro 5.3 million deriving from the Industrial reorganisation relative to the disposal, in part, of residual Industrial assets in China. This impact had been positive for the first quarter of 2017 to the amount of euro 269.3 million, due to the effect of the exit of almost the entire Industrial business following the assignment to the parent company Marco Polo International Holding Italy S.p.A. of the TP Industrial Holding S.p.A. shares, and the finalisation of some operations which also were linked to the Industrial reorganisation.

OUTLOOK FOR 2018

(in millions of euro)	**2017**	**2018**
Revenues	5,352.3	~+4% (y/y) ≥ +9% net of exchange rates
Weight of High Value on revenues	*57.5%*	*≥ 60%*
Adjusted Ebit before start-up costs	926.6	>1,000
Weight of High Value on Adjusted Ebit	*~ 83%*	*≥ 83%*
Start-up costs	*50*	*~ 40*
Adjusted Ebit	876.4	~1,000
Net financial position / Adjusted Ebitda before start-up costs	2.7X	~2.3X
CapEx on revenues	9.1%	~8%

The forecast data for 2018 confirm the operating performance indicated on February 26, 2018, notwithstanding the greater volatility of exchange rates and the decision to accelerate the reduction of exposure to low profitability standard segment. These forecasts are in line with the value strategy of the 2017-2020 industrial plan based on the focus on High Value.

On the basis of the figures of the first quarter 2018 results, Pirelli forecasts for 2018:

- Organic revenue growth of equal or above +9% (around +10% the prior indication) as a result of lower expected volume growth following the decision to accelerate the reduction of exposure to the Standard segment. On the other hand, the expected growth of High Value is confirmed. Including the forex effect, the lower volumes for the progressive reduction in the Standard segment, as well as the new IFRS 15 accounting principles (previously not included in the guidance), the total growth of revenues is expected at around +4% (prior indication above or equal to +6%).
- Growing weight of High Value component confirmed, which will represent equal to or above 60% of total sales at the end of 2018 (prior indication around 60%);
- Profitability forecast confirmed, with Adjusted Ebit before start-up costs expected at over 1 billion euro. The effect of greater forex volatility and lower volumes is offset by lower impact of raw material costs (from -95 million euro to about -80 million euro).
- Weight of High Value segment on Adjusted Ebit before start-up costs confirmed at equal to or above 83%;
- Start-up costs confirmed declining to about 40 million euro;
- Expected Adjusted Ebit confirmed at about 1 billion euro;
- Ratio of net financial position and Adjusted Ebitda before start-up costs confirmed at around 2.3 times;
- CapEx confirmed at around 8% of revenues.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE QUARTER

On **April 21, 2018,** with reference to the Ordinary Shareholders' Meeting of Pirelli & C. S.p.A. convened for May 15th 2018 as a combined (ordinary and extraordinary) Shareholders' Meeting, to deliberate, amongst other things, the appointment of the members of the Board of Statutory Auditors and the increase in the number of members for the Board of Directors, the Company announced that, within the set terms provided, two lists of candidates had been filed for the renewal of the Board of Statutory Auditors on the part of Marco Polo International Italy S.p.A. (the majority shareholder of the Company) as well as by a group of asset management companies and institutional investors. In addition, the same group of asset management companies and institutional investors referred to above, announced that they will formulate a proposal for the Meeting to appoint as a new Director, Giovanni Lo Storto, who has declared that he possesses the requisites to qualify as *"independent".*

On **May 14, 2018** following the announcement of April 17 2018, the Board of Directors of Pirelli, upon the proposal of the Executive Vice Chairman and CEO, Marco Tronchetti Provera, approved the development of the organisational structure intended to consolidate the implementation of the Integrated Business Model. The new organisational structure provides that all the functions of staff and Regions concerning institutional areas and overall coordination will continue to report to the Executive Vice Chairman and CEO. Furthermore, the newly-constituted General Management Operations under the management of Andrea Casaluci, grouping functions previously reporting either to Marco Tronchetti Provera or to his direct reports, the “Technology” area under the management of the Executive Vice Chairman Technology Maurizio Boiocchi, and the “Digital” function under the management of Pier Paolo Tamma, who joins the group on 1st. July, will also report to the Executive Vice Chairman and CEO.

ALTERNATIVE PERFORMANCE INDICATORS

This document, in addition to the financial measures as provided for by the International Financial Reporting Standards (IFRS), also includes measures derived from the latter even though not provided for by the IFRS (Non-GAAP Measures). These measures are presented in order to allow for a better assessment of the results of Group operations and must not be considered as alternatives to those required by IFRS.

In particular, the Non-GAAP Measures used are as follows:

- **EBITDA:** is equal to the operating income (loss), (EBIT), from which the depreciation and amortisation of property, plant and equipment and intangible assets are excluded;
- **EBITDA adjusted**: is an intermediate financial measure, which is derived from the gross operating margin (EBITDA) but which excludes non-recurring and restructuring expenses and, with reference to the first quarter of 2018, the expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBITDA adjusted without start-up costs:** is equal to the EBITDA adjusted but which excludes the contribution to the gross operating margin (start-up costs) of the Cyber and Velo Activities, the costs for the conversion of Aeolus brand Car products, and the costs sustained for the digital transformation of the Company;
- **EBIT:** is an intermediate measure, which is derived from the net income (loss) but which excludes taxes, financial income, financial expenses and the results from investments;
- **EBIT adjusted:** is an intermediate financial measure, which is derived from the operating income (loss), (EBIT), and which excludes the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operational costs attributable to non-recurring and restructuring expenses and, with reference to the first quarter of 2018, the expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBIT adjusted without start-up costs:** is equal to the EBIT adjusted but excludes the contribution to the operating income (start-up costs) of the Cyber and Velo Activities, the costs for the conversion of Aeolus brand Car products, and the costs sustained for the digital transformation of the Company;
- **Net income (loss) related to continuing operations (Consumer) adjusted:** is calculated by excluding the following items from the net income (loss) from continuing operations:
    - o the amortisation of intangible assets related to assets recognised as a consequence of Business Combinations, operational costs due to non-recurring and restructuring expenses and, with reference to the first quarter of 2018, the expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
    - o non-recurring costs/income recognised under financial income and expenses;

  - non-recurring costs/income recognised under the taxes item, as well as the tax impact relative to the adjustments referred to in the previous points

- **Fixed assets related to continuing operations:** this measure is constituted of the sum of the items *"Property, plant and equipment", "Intangible assets", "Investments in associates and joint ventures"* and *"Other financial assets at fair value recognised in the Statement of Comprehensive Income";*

- **Operating working capital related to continuing operations:** this measure is constituted by the sum of *"Inventory", "Trade receivables"* and *"Trade payables";*

- **Net working capital related to continuing operations:** this measure consists of the operating working capital and other receivables and payables not included in the *"Net financial liquidity/(debt) position";*

- **Provisions:** this measure is constituted by the sum of *"Provisions for liabilities and charges (current and non-current)", "Employee benefit obligations (current and non-current)"* and *"Provisions for deferred taxes";*

- **Net financial (liquidity)/debt position:** this measure is represented by the gross financial debt less cash and cash equivalents as well as financial receivables.

OTHER INFORMATION

The Board of Directors, taking into account the simplification of regulatory requirements introduced by CONSOB in the Issuer's Regulation No: 11971/99, resolved to exercise the power to derogate, pursuant to the provisions of Article 70, paragraph 8, and Article 71, paragraph 1-bis of the said Regulation, the obligations to publish the disclosure documents required at the time of significant mergers, de-mergers, capital increase by contributions in kind, acquisitions and disposals.

ROLE OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for the strategic guidance and supervision of the overall business activities, has the power to address the administration in its entirety, and is empowered in the undertaking of the most important financial/strategic decisions or decisions which have a structural impact on operations or are functional decisions, as well as to exercise the control and direction of Pirelli.

The Chairman is endowed with the legal representation of the Company including in the legal proceedings of the Company, as well as all other powers attributable to the Chairman in accordance with the Articles of Association.

The Executive Vice Chairman and Chief Executive Officer are exclusively delegated powers for the ordinary management of the Company and the Group, as well as the power to propose business plans and budgets to the Board of Directors, as well as any resolutions concerning any strategic industrial partnerships and joint ventures of which Pirelli is a part.

The Board has internally instituted the following Committees with advisory tasks:

- Audit, Risk, Sustainability and Corporate Governance Committee;
- Remuneration Committee;
- Committee for Related Party Transactions;
- Nominations and Successions Committee;
- Strategies Committee.

INFORMATION ON THE SHARE CAPITAL AND OWNERSHIP STRUCTURE

The subscribed and paid up share capital at the date of approval of this Financial Report amounted to euro 1,904,374,935.66 and was represented by 1,000,000,000 registered shares without indication of their nominal value. Marco Polo International Italy S.p.A. is the entitled controlling shareholder of the Company but does not exercise management and coordination. Extracts are available on the Company's website of the agreements dated July 2017 between the shareholders, including the indirect shareholders, of Marco Polo International Italy S.p.A. which contain the provisions of the Shareholders' Agreements relative to, amongst other things, the governance of Pirelli.

RELATED-PARTY TRANSACTIONS

The Board of Directors approved the Procedure for Related Party Transactions, following the unanimous favourable opinion expressed by the Committee for Related Party Transactions, as was disclosed in the registration document, published as part of in the Offer of Sale Prospective. The procedure can be viewed, together with other governance procedures, in the *"Governance"* section of the website www.pirelli.com".

Related party transactions, including inter-group transactions, are neither exceptional nor unusual, but are part of the ordinary course of business for companies of the Group. Such transactions, when not settled under standard conditions, or dictated by specific regulatory conditions, are in any case regulated by conditions consistent with those of the market.

The effects of the related party transactions, contained in the Income Statement and the Statement of Financial Position, on the consolidated data for the Pirelli & C. Group at March, 31, 2018 were as follows:

TRANSCATIONS WITH ASSOCIATES AND JOINT VENTURES

STATEMENT OF FINANCIAL POSITION		
(in millions of euro)	**03/31/2018**	**12/31/2017**
Other non current receivables	11.7	12.0
Trade receivables	2.0	1.8
Other current receivables	18.6	14.8
Trade payables	18.8	24.0
Other current payables	0.3	0.4

INCOME STATEMENT		
(in millions of euro)	**03/31/2018**	**03/31/2017**
Revenues from sales and services	2.3	0.6
Other costs	9.7	9.7
Financial income	0.2	0.1
Financial expenses	-	0.1

Transactions - Statement of Financial Position

The item **other non-current receivables** refers to a loan granted by Pirelli Tyre S.p.A. and Pirelli to PT Evoluzione Tyres.

The item **trade receivables** includes receivables for services rendered to PT Evoluzione Tyres to the amount of euro 1.8 million and to the Joint Stock Company *"Kirov Tyre Plant"* to the amount of euro 0.2 million.

The item **other current receivables** mainly refers to receivables for advances paid by Pirelli Tyre S.p.A. to PT Evoluzione Tyres to the amount of euro 6.6 million for the supply of motorcycle products and the sales of materials and moulds to the Joint Stock Company *"Kirov Tyre Plant"* to the amount of euro 5.4 million euro, and to financing granted by Pirelli International Plc to PT Evoluzione Tyres for the amount of 5.7 million.

The item **trade payables** mainly refers to the debt for the purchase of energy from Industriekraftwerk Breuberg GmbH and trade payables towards the Joint Stock Company *"Kirov Tyre Plant".*

The item **other current payables** refers mainly to the purchase of equipment from the Joint Stock Company *"Kirov Tyre Plant".*

Transactions - **Income statement**

The item **revenues from sales and services** mainly refers to services rendered to PT Evoluzione Tyres to the amount of euro 0.4 million, to royalties recognised by PT Evoluzione Tyres to the amount of euro 0.8 million, and to the sale of materials and services to the Joint Stock Company *"Kirov Tyre Plant"* to the amount of euro 1.0 million.

This item **other costs** mainly refers to acquisition costs for the purchase of energy and equipment hire from Industriekraftwerk Breuberg GmbH to the amount of euro 5.4 million, and to costs for the acquisition of products from PT Evoluzione Tyres to the amount of euro 4.3 million.

The item **financial income** refers to interest on the loan granted by Pirelli International Plc and Pirelli Tyre S.p.A. to PT Evoluzione Tyres.

TRANSACTIONS WITH OTHER RELATED PARTIES

STATEMENT OF FINANCIAL POSITION		
(in millions of euro)	**03/31/2018**	**12/31/2017**
Trade receivables	40.6	61.0
Other current receivables	32.0	21.7
Current tax receivables	-	0.1
Trade payables	128.2	174.0
Other current payables	18.5	16.1
Current tax payables	9.9	9.9

With reference to transactions with Prometeon Group, comparative income amounts refer to the first quarter of 2017 even though Prometeon Group became a related party starting from March 15, 2017 (date of assignment by Pirelli & C. S.p.A. of TP Industrial Holding S.p.A. shares to Marco Polo International Holding Italy S.p.A.).

INCOME STATEMENT		
(in millions of euro)	**03/31/2018**	**03/31/2017**
Revenues from sales and services	1.2	6.0
Other income	28.4	75.7
Raw materials and consumables used	5.2	12.2
Other costs	62.5	102.6
Financial income	0.1	8.4
Financial expenses	0.0	7.5
Other income of discontinued operations	1.9	-
Other costs of discontinued operations	13.7	-

Transactions – Statement of Financial Position

The item **trade receivables** mainly refers to receivables for royalties from the Aeolus Tyre Co. to the amount of euro 11.1 million and trade receivables to the amount of euro 29.5 million from companies of the Prometeon Group.

The item **other current receivables** mainly refers to receivables from companies of the Prometeon Group to the amount of euro 30 million.

The item **trade payables** mainly refers to payables to companies of the Prometeon Group to the amount of euro 128.1 million.

The item **other current payables** mainly refers to payables to companies of the Prometeon Group to the amount of euro 18.2 million.

The item **current tax payables** refers to the companies of the Prometeon Group regarding tax consolidation which ceased in 2017.

Transactions – Income statement

The item **revenues from sales and services** mainly refers to the sale of goods and services rendered by Pirelli Pneus Ltda. to Pirelli de Venezuela C.A. to the amount of euro 1.1 million.

The item **other income** at March 31, 2018 included royalties recognised as regards Aeolus Tyre Co. Ltd. in respect of the license agreement stipulated in 2016 to the amount of euro 3.8 million.

The item also includes income from companies of the Prometeon Group mainly relative to:

- the sale of semi-finished products on the part of Pirelli Pneus Ltda. to the amount of euro 5.8 million;
- royalties recorded in respect the license contract for the use of the Pirelli trademark to the amount of euro 4.5 million;
- the sale of finished and semi-finished products for the total amount of euro 3.6 million of which euro 2.4 million was carried out by Pirelli Tyres (Suisse) S.A., and sales by other Group companies to the amount of euro 1.2 million;
- the long term service agreement to the amount of euro 3.3 million of which euro 1.4 million to Pirelli Sistemi Informativi S.r.l. and other Group companies to the amount of euro 1.9 million;
- logistic services for a total amount of euro 2.7 million of which euro 2.4 million carried out by Total Logistic Management Serviços del Logistica Ltda.;
- the licence agreement for know-how charged by Pirelli Tyre S.p.A. for the amount of euro 2.5 million.

The decrease recorded compared to the same period of the previous financial year was mainly attributable to the fact that raw materials are no longer supplied to the Prometeon Group by the British subsidiary Pirelli International Plc.

The item **raw materials and consumable used** mainly refers to costs payable to companies of the Prometeon Group for the purchase of direct materials/consumables/compounds for the total amount of euro 4.5 million of which euro 4.2 million carried out by the Turkish company Pirelli Otomobil Lastikleri A.S..

The item **other costs** includes contributions to the Hangar Bicocca Foundation and the Pirelli Foundation to the amount of euro 0.3 million and costs payable to companies of the Prometeon Group mainly for:

- the purchase of truck products for a total amount of euro 36 million of which euro 32.6 million carried out by the Brazilian company Comercial e Importadora de Pneus Ltda. for the Brazilian sales network, and purchases by other companies of the Pirelli Group to the amount of euro 3.4 million;
- the purchase of Car/Motorbike products and semi-finished products for a total amount of euro 22.6 million of which euro 21.4 million was carried out by the Turkish company Pirelli Otomobil Lastikleri A.S. in respect of the Off-Take contract.

The item **other income from discontinued operations** refers to the sale of industrial products on the part of the Chinese subsidiary Pirelli Tyre Co. for the amount of euro 1.7 million and the recharging of the costs of TP Trading Beijing Co. Ltd. to the amount of euro 0.2 million from the Prometeon Group.

The item **other costs from discontinued operations** refers to costs for the purchase of industrial products from the Prometeon Group, sustained by the Argentinian subsidiary Pirelli Neumaticos S.A.I.C.

EXCEPTIONAL AND/OR UNUSUAL OPERATIONS

Pursuant to CONSOB Notice No. 6064293 of July 28, 2006, it is hereby specified that during the course of the first quarter of 2018 that no exceptional and/or unusual transactions as defined in the aforesaid Notice were carried out by the Company

The Board of Directors

Milan, May 14, 2018

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(In thousands of euro)*

	03/31/2018	12/31/2017
Property, plant and equipment	3,004,141	2,980,294
Intangible assets	5,862,263	5,893,704
Investments in associates and J.V.	11,888	17,480
Other financial assets	-	229,519
Financial assets at fair value through other comprehensive income	79,918	-
Deferred tax assets	104,785	111,553
Other receivables	208,706	204,051
Tax receivables	24,908	27,318
Derivative financial instruments	615	878
Non-current assets	**9,297,224**	**9,464,797**
Inventories	940,220	940,668
Trade receivables	875,885	652,487
Other receivables	457,198	400,538
Securities held for trading	-	33,027
Other financial assets at fair value through income statement	9,085	-
Cash and cash equivalents	592,135	1,118,437
Tax receivables	27,720	35,461
Derivative financial instruments	23,280	27,770
Current assets	**2,925,523**	**3,208,388**
Assets held for sale	**51,257**	**60,729**
Total Assets	**12,274,004**	**12,733,914**
Equity attributable to owners of the Group:	**4,205,681**	**4,116,758**
- Share capital	1,904,375	1,904,375
- Reserves	2,210,937	2,035,991
- Net income (loss) for the period	90,369	176,392
Equity attributable to non-controlling interests:	**61,938**	**60,251**
- Reserves	63,192	60,936
- Net income (loss) for the period	(1,254)	(685)
Total Equity	**4,267,619**	**4,177,009**
Borrowings from banks and other financial institutions	3,709,028	3,897,089
Other payables	73,824	74,435
Provisions for liabilities and charges	124,753	127,124
Provisions for deferred tax liabilities	1,207,431	1,216,635
Employee benefit obligations	264,805	274,037
Tax payables	2,334	2,399
Derivative financial instruments	97,490	54,963
Non-current liabilities	**5,479,665**	**5,646,682**
Borrowings from banks and other financial institutions	849,188	559,168
Trade payables	1,062,450	1,673,642
Other payables	480,682	565,254
Provisions for liabilities and charges	46,168	45,833
Employee benefit obligations	3,300	-
Tax payables	55,068	48,416
Derivative financial instruments	29,864	17,910
Current liabilities	**2,526,720**	**2,910,223**
Liabilities held for sale	**-**	**-**
Total Liabilities and Equity	**12,274,004**	**12,733,914**

CONSOLIDATED INCOME STATEMENT (In thousands of euro)

	1/1 - 03/31/2018	1/1 - 03/31/2017
Revenues from sales and services	**1,310,257**	**1,339,276**
Other income	112,999	171,848
Changes in inventories of unfinished, semi-finished and finished products	9,154	31,808
Raw materials and consumables used (net of change in inventories)	(446,737)	(471,311)
Personnel expenses	(265,442)	(273,855)
Amortisation, depreciation and impairment	(98,204)	(91,895)
Other costs	(438,985)	(538,013)
Increase in fixed assets for internal work	1,002	835
Operating income (loss)	**184,044**	**168,693**
Net income (loss) from equity investments	773	(3,135)
- share of net income (loss) of associates and j.v.	*(3,237)*	*(3,200)*
- gains on equity investments	*4,010*	*185*
- losses on equity investments	-	*(120)*
- dividends	-	-
Financial income	41,860	58,560
Financial expenses	(97,045)	(135,523)
Net income (loss) before tax	**129,632**	**88,595**
Tax	(37,178)	(39,064)
Net income (loss) from continuing operations	**92,454**	**49,531**
Net income (loss) from discontinued operations	(3,339)	(76,577)
Total net income (loss)	**89,115**	**(27,046)**
Attributable to:		
Owners of the parent company	90,369	(27,942)
Non-controlling interests	(1,254)	896
Total earnings/(loss) per share (in euro per share)	**0.091**	**(0.027)**
Earnings/(loss) per share related to continuing operations (in euro per share)	0.094	0.047
Earnings/(loss) per share related to discontinued operations (in euro per share)	(0.003)	(0.074)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(In thousands of euro)*

		1/1 - 03/31/2018	1/1 - 03/31/2017
A	**Net income (loss) for the period**	**89,115**	**(27,046)**
Other components of comprehensive income:			
	B - Items that will not be reclassified to income statement:		
	- Net actuarial gains (losses) on employee benefits	-	-
	- Tax effect	-	(1,221)
	- Fair value adjustment of financial assets at fair value through other comprehensive income	(676)	-
	Total B	**(676)**	**(1,221)**
	C - Items reclassified / that may be reclassified to income statement:		
	Exchange differences from translation of foreign financial statements		
	- Gains / (losses) for the period	(1,222)	4,896
	- (Gains) / losses reclassified to income statement	-	80,208
	Fair value adjustment of other financial assets available for sale:		
	- Gains / (losses) for the period	-	20,749
	Fair value adjustment of derivatives designated as cash flow hedges:		
	- Gains / (losses) for the period	(47,431)	7,207
	- (Gains) / losses reclassified to income statement	48,408	66
	- Tax effect	(225)	(1,458)
	Cost of hedging		
	- Gains / (losses) for the period	5,010	-
	- Tax effect	(478)	-
	Total C	**4,062**	**111,668**
D	**Total other comprehensive income (B+C)**	**3,386**	**110,447**
A+D	**Total comprehensive income (loss) for the period**	**92,501**	**83,401**
	Attributable to:		
	- Owners of the parent company	91,735	82,944
	- Non-controlling interests	766	457
	Attributable to owners of the parent company:		
	- Continuing operations	95,075	79,313
	- Discontinued operations	(3,339)	3,631
	Total attributable to owners of the parent company	**91,735**	**82,944**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 03/31/2018

(In thousands of euro)	Attributable to the Parent Company						Total
	Share Capital	Translation reserve	Total IAS Reserves *	Other reserves/ retained earnings	**Total attributable to the Parent Company**	**Non controlling interests**	
Total at 12/31/2017	**1,904,375**	**(220,624)**	**(70,265)**	**2,503,272**	**4,116,758**	**60,251**	**4,177,009**
Adoption of new accounting standard IFRS 9	-	-	(10,554)	9,531	(1,023)	0	(1,023)
Total at 01/01/2018	**1,904,375**	**(220,624)**	**(80,819)**	**2,512,803**	**4,115,735**	**60,251**	**4,175,986**
Other components of comprehensive income	-	(3,242)	4,608	-	1,366	2,020	3,386
Net income (loss) for the period	-	-	-	90,369	90,369	(1,254)	89,115
Total conprehensive income (loss)	**-**	**(3,242)**	**4,608**	**90,369**	**91,735**	**766**	**92,501**
Other	-	-	(908)	(881)	(1,789)	921	(868)
Total at 03/31/2018	**1,904,375**	**(223,866)**	**(77,119)**	**2,602,291**	**4,205,681**	**61,938**	**4,267,619**

(In thousands of euro)	Breakdown of IAS reserves *						
	Reserve for fair value adjustment of available-for-sale financial assets	Reserve for fair value adjustment of financial assets at fair value through other comprehensive income	Reserve for cost of hedging	Reserve for cash flow hedge	Reserve for actuarial gains/losses	Tax effect	**Total IAS reserves**
Total at 12/31/2017	**19,410**	**-**	**-**	**(13,454)**	**(59,110)**	**(17,111)**	**(70,265)**
Adoption of new accounting standard IFRS 9	(19,410)	8,856	3,492	(3,492)	-	-	(10,554)
Total at 01/01/2018	**-**	**8,856**	**3,492**	**(16,946)**	**(59,110)**	**(17,111)**	**(80,819)**
Other components of comprehensive income	-	(676)	5,010	977	-	(704)	4,608
Other changes	-	-	-	-	-	(908)	(908)
Balance at 03/31/2018	**-**	**8,180**	**8,502**	**(15,969)**	**(59,110)**	**(18,722)**	**(77,119)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 03/31/2017

(in thousands of euro)	Attributable to the Parent Company					Non controlling interests	TOTAL
	Share Capital	Translation reserve	Total IAS Reserves *	Other reserves/ retained earnings	Total attributable to the Parent Company		
Total at 12/31/2016	**1,342,281**	**(204,778)**	**(61,629)**	**2,058,211**	**3,134,085**	**140,773**	**3,274,858**
Other components of comprehensive income	-	85,542	25,344	-	110,886	(439)	110,447
Net income (loss) for the period	-	-	-	(27,942)	(27,942)	896	(27,046)
Total conprehensive income (loss)	**-**	**85,542**	**25,344**	**(27,942)**	**82,944**	**457**	**83,401**
Dividends paid	-	-	-	-	-	-	-
Disposal of 38% Pirelli Industrial to Cinda fund (*)	-	70,307	(5,085)	(63,704)	1,518	264,500	266,018
Assignment of Pirelli Industrial to Marco Polo (*)	-	-	(6,958)	(282,480)	(289,438)	(326,679)	(616,117)
Liquidation of equity investments	-	-	-	-	-	(5,540)	(5,540)
Other	-	-	(147)	122	(25)	287	262
Total at 03/31/2017	**1,342,281**	**(48,929)**	**(48,475)**	**1,684,207**	**2,929,083**	**73,798**	**3,002,881**

(*) the figures have been reclassified with respect to reported figures as at March 31, 2017. The reclassification did not have any impact on equity attributable to the Parent company or to non controlling interests.

(in thousands of euro)	Breakdown of IAS reserves *				
	Reserve for fair value adjustment of available-for-sale financial	Reserve for cash flow hedge	Reserve for actuarial gains/losses	Tax effect	**Total IAS reserves**
Balance at 12/31/2016	**(19,282)**	**1,038**	**(44,023)**	**638**	**(61,629)**
Other components of comprehensive income	20,749	7,274	-	(2,679)	25,344
Assignment of Pirelli Industrial	-	-	(602)	(11,441)	(12,043)
Other	(318)	-	171	-	(147)
Balance at 03/31/2017	**1,149**	**8,312**	**(44,454)**	**(13,482)**	**(48,475)**

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of euro)

		1/1 - 03/31/2018	1/1 - 03/31/2017
	Net income (loss) before taxes	129,632	88,595
	Reversals of amortisation, depreciation, impairment losses and restatement of property, plant and equipment and intangible assets	98,204	91,895
	Reversal of Financial expenses	97,045	135,523
	Reversal of Financial income	(41,860)	(58,560)
	Reversal of Dividends	-	-
	Reversal of gains/(losses) on equity investments	(4,010)	(65)
	Reversal of share of net income from associates and joint ventures	3,237	3,200
	Taxes paid	(31,078)	(45,664)
	Change in Inventories	(5,297)	(28,573)
	Change in Trade receivables	(232,499)	(265,000)
	Change in Trade payables	(553,100)	(284,844)
	Change in Other receivables/Other payables	(122,944)	(151,042)
	Change in Provisions for employee benefit obligations and Other provisions	(13,990)	(37,962)
	Other changes	(9,657)	2,568
A	**Net cash flows provided by / (used in) operating activities**	**(686,316)**	**(549,929)**
	Investments in property, plant and equipment	(84,666)	(97,446)
	Disposal of property, plant and equipment/intangible assets	4,180	2,479
	Investments in intangible assets	(584)	(942)
	Acquisition of minorities	(18,492)	-
	Dividends received from associates	2,224	-
	Disposals (Acquisition) of financial assets at fair value through income statement - Other financial assets	152,808	(1,678)
	Dividends received	-	-
B	**Net cash flows provided by / (used in) investing activities**	**55,470**	**(97,587)**
	Change in Financial payables	137,628	(459,518)
	Change in Financial receivables/Financial assets at fair value through income statement - Assets held for trading	89,461	219,855
	Financial income / (expenses)	(82,725)	(76,963)
	Dividends paid	-	-
C	**Net cash flows provided by / (used in) financing activities**	**144,364**	**(316,626)**
D	**Net cash flows provided by (used in) discontinued operations**	**(22,675)**	**(145,690)**
E	**Total cash flows provided / (used) during the period (A+B+C+D)**	**(509,157)**	**(1,109,832)**
F	**Cash and cash equivalents at the beginning of the period**	**1,109,640**	**1,523,928**
G	**Exchange differences from translation of cash and cash equivalents**	(12,413)	2,839
H	**Cash and cash equivalents at the end of the period (E+F+G) (°)**	**588,070**	**416,935**
(°)	**of which:**		
	cash and cash equivalents	592,136	457,992
	bank overdrafts	(4,066)	(41,057)

FORM AND CONTENT

The publication of the Interim Financial Report is carried out on a voluntary basis. The publication of Interim Financial Reports will cover the quarters which close on March 31 and September 30 of each financial year.

For the assessment and measurement of the accounting figures, the principles applied were the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), approved by the European Commission and in force at the time of approval of this report.

The accounting standards adopted were the same used in preparing the Financial Statements at December 31, 2017 to which, reference should be made for more details, with the exception of:

- the following new standards or amendments to existing standards, which became applicable as of January 1, 2018:
  - IFRS 15 - Revenue from Contracts with Customers: as a result of the application of this accounting standard, some amounts previously accounted for under costs mainly related to variable considerations paid or payable to indirect customers and mainly linked to achieving sale targets, have been recognised as a reduction in revenues or other revenues, with insignificant impact. The restatement of these amounts did not alter the operating income or equity of the Group at the date of the transition (January 1, 2018). Comparative data for the first quarter of 2017 has not been restated;
  - IFRS 9 – Financial Instruments:
    - Classification and measurement: the equity instruments classified at December 31, 2017 as financial assets available for sale, in substantial continuity with respect to the accounting treatment adopted in accordance with IAS 39, have been designated as financial assets at fair value through other comprehensive income, with the sole exception of the investment in Mediobanca S.p.A, which was disposed of during the first days of January 2018, for which the changes in fair value have been recognised in the Income Statement. It is to be noted that the fair value adjustment reserve for the assets available for sale outstanding at December 31, 2017 (positive to the amount of euro 19,410 thousand) has been reclassified to a new reserve under equity for the investments designated as financial assets at fair value through other comprehensive income, while it has been reclassified to retained earnings for the investment at fair value through income statement. Both these reserves will not be reversed to the Income Statement in case the investment is disposed of.

    - Impairment of financial instruments: at the date of transition (January 1, 2018), the equity of the Group ecreased by euro 1,023 thousand, due to the new impairment model based on expected losses, applied to some financial receivables. Comparative data for the first quarter of 2017 has not been restated;

   - Hedge accounting: The Group has adopted the new rules for hedge accounting as provided for by IFRS 9 as of January 1, 2018. The hedging relationships in place at December 31, 2017 met the conditions provided for in IFRS 9 for the adoption of hedge accounting.

  - Amendments to IFRS 2 - Share-based Payment Transactions: there were no impacts on the Group's Financial Statements arising from the application of these amendments.
  - IFRIC 22 - Foreign Currency Transactions and Advance Consideration: there were no impacts on the Group's Financial Statements arising from the application of this interpretation;
  - Amendments to IAS 40: Transfers of Investment Property: these changes were not applicable to the Group's Financial Statements;
  - Improvements to the IFRS 2014-2016 cycle (issued by the IASB in December 2016): there were no impacts on the Group's Financial Statements arising from the application of these amendments;
- the application of IAS 34 - Interim Financial Reporting in determining income taxes which have been recognized on the basis of the best estimate of the weighted average tax rate expected for the entire financial year.
- the application of IFRS 2 - Share-based Payment Transactions relatively to the accounting of the monetary Long Term Incentives Plan for the 2018-2020 period (the "LTI Plan") - intended for the management sector of the Group. This incentive plan is of a monetary nature, and does not provide for the assignment of shares or options on shares, or other securities, but is exclusively a cash incentive, in part linked to the performance of Pirelli & C. ordinary shares.

EXCHANGE RATES

(local currency vs euro)	Period-end exchanges rates		Change in %	Average exchange rates 1Q		Change in %
	03/31/2018	**12/31/2017**		**2018**	**2017**	
Swedish Krona	**10.2843**	9.8438	4.47%	**9.9736**	9.5063	4.92%
Australian Dollar	**1.6036**	1.5346	4.50%	**1.5632**	1.4056	11.21%
Canadian Dollar	**1.5895**	1.5039	5.69%	**1.5542**	1.4101	10.22%
Singaporean Dollar	**1.6158**	1.6024	0.84%	**1.6207**	1.5080	7.47%
U.S. Dollar	**1.2321**	1.1993	2.73%	**1.2289**	1.0648	15.41%
Taiwan Dollar	**35.8664**	35.6588	0.58%	**36.0011**	33.1010	8.76%
Swiss Franc	**1.1779**	1.1702	0.66%	**1.1654**	1.0694	8.98%
Egyptian Pound	**21.7979**	21.3245	2.22%	**21.7726**	19.0980	14.00%
Turkish Lira (new)	**4.8673**	4.5155	7.79%	**4.6893**	3.9346	19.18%
New Romanian Leu	**4.6576**	4.6597	(0.05%)	**4.6555**	4.5220	2.95%
Argentinian Peso	**24.8256**	22.3658	11.00%	**24.1820**	16.6956	44.84%
Mexican Peso	**22.4222**	23.6250	(5.09%)	**23.0310**	21.6482	6.39%
South African Rand	**14.6210**	14.8054	(1.25%)	**14.7062**	14.0814	4.44%
Brazilian Real	**4.0850**	3.9693	2.91%	**3.9867**	3.3523	18.92%
Chinese Renminbi	**7.7476**	7.8365	(1.13%)	**7.8212**	7.3323	6.67%
Russian Ruble	**70.5618**	68.8668	2.46%	**69.8691**	62.5923	11.63%
British Pound	**0.8749**	0.8872	(1.39%)	**0.8835**	0.8601	2.72%
Japanese Yen	**131.1500**	135.0100	(2.86%)	**133.1008**	121.0139	9.99%

NET FINANCIAL POSITION

(In thousands of euro)	**03/31/2018**	**12/31/2017**
Current borrowings from banks and other financial institutions	849,188	559,168
Current derivative financial instruments (liabilities)	23,564	11,248
Non-current borrowings from banks and other financial institutions	3,709,028	3,897,089
Non current derivative financial instruments (liabilities)	97,528	54,963
Total gross debt	**4,679,308**	**4,522,468**
Cash and cash equivalents	(592,135)	(1,118,437)
Securities held for trading	-	(33,027)
Other financial assets at fair value through income statement	(9,085)	-
Current financial receivables and other assets	(29,439)	(36,511)
Current derivative financial instruments (assets)	(17,123)	(21,413)
Net financial debt *	**4,031,527**	**3,313,080**
Non-current financial receivables and other assets	(92,641)	(94,585)
Total net financial (liquidity)/debt position	**3,938,886**	**3,218,495**

* Pursuant to Consob Notice of July 28, 2006 and in compliance with CESR recommendation of February 10, 2005 "Recommendations for the consistent implementation of the European Commission regulation on Prospectuses".

DECLARATION OF THE CORPORATE FINANCIAL REPORTING MANAGER PURSUANT TO THE PROVISIONS OF ART. 154-BIS, PARAGRAPH 2, OF LEGISLATIVE DECREE No. 58/1998

Francesco Tanzi, as Manager responsible for the preparation of the corporate financial documents, pursuant to the provisions of the Article 154-bis, paragraph 2 of the Legislative Decree 58/1998, hereby certifies that the accounting information contained in the Interim Financial Report as at March 31, 2018 corresponds to what contained in the accounting documentation, books and records.

Milan, May 14, 2018

Francesco Tanzi