# Interim Financial Report

# at March 31, 2017

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

**Milan Office**

**Viale Piero e Alberto Pirelli n. 25**

**Share Capital Euro 1,345,380,534.66**

**Register of Companies of Milan No. 00860340157**

**REA (Economic Administrative Index) No. 1055**

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

## SUMMARY

**Board of Directors [1]**

| | |
|---|---|
| Chairman | Ren Jianxin |
| Executive Vice Chairman and CEO | Marco Tronchetti Provera |
| Directors | Yang Xingqiang<br>Carlo Acutis<br>Bai Xinping<br>Gustavo Bracco<br>Giorgio Luca Bruno<br>Ze'ev Goldberg<br>Andrey Kostin<br>Jiao Chonggao<br>Emerson Milenski<br>Luca Rovati<br>Igor Sechin<br>Yang Xun<br>Wang Dan<br>Zhang Haitao |

| | |
|---|---|
| **Secretary of the Board** | Alberto Bastanzio |

**Board of Auditors [2]**

| | |
|---|---|
| Chairman | Francesco Fallacara |
| Statutory Auditors | Fabrizio Acerbis<br>Fabio Artoni<br>Giovanni Bandera<br>David Reali |
| Alternate Auditors | Fabio Facchini<br>Giovanna Oddo |

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| **Independent Auditing Firm [3]** | PricewaterhouseCoopers S.p.A. |

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1. Appointment: March 15, 2016. Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2018.
2. Appointment: March 14, 2015. Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2017, (David Reali, Giovanni Bandera and Fabrizio Acerbis appointed by the Shareholders' Meeting on March 15, 2016).
3. Appointment: April 27, 2017. Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2019 (up until April 27, 2017 the role of Independent Auditing Firm had been entrusted to E&Y S.p.A.).

## MACROECONOMIC AND MARKET SCENARIO

Global economic growth prospects improved during the first quarter of 2017 thanks to the cyclical recovery in the manufacturing sector and in international trade, which benefited both advanced and emerging countries.

For the American economy, growth for the first quarter (+0.7%) confirmed the positive performance of economic activity with a recovery in investment and exports, while temporary factors put a brake on private consumption. The unemployment rate fell to 4.5% in March 2017, household confidence reached levels that had not been seen since 2000 and confidence in the manufacturing sector exceeded levels from two years ago. In Europe, solid growth was reflected by the good performance of the GDP for the Eurozone for the first quarter with growth of +0.5% following similar growth of +0.5% for the last quarter of 2016. Deflation fears fell away thanks to the +1.5% rise in overall consumer prices in the Eurozone during March, compared with the zero growth of one year ago. The strengthening of commodity prices during the last twelve months facilitated a recovery for raw materials producing countries such as Russia, which came out of the recession during the fourth quarter of 2016, and Brazil where the latest economic indicators confirmed an easing of recession conditions. China recorded a higher than expected growth rate for the first quarter of +6.9% compared to +6.7% for the fourth quarter of 2016.

On the exchange rate front, the Euro recorded an average exchange rate of 1.06 against the US Dollar for the first quarter of 2017 which represented a decrease of -3.4% compared to the average rate of 1.10 for the first quarter of 2016. The Chinese Renminbi also weakened slightly against the US Dollar during the first quarter recording an average price of 6.89 Yuan per US Dollar, which represented a depreciation of -5% compared to the corresponding quarter of 2016. The currencies of Brazil and Russia on the other hand, were strengthened by the recovery in commodity prices and the effect of the Federal Reserve's monetary policy which was more accommodating than expected. During the first quarter of 2017 the Brazilian Real appreciated by +24% against the US Dollar while the Rouble appreciated by +27% compared to the corresponding quarter of 2016.

The rise in commodity prices was sustained by cuts in crude oil production by the OPEC countries. With regards to metals, the rise was attributable mainly to the recovery in demand from China. The price of oil continued its gradual recovery with a Brent average price of USD 55 per barrel for the first quarter of 2017 which represented an increase of +50% compared to the average of USD 35 per barrel for the corresponding quarter of 2016. The price of butadiene strengthened further with an average of euro 1,363 per ton for the first quarter of 2017, which was more than double compared to the average price of Euro 551 per ton for the corresponding quarter of the previous financial year. The price of natural rubber also shifted during the first quarter of 2017, rising to an average price of USD 2,095 per ton which represented an increase of +82% compared to USD 1,150 per ton for the first quarter of 2016 and an increase of +26% compared to the fourth quarter of 2016.

Sales figures for tyres for the first three months of 2017 confirmed growth across both advanced and emerging countries for the Consumer segment. The overall market recorded growth of +5% for the first quarter of 2017 compared to the corresponding period of the previous financial year, while the Premium segment recorded growth of +11%, with both showing slight acceleration compared to the 2016 average growth rate. The positive market trend continued to be solid in Europe (car Replacement +4%, of which over +10% was for the Premium segment and +3% for Original Equipment), and China (car Original Equipment +9%). The market trend in North America began to show signs of recovery during the first quarter of 2017 (car Replacement +2%, of which 9+% was for the Premium segment and +2% for car Original Equipment). In Latin America and Russia, the change in trend seen during the last months of 2016 was confirmed during the first quarter of 2017 with positive signs for both the Replacement and Original Equipment channels (LatAm car Replacement +11%, car Original Equipment +19% and for Russia car Replacement +16%, car Original Equipment +18%).

## SIGNIFICANT EVENTS OF THE FIRST QUARTER OF 2017

On **January 13, 2017,** the agreement signed on December 28, 2016 between Pirelli and Cinda for the disposal to the latter of 38% of Pirelli Industrial S.r.l capital - was finalised – as part of the broader reorganisation and integration of the Industrial business. The sale was for euro 266 million.

On **February 9, 2017** Pirelli announced a price increase in all European and North American markets for car, light truck and motorcycle tyres, for all product ranges (summer, all-season and winter) and brands of the Group. The increases which became effective as of April 1, 2017 will not exceed +9%. The increase was due to the rising price of major commodities and the increasing investment in the development of highly technological products.

On **February 14, 2017** Pirelli presented its new Motorsport season which sees the company committed - in addition to the Formula One World Championship - to over 340 championships, including for cars and motorcycles, for a total of 2,200 events across all five continents. The presentation which coincided with the 110 year Anniversary in Motorsports for Pirelli was held at the Turin Automobile Museum.

On **March 7, 2017** Pirelli presented two new products at the Geneva Motor Show, which was consistent with its strategy of focusing on the Premium and Prestige segments, and of expanding the range of services for the consumer:

- the coloured editions of the P Zero and the Winter Sottozero tyres, for which Pirelli engineers have developed, thanks to Pirelli's experience with F1, innovative materials and finishes capable of ensuring bright and long lasting colours;
- Pirelli Connesso which offers a digital platform which is integrated into the P Zero and Winter Sottozero tyres, available on the replacement market in black or coloured, and which thanks to the sensor fixed to the hollow recess of the tyre (i.e., on the inner wall of the tyre itself) is connected to an app and is able to communicate with the motorist and provide information on certain basic

parameters concerning the functioning of the rubber, in addition to a range of other personalised services.

This dual innovation, which signals the entrance of Pirelli as a key player into the digital tyre market, is part of the tailor made strategy for the long P, which aims at manufacturing customised tyres designed to meet personalised needs, safety and performance requirements, as well as reducing consumption.

On **March 13, 2017** Pirelli Industrial S.r.l. (indirectly controlled by Pirelli & C. S.p.A. through TP Industrial Holding S.p.A.), for the purpose of ensuring full financial autonomy, successfully signed a euro 600 million loan with a 3 year duration (renewable up to a maximum of 5 years) with Bank of America Merrill Lynch International Limited, China Construction Bank (Europe) S.A., HSBC Bank Plc and ING Bank N.V., Milan Branch.

During the month of **March 2017**, for the purpose of ensuring an independent growth path and independent development strategies, the two business areas - Consumer and Industrial - were definitively separated with the assignment to Marco Polo International Italy S.p.A. of all the TP Industrial Holding S.p.A. shares previously held by Pirelli & C. S.p.A.. TP Industrial Holding S.p.A is the company into which Pirelli's Industrial assets were merged. As a result of the assignment, TP Industrial Holding S.p.A. and Pirelli & C. S.p.A. are therefore 100% controlled by Marco Polo International Holding Italy S.p.A., the vehicle through which the partnership between CNRC (at 65%), Camfin (at 22.4%) and Long-Term Investments Luxembourg (at 12.6%) was realised. The Board of Directors of TP Industrial Holding S.p.A. was renewed with the appointment of Ren Jianxin (the Chairman of Pirelli) as President, Marco Tronchetti Provera (the Executive Vice President and CEO of Pirelli) as Vice Chairman and Paolo Dal Pino (the CEO of Pirelli Industrial) as Chief Executive Officer. Effective as of **April 1, 2017**, Pirelli Industrial S.r.l. has changed its name to Prometeon Tyre Group S.r.l. (“PTG”).

## 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 progress of the Group's operations. These indicators are: Gross Operating Margin, Adjusted EBIT, Fixed Assets, Provisions, Operating Working Capital, Net Working Capital and Net Financial Liquidity/(Debt) Position. Reference should be made to the paragraph "Alternative Performance Indicators" for a more detailed description of these indicators.

Also, as a result of the assignment by Pirelli & C. S.p.A to Marco Polo International Italy S.p.A., of TP Industrial Holding S.p.A. shares, the company into which Pirelli's Industrial assets were merged, the Industrial business (with the sole exception of some residual business activities in Australia and Chile) qualified as a discontinued operation. The results for the period for the discontinued operation were reclassified to the Income Statement as a single item, "net income (loss) from discontinued operations". The comparable income statement data for 2016 was subjected to restatement.

It is also to be noted that due to the effect of the completion of the definitive allocation of the price paid by Marco Polo Industrial Holding S.p.A. for the acquisition of the Pirelli Group at fair value of assets and liabilities (the Purchase Price Allocation - PPA), the results for the first quarter of 2016 were subjected to restatement.

During the month of October 2016, the acquisition of Aeolus Car assets was also completed. As of that date, the company's results were included in the results of the Group.

* * *

The **results for the first quarter of 2017** reflect the launch of Pirelli as a 'pure Consumer tyre player' with the implementation of new projects which aim to strengthen its positioning on high-value segments, and the development of new activities aimed at capturing new trends in mobility.

Results were characterised by:

- continued focus on the Premium segment (tyres with a rim diameter equal to or greater than 17 inches for the car business, and radial and X-ply custom touring tyres, offroad and Sport Touring tyres with a speed rating of ≥H for the motorcycle business) with a growth in volumes of +15.3% which was superior to that of the market trend (+11%). The Premium proportion of revenues reached 67.8% (66.2% for 2016 on a like-for-like basis);
- an increase in revenues of +13.4% of which:
  - 4% was attributable to the positive exchange rate effect;
  - 1% was attributable to the consolidation of Aeolus Car assets in China which allowed for the immediate acquisition of approximately 4 million in production capacity in terms of volumes, and whose conversion back to the Pirelli brand has already begun as of October 2016 for the purpose of expediating development in China which will act as the engine for the global growth of the Premium segment;
  - organic growth of +8.4% which reflects the strengthening of the Premium value strategy.

In particular, this trend reflects:

- the marked improvement of the price/mix (+5.5%) which again attained the highest level amongst its peers and which was attributable the improved product mix, and price increases in emerging markets;
- an increase in volumes of +2.9%, which on the one hand reflects the progressive exit from unprofitable segments, particularly in LatAm and Russia, with a decrease in Non-Premium volumes of -9.1%, and on the other hand reflects the strengthening of the Premium segment (+15.3%) which is experiencing growth in all regions, superior to that of the market trend (+11%).

- improved operating performance in absolute values, with an adjusted EBIT of euro 205.0 million (compared to euro 203.6 million for the corresponding period of the previous financial year). The improved result is due to the effect of internal levers such as the price/mix, volumes and efficiencies, which more than compensated for the increase in the cost of raw materials, costs inflation (particularly in emerging markets), higher amortisation and depreciation and other costs due to the development of the Premium segment and of new business (Cyber Tyre and Velo). For the first quarter, the adjusted EBIT margin amounted to 15.3% compared to 17.2% for the corresponding period of the previous financial year and prevalently reflects the new value generating programmes for the medium term.

  In particular:

  - the aforementioned consolidation of Aeolus Car activities in China;
  - the strenghtening of Premium segment positioning along the entire value chain, from the installment of new capacity to trade and consumer engagement activities;
  - the effort to accelerate the reduction in exposure to segments with low profitability;
  - the start-up of new activities which intercept new end-consumer needs such as connectivity, and the return to the bike business through the Velo project;
  - one-off costs attributable to the separation of the Industrial business;
  - the time lag between the price increases which were effective as of April 1, 2017 for all products and the increase in the cost of raw materials.

- a net financial liquidity/(debt) position of euro 5,525.2 million, with a negative seasonal cash flow absorption of euro 612.4 million (a negative seasonal cash flow absorption for the first quarter of 2016 of euro 779 million).

The **Group's Consolidated Financial Statements** are summarised as follows:

(in millions of euro)

| | 03/31/2017 | 03/31/2016 Restated * | 12/31/2016 Restated ** | 12/31/2016 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 |

| | 03/31/2017 | 12/31/2016 Reported |
|---|---|---|
| **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"

**Group net sales** amounted to euro 1,339.3 million, which in organic terms represented a growth (net of exchange rates and on a consolidated like-for-like basis) of +8.4% compared to the corresponding period of 2016. Including the positive impact of the exchange rate effect (+4.0%), consolidated revenues increased by +12.4% compared to the previous year on a like for like basis (+13.4% also including the positive change in scope at revenue level of +1 percentage point due to the consolidation of Aeolus Car). Premium revenues amounted to euro 907.4 million for the first quarter of 2017, which represented growth of +16% net of the exchange rate effect compared to the corresponding period of the previous financial year (an overall growth of +14.8%).

The market drivers for the **net sales performance** were as follows**:**

| | **1 Q 2017** |
|---|---|
| Volume | 2.9% |
| *of which Premium volume* | *15.3%* |
| Price/mix | 5.5% |
| **Change on a like-for-like basis - same scope of consolidation** | **8.4%** |
| Translation effect | 4.0% |
| Change in scope of consolidation - Aeolus car | 1.0% |
| **Total change** | **13.4%** |

The performance for total tyre volumes for 2017 resulted in a total growth of +2.9% and reflected the diverse dynamics within the different segments and markets. The growth in volumes was supported by the growth of the Premium segment (+15.3%) while the Non-Premium segment (-9.1%) was impacted by the reduction in volumes and lower profitability particularly in Russia (with a sharp contraction in local sales for the Amtel brand), and in LatAm.

The strong price/mix improvement (+5.5%) reflects the continuation of the Pirelli value strategy and was supported by the success of high-end products. Price increases, as previously announced, were effective as of April 1, 2017 to counter the high volatility of raw materials.

**Net sales by geographical area** were composed as follows:

| GEOGRAPHICAL AREA | 03/31/2017 | | | 03/31/2016 |
|---|---|---|---|---|
| | *Euro\mln* | *yoy* | | |
| Europe | 569.9 | *7.8%* | 42.6% | 44.8% |
| Russia and CIS | 40.7 | *14.3%* | 3.0% | 3.0% |
| NAFTA | 250.9 | *16.5%* | 18.7% | 18.2% |
| South America | 227.3 | *18.8%* | 17.0% | 16.2% |
| Asia\Pacific (APAC) | 186.5 | *26.6%* | 13.9% | 12.5% |
| Middle East\Africa\India (MEAI) | 64.0 | *2.4%* | 4.8% | 5.3% |
| ***TOTAL*** | **1,339.3** | *13.4%* | **100.0%** | **100.0%** |

**APAC** (13.9% of sales) along with NAFTA were the regions with the highest revenue growth and profitability (EBIT margin in the twenties). There was an improvement in revenue performance of +26.6%, which as of 2017 included Aeolus Car sales (consolidated as of October 1, 2016). Net of the exchange rate effect (positive by +0.7%) on a like-for-like-basis (with a positive effect of +3.2% due to Aeolus Car) organic growth equalled +22.7% and was supported by the Premium segment (a specific organic growth of +28.9%) due to the increased market exposure on the Original Equipment channel (which counted new homologations with European and local car brands) and to the expansion of the commercial presence which now counts approximately 4,000 outlets.

During the first quarter, the activities for the conversion of Aeolus brand production into Pirelli brand production in the Aeolus tyre manufacturing plant for the Car segment, acquired on October 1, 2016, were initiated.

**NAFTA** (18.7% of sales) recorded an organic growth in revenues of +13.7% (+16.5% including the exchange rate effect). Revenue performance reflected the positive trend in volumes, in particular that of the Premium e SuperPremium segments thanks to the introduction of all-season products and the greater penetration of the retail channel. Profitability (EBIT margin) was in the twenties range.

**Europe** (42.6% of sales) ended the first quarter with profitability in the mid-teens which represented a slight reduction compared to the corresponding period of 2016, due to increased investments in the Premium segment and to the aforementioned time lag in adjusting prices for the Original Equipment channel following the increased cost of raw materials. The growth in total revenues for the area was equal to +7.8% (+8.9% for organic growth) sustained by the good performance of the Premium segment.

**MEAI** (4.8% of sales) recorded a growth in revenues of +2.4% (+3.8% net of the exchange rate effect on a like-for-like basis) with profitability in the mid-teens which represented a decrease compared to the corresponding period of 2016 (high teens) also due to the impairment of currencies particularly in Turkey.

In **Russia** (3.0% of sales) the strategy of focusing on the more profitable segments plus the progressive reduction in production and sales of non-Pirelli brand products impacted positively on the results of the quarter. In organic terms, revenues recorded a contraction of -16.9% (+14.3% including the exchange rate effect), with growth in profitability (EBIT margin in the high single digits which instead had been negative for the first quarter of 2016) due both to the improvement of the sales mix and the positive exchange rate effect.

**South America** (17.0% of sales) recorded a revenue growth of +18.8%, -3.2% in organic terms (excluding the exchange rate effect on a like-for-like basis). This performance reflects:

- continuing focus on the mix, with the progressive reduction in sales on the less profitable Non-Premium segment;
- the destination of a portion of production for export to North America in view of the growing demand for Premium Pirelli products;
- contraction of the car market in Argentina.

Profitability was in the mid-single-digits which represented a reduction compared to the corresponding period of 2016 (double-digits) due to the continuous efforts for the improvement and conversion of the mix and for the reduction of sales in the Argentinian market.

The **Group's adjusted operating income (loss)** - before non-recurring and restructuring expenses and the amortisation of the intangible fixed assets included in the PPA - amounted to euro 205 million representing an increase of euro 1.4 million (euro 203.6 million recorded for the corresponding period of 2016).
Specifically, the adjusted operating income (loss) for the Group was as follows:

(in millions of euro)

| | 1 Q |
|---|---|
| **2016 Adjusted operating income (loss)** | **203.6** |
| Differences from foreign currency translation from consolidation | 4.0 |
| Price/mix | 39.6 |
| Volumes | 16.4 |
| Cost of prodution factors (raw materials and inflation net of efficiencies) | (20.2) |
| Amortisation, depreciation and other costs related to the development of Premium and other businesses | (38.4) |
| **Change** | **1.4** |
| **2017 Adjusted operating income (loss)** | **205.0** |

The improved result was linked to the effect of internal levers such as price/mix, volumes and efficiencies, which more than compensated the increased cost of raw materials, costs inflation (particularly in emerging markets), higher amortisation and depeciation and other costs related to business development.
In particular:

- growth in volumes (euro 16.4 million);
- improvement of the price/mix component (euro +39.6 million) plus exchange rate differences (euro +4 million);

which more than compensated for:

- the increase in the costs of raw materials and inflation net of efficiencies (euro -20.2 million);
- higher amortisation and depreciation and an increase in other costs linked to the development of the Premium segment and of new business (Velo and Connesso) and to the conversion of Aeolus brand production into Pirelli brand production in the tyre manufacturing plant for the Car segment, in Jiaozuo, acquired by Aeolus (euro -38.4 million);

The **operating income of the Group** which amounted to euro 168.7 million (compared to euro 166.1 million for the corresponding period of the previous financial year) was impacted by:

- non-recurring and restructuring expenses to the amount of euro 10.1 million (euro 11.3 million for the first quarter of 2016) due to structural rationalisation activities and activities under way for the integration of Pirelli's Industrial segment with the Industrial assets of the China National Tire & Rubber Co., Ltd.;
- euro 26.2 million relative to the amortisation of the intangible fixed assets identified during the Purchase Price Allocation (consistent with 2016).

The **income (loss) from equity investments of the Group** was negative to the amount of euro 3.1 million and was mainly related to the pro-rata share of the results for the Indonesian PT Evoluzione Tyres Joint Venture (euro -2.6 million) and the pro-rata negative result for Prelios S.p.A. (euro -0.6 thousand). At March 31, 2016 the income (loss) from equity investments was negative to the amount of euro 42.5 million and included the pro-rata share of Prelios S.p.A. losses (euro 5.8 million), the pro-rata share of losses for Fenice S.r.l. (euro 20.4 million), the impairment due to the dilution of the investment in Prelios S.p.A. (euro 9.9 million), and the impairment of the investment in the RCS MediaGroup (euro 3.5 million).

**Net income (loss) from continuing operations** at March 31, 2017 amounted to euro 49.5 million compared to the loss of euro 30.4 million for the first quarter of 2016. Other than the improvement in the operating income and net income from investments, the results also reflect a reduction in **net financial expenses** of euro 56.7 million (which amounted to euro 77.0 million for the first quarter of 2017 compared to euro 133.7 million for the first quarter of 2016, impacted by euro 25.4 million 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 of 2017 compared to 5.98% for the first three months of 2016). **Tax expenses** for the first quarter of 2017 amounted to euro 39.1 million due to earnings before tax of euro 88.6 million with a tax rate which stood at 44.1%.

N**et income (loss) from discontinued operations** refers to the Industrial business (with the sole exception of some residual activities in Chile and Australia) and was negative for the total amount of euro 76.6 million. This result includes the net income from discontinued operations which was positive to the amount of euro 3.6 million, and the reversal to the Income Statement of translation differences which matured at the date of the assignment and which were negative to the total amount of euro 80.2 million.

The **net income (loss) attributable to Pirelli & C. S.p.A.** was negative to the amount of euro 27.9 million compared to the negative amount of euro 50.7 million for the corresponding period of the previous financial year.

**Equity** went from euro 3,274.9 million at December 31, 2016 to euro 3,002.9 million at March 31, 2017.

**Equity attributable to Pirelli & C. S.p.A.** at Marzo 31, 2017 amounted to euro 2,929.1 million compared to euro 3,134.1 million at December 31, 2016.

This change is analytically shown in the table below:

(in millions of euro)

| | Group | Non-controlling interests | Total |
|---|---|---|---|
| **Equity at 12/31/2016** | **3,134.1** | **140.8** | **3,274.9** |
| Translation differences | 85.5 | (0.4) | 85.1 |
| Net income (loss) | (27.9) | 0.9 | (27.0) |
| Fair value adjustment of other financial assets / derivative instruments | 25.3 | - | 25.3 |
| Disposal of 38% Pirelli Industrial to Cinda fund | 1.5 | 264.5 | 266.0 |
| Assignment of the Industrial business to Marco Polo | (289.4) | (326.7) | (616.1) |
| Liquidation of equity investments | - | (5.5) | (5.5) |
| Other | (0.0) | 0.2 | 0.2 |
| **Total changes** | **(205.0)** | **(67.0)** | **(272.0)** |
| **Equity at 03/31/2017** | **2,929.1** | **73.8** | **3,002.9** |

The **net financial liquidity/(debt) position of the Group** was negative to the amount of euro 5,525.2 million compared to euro 4,912.8 million at December 31, 2016. The composition of the net financial liquidity/(debt) position of the Group was as follows:

(in millions of euro)

| | 03/31/2017 | 12/31/2016 |
|---|---|---|
| Current borrowings from banks and other financial institutions | 1,689.8 | 642.1 |
| Current derivative financial instruments | 29.3 | 35.7 |
| Non-Current borrowings from banks and other financial institutions | 4,426.6 | 5,946.0 |
| **Total gross debt** | **6,145.7** | **6,623.8** |
| Cash and cash equivalents | (458.0) | (1,533.0) |
| Securities held for trading | (24.9) | (48.6) |
| Current financial receivables and other assets | (17.5) | (30.0) |
| Current derivative financial instruments | (21.5) | (3.7) |
| Non-current financial receivables and other assets | (98.6) | (95.7) |
| **Total financial receivables and cash** | **(620.4)** | **(1,711.0)** |
| **Total net financial (liquidity)/debt position** | **5,525.2** | **4,912.8** |

The **structure of the gross financial debt**, which amounted to euro 6,145.7 million, was as follows:

(in millions of euro)

| | **Financial Statements 03/31/2017** | **Maturity date** | | | | | |
|---|---|---|---|---|---|---|---|
| | | **2017** | **2018** | **2019** | **2020** | **2021** | **2022 and beyond** |
| Use of senior facilities | 4,719.3 | 175.9 | 1,198.8 | 1,371.7 | 351.9 | 1,621.0 | - |
| Bond 1,750% - 2014/2019 | 600.0 | - | - | 600.0 | - | - | - |
| EIB loans | 50.0 | 20.0 | 20.0 | 10.0 | - | - | - |
| *Schuldschein* | 5.0 | 5.0 | - | - | - | - | - |
| Other loans | 771.4 | 610.8 | 156.6 | 2.6 | 0.9 | - | 0.5 |
| **Total gross debt from continuing operations** | **6,145.7** | **811.7** | **1,375.4** | **1,984.3** | **352.8** | 1,621.0 | **0.5** |
| | | 13.2% | 22.4% | 32.3% | 5.7% | 26.4% | 0.0% |

At March 31, 2016, the Group had a liquidity margin equal to euro 1,397.0 million composed of euro 914.1 million in the form of a non-utilised nominal credit facility (the total amount for the Senior Facilities at March 31, 2017 was euro 5,656.1 million, following the partial repayment of the original euro 1,600.0 million credit facility), and euro 482.9 million in cash and cash equivalents and securities held for trading.

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

(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)** |

More specifically, the **operating net cash flow** for 2017 was negative to the amount of euro 720.1 million (a seasonal negativity of euro 592.3 million for 2016), after having sustained investments of euro 98.3 million (euro 70.0 million for 2016) primarily aimed at increasing the capacity of the Premium segment in Europe and NAFTA, and at the continuous improvement of the mix and quality in all manufacturing plants.

The performance of the operating net cash flow, compared to the first quarter of 2016, was mainly due to changes in the working capital (euro 892.2 million in cash flow absorption for 2017, compared to euro 783.8 million for 2016), due to some temporary changes in working capital items for the industrial sector companies.

**Net cash flow before extraordinary transactions** was negative to the amount of euro 881.7 million compared to the negative result of euro 838.3 million recorded for 2016.

**Total net cash flow** was negative to the amount of euro 612.4 million (negative to the amount of euro 779.0 million for the corresponding period of 2016), and for 2017 includes the positive effect (euro 269.3 million) resulting from the finalisation of the reorganisation of the Industrial business, while for the corresponding period of 2016 the net financial liquidity/(debt) position of the Industrial business was positive to the amount of euro 59.3 million.

## SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE QUARTER

On **April 28, 2017** the Board of Directors announced the intention to accelerate the previously announced listing process in order to take advantage of market opportunities as early as of the fourth quarter of 2017. The decision was made in the light of the positive results achieved by the company, the implemented focus on the Consumer business - which makes Pirelli the sole "pure Consumer tyre player" for the segment - and the current favourable dynamics of the markets.

On the basis of these assumptions, Pirelli's Board of Directors and that of its sole shareholder Marco Polo International Italy S.p.A. approved the transaction - proposed by a pool of primary banks comprising Banca IMI (Intesa Sanpaolo group), J.P. Morgan and Morgan Stanley – which allowed for the acceleration the IPO process due to Pirelli's improved financial profile following the reduction of the net debt/EBITDA ratio to less than 3. In particular, the following is foreseen:

- the granting on the part of the banks to Marco Polo of financing amounting to euro 1.25 billion which will entirely reimbursed with the income from the IPO;
- a capital increase of  euro 1.2 billion for Pirelli & C. S.p.A. which will be subscribed to entirely by Marco Polo and which will reimburse the same amount of part of the Pirelli Group’s current debt;
- the refinancing of Pirelli's credit facilities for a total of euro 4.2 billion as well as the improvement of the existing terms and conditions. The refinancing operation will allow Pirelli to reduce the cost of its debt as well as prolong it average maturity.

The Pirelli listing is expected to be on the Milan Stock Exchange or on one of the major international level stock exchanges, and with a free float that will be defined prior to the launch. In the context of the listing, the CNRC confirmed its willingness to assist in the greater success of the IPO, by cutting its share in Pirelli to below 50% without prejudice to the requisite conditions for consolidating Pirelli. The Board of Directors also appointed Banca IMI (Intesa Sanpaolo group), J.P. Morgan and Morgan Stanley as Global Coordinators of the operation.

**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:

- **Gross operating margin**: an intermediate economic measure which derives from the operating income (loss) and which excludes the amortisation of intangible and the depreciation of tangible assets (property, plant and equipment);
- **Adjusted operating income (loss)**: the adjusted operating income (loss) is an intermediate measure, which derives from the operating income (loss) and which excludes, the amortisation of intangible assets related to assets detected as a consequence of Business Combinations, as well as operational costs attributable to non-recurring and restructuring expenses. Of particular note are the amortisable intangible fixed assets detectable during the PPA. It is to be noted that these assets are related to activities which are continuously regenerated internally, within the company, and which incur costs which are not capitalised, and which end up duplicating the amortisations created by way of the effect of the PPA. Therefore in order to neutralise this effect a new intermediate economic measure was implemented, namely the adjusted operating income (loss).
- **Fixed assets**: this measure is constituted by the sum of the items "Property, plant and equipment", "Intangible fixed assets", "Investments in associates and joint ventures" and "Other financial assets";
- **Provisions**: this measure is constituted by the sum of "Provisions for liabilities and charges (current and non-current)", "Employee benefit obligations" and "Provisions for deferred taxes";
- **Operating working capital**: this measure is constituted by the sum of "Inventory", "Trade receivables" and "Trade payables";

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

## Role of the Board of Directors

The Board of Directors is responsible for the strategic guidance and supervision of the overall business activities, with the power to address its administration as a whole, 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, and 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 CEO are delegated exclusive powers for the ordinary management of the Company and the Group, as well as the power to propose Industrial Plans and Budgets to the Board of Directors, as well as any resolutions concerning any strategic industrial partnerships or joint ventures of which Pirelli is a part.

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

- Strategies Committee;
- Remuneration Committee;
- Nominations and Successions Committee;
- Audit Committee (with expertise also in the field of internal control, risk,sustainability and the Group's corporate governance guidelines).

## 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 1,345,381 thousand, and is represented by 207,625,214 registered shares without indication of their nominal value, which are subdivided as follows:

| | Number of Shares | % of Share Capital |
|---|---|---|
| Ordinary Shares | 201,983,902 | 97.28% |
| Special Shares (*) | 5,641,312 | 2.72% |

(*) without voting rights

The special and ordinary shares are held by the sole shareholder Marco Polo International Holding Italy S.p.A., with the exception of 351,590 ordinary treasury shares and 772,792 special treasury shares which are held by Pirelli & C. S.p.A.
The company is subject to the management and coordination by Marco Polo International Italy S.p.A., which is the sole shareholder of Marco Polo International Holding Italy S.p.A.
Extracts of the Agreements dated August 2015 between the shareholders of Marco Polo International Italy S.p.A. which contain the provisions relative to the governance of Pirelli are available on the Company's website.

**Related party transactions**

Related party transactions, including intra-group transactions, do not qualify as either unusual or exceptional, but are part of the ordinary course of business for the companies of the Group. Such transactions, when not settled under standard conditions, or are 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 financial data for the Pirelli & C. Group at March 31, 2017 were as follows:

**TRANSCATIONS WITH ASSOCIATES AND JOINT VENTURES**
(in millions of euros)

| | | |
|---|---|---|
| Revenues from sales/services and other income. | 0.6 | The amount refers mainly to rental income and related rental property management fees received from the Prelios Group (euro 2.0 million), and for services rendered to PT Evoluzione Tyres (euro 0.4 million). |
| Other costs | 9.7 | This item includes acquisition costs for the purchase of energy and machine hire from Industriekraftwerk Breuberg GmbH (euro 5.5 million), costs for the acquisition of products from PT Evoluzione Tyres (euro 4.1 million ) and the supply of services by the consortium CORIMAV (euro 0.1 million). |
| Financial income | 0.1 | The amount refers to interest on the loan granted by Pirelli International Plc and Pirelli Tyre S.p.A. to PT Evoluzione Tyres. |
| Financial expenses | 0.1 | This item mainly refers to expenses payable to International Media Holding S.p.A. |
| Other non-current receivables | 20.0 | This item refers to the loan granted by Pirelli International Plc and Pirelli Tyre S.p.A. to PT Evoluzione Tyres. |
| Current trade receivables | 1.7 | This item includes receivables for services rendered to the Prelios S.p.A. Group (euro 0.3 million) and to PT Evoluzione Tyres (euro 1.4 million). |
| Other current receivables | 1.5 | The amount refers to advances received from PT Evoluzione Tyres (euro 1.3 million) and to financial receivables from Fenice S.r.l. (euro 0.2 million). |
| Current borrowings from banks and other financial institutions | 0.6 | This item refers to the security deposit received from Prelios S.p.A. to guarantee of the lease of the Milan office (long term portion). |
| Current trade payables | 17.8 | The amount mainly refers to payables for the purchase of energy from Industriekraftwerk Breuberg GmbH. |

**TRANSACTIONS WITH OTHER RELATED PARTIES**

(in millions of euros)

| | | |
|---|---|---|
| Revenues from sales and services | 6.0 | This item mainly refers to the sale of goods and services rendered by Pirelli Tyre S.p.A. (euro 0.7 million) and Pirelli Pneus Ltda (euro 2.5 million) to Pirelli de Venezuela C.A., to royalties recognised by the Aeolus Tyre Co., Ltd. (euro 1.9 million) and services rendered to the Hangar Bicocca Foundation (euro 0.9 million). |
| Current trade receivables | 139.1 | This item includes receivables for royalties from Aeolus Tyre Co., Ltd (euro 1.9 million) and for services rendered to Hangar Bicocca Foundation (euro 1.2 million) and trade receivables to the amount of euro 136 million from the Industrial Group. |
| Other current receivables | 155.2 | This item refers to receivables from the companies of the Industrial Group |
| Current borrowings from banks and other financial institutions | 25.0 | This item includes financial payables to the Industrial Group. |
| Trade payables | 110.9 | This item includes trade payables to the Industrial Group. |
| Other current payables | 23.0 | This item includes trade payables to the Industrial Group. |
| Current financial instruments | 2.2 | This item refers to the companies of the Industrial Group. |
| Current tax payables | 5.7 | This item refers to the companies of the Industrial Group. |
| Non-current financial instruments | 4.1 | This item refers to the companies of the Industrial Group. |

The Board of Directors

Milan, May 22, 2017

# FINANCIAL STATEMENTS

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

| | 03/31/2017 | 12/31/2016 |
|---|---|---|
| Property, plant and equipment | 2,980,085 | 3,556,635 |
| Intangible assets | 5,968,503 | 6,496,889 |
| Investments in associates and J.V. | 43,825 | 47,010 |
| Other financial assets | 221,165 | 198,691 |
| Deferred tax assets | 115,780 | 147,964 |
| Other receivables | 212,167 | 226,868 |
| Tax receivables | 20,766 | 11,864 |
| **Non-current assets** | **9,562,291** | **10,685,921** |
| Inventories | 925,516 | 1,055,639 |
| Trade receivables | 1,044,807 | 679,321 |
| Other receivables | 468,689 | 275,622 |
| Securities held for trading | 24,864 | 48,597 |
| Cash and cash equivalents | 457,992 | 1,532,977 |
| Tax receivables | 84,311 | 64,395 |
| Derivative financial instruments | 36,016 | 23,989 |
| **Current assets** | **3,042,196** | **3,680,540** |
| **Assets held for sale** | **118,330** | **-** |
| **Total Assets** | **12,722,817** | **14,366,461** |
| | | |
| Equity attributable to owners of the Group: | 2,929,083 | 3,134,085 |
| - Share capital | 1,342,281 | 1,342,281 |
| - Reserves | 1,614,744 | 1,656,741 |
| - Net income (loss) for the period | (27,942) | 135,063 |
| Equity attributable to non-controlling interests: | 73,798 | 140,773 |
| - Reserves | 72,902 | 128,211 |
| - Net income (loss) for the period | 896 | 12,562 |
| **Total Equity** | **3,002,881** | **3,274,858** |
| Borrowings from banks and other financial institutions | 4,426,624 | 5,945,999 |
| Other payables | 76,242 | 87,421 |
| Provisions for liabilities and charges | 139,238 | 170,992 |
| Provisions for deferred tax liabilities | 1,311,164 | 1,452,169 |
| Employee benefit obligations | 341,162 | 368,100 |
| Tax payables | 2,682 | 3,374 |
| **Non-current liabilities** | **6,297,112** | **8,028,055** |
| Borrowings from banks and other financial institutions | 1,689,816 | 642,047 |
| Trade payables | 1,062,235 | 1,498,492 |
| Other payables | 482,390 | 783,079 |
| Provisions for liabilities and charges | 38,603 | 45,987 |
| Tax payables | 68,362 | 41,773 |
| Derivative financial instruments | 41,451 | 52,170 |
| **Current liabilities** | **3,382,857** | **3,063,548** |
| **Liabilities held for sale** | **39,967** | **-** |
| **Total Liabilities and Equity** | **12,722,817** | **14,366,461** |

**CONSOLIDATED INCOME STATEMENT** (in thousands of euro)

| | 1/1 - 03/31/2017 | 1/1 - 03/31/2016 (*) |
|---|---|---|
| Revenues from sales and services | 1,339,276 | 1,180,874 |
| Other income | 171,848 | 181,022 |
| Changes in inventories of unfinished, semi-finished and finished products | 31,808 | (208,289) |
| Raw materials and consumables used (net of change in inventories) | (471,311) | (333,663) |
| Personnel expenses | (273,855) | (247,875) |
| Amortisation, depreciation and impairment | (91,895) | (84,048) |
| Other costs | (538,013) | (322,541) |
| Increase in fixed assets for internal work | 835 | 626 |
| **Operating income (loss)** | **168,693** | **166,106** |
| Net income (loss) from equity investments | (3,135) | (42,482) |
| *- share of net income (loss) of associates and j.v.* | *(3,200)* | *(35,779)* |
| *- gains on equity investments* | *185* | *8,407* |
| *- losses on equity investments* | *(120)* | *(15,110)* |
| *- dividends* | *-* | *-* |
| Financial income | 58,560 | 28,228 |
| Financial expenses | (135,523) | (161,993) |
| **Net income (loss) before tax** | **88,595** | **(10,141)** |
| Tax | (39,064) | (20,328) |
| **Net income (loss) from continuing operations** | **49,531** | **(30,469)** |
| Net income (loss) from discontinued operations | (76,577) | (19,698) |
| **Total net income (loss) for the period** | **(27,046)** | **(50,167)** |

**Attributable to:**

| | | |
|---|---|---|
| Owners of the parent company | (27,942) | (50,729) |
| Non-controlling interests | 896 | 562 |

(*) 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"

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

| | | 1/1 - 03/31/2017 | 1/1 - 03/31/2016 (*) |
|---|---|---|---|
| **A** | **Net income (loss) for the period** | **(27,046)** | **(50,167)** |
| **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) | - |
| | **Total B** | **(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 | 4,896 | (47,717) |
| | - (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 | (45,689) |
| | Fair value adjustment of derivatives designated as cash flow hedges: | | |
| | - Gains / (losses) for the period | 7,207 | (3,319) |
| | - (Gains) / losses reclassified to income statement | 66 | 8,277 |
| | - Tax effect | (1,458) | (1,872) |
| | Share of other comprehensivie income related to associates and JVs net of tax | - | (493) |
| | **Total C** | **111,668** | **(90,813)** |
| **D** | **Total components of comprehensive income (B+C)** | **110,447** | **(90,813)** |
| **A+D** | **Total comprehensive income (loss) for the period** | **83,401** | **(140,980)** |
| | **Attributable to:** | | |
| | - Owners of the Parent | 82,944 | (139,299) |
| | - Non-controlling interests | 457 | (1,681) |

(*) the figures refer to the restated consolidated financial statements of Pirelli 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"

## 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 | - | - | - | 1,520 | 1,520 | 264,500 | 266,020 |
| Assignment of Pirelli Industrial to Marco Polo | - | - | (12,043) | (277,397) | (289,440) | (326,679) | (616,119) |
| Liquidation of equity investments | - | - | - | - | - | (5,540) | (5,540) |
| Other | - | - | (147) | 122 | (25) | 287 | 262 |
| **Total at 03/31/2017** | **1,342,281** | **(119,236)** | **(48,475)** | **1,754,514** | **2,929,083** | **73,798** | **3,002,881** |

(in thousands of euro)

| | Breakdown of IAS reserves * | | | | |
|---|---|---|---|---|---|
| | Reserve for fair value adjustment of available-for-sale financial assets | 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 - 03/31/2017 | 1/1 - 03/31/2016 (*) |
|---|---|---|---|
| | Net income (loss) before taxes | 88,595 | (10,141) |
| | Reversals of amortisation, depreciation, impairment losses and restatement of property, plant and equipment and intangible assets | 91,895 | 84,048 |
| | Reversal of Financial expenses | 135,523 | 161,993 |
| | Reversal of Financial income | (58,560) | (28,228) |
| | Reversal of Dividends | - | - |
| | Reversal of gains/(losses) on equity investments | (65) | 6,703 |
| | Reversal of share of net income from associates and joint ventures | 3,200 | 35,779 |
| | Ordinary taxes | (39,064) | (20,328) |
| | Change in Inventories | (28,573) | (22,712) |
| | Change in Trade receivables | (265,000) | (182,138) |
| | Change in Trade payables | (284,844) | (412,275) |
| | Change in Other receivables/Other payables | (151,042) | (53,876) |
| | Change in Provisions for employee benefit obligations and Other provisions | (37,962) | (12,811) |
| | Other changes | (4,031) | 6,439 |
| **A** | **Net cash flows provided by / (used in) operating activities** | **(549,929)** | **(447,547)** |
| | Investments in property, plant and equipment | (97,446) | (70,305) |
| | Disposal of property, plant and equipment | 2,479 | 1,083 |
| | Investments in intangible assets | (942) | (678) |
| | Disposals (Acquisition) of financial assets | (1,678) | (5,156) |
| | Dividends received | - | - |
| **B** | **Net cash flows provided by / (used in) investing activities** | **(97,587)** | **(75,056)** |
| | Change in Financial payables | (459,518) | 179,790 |
| | Change in Financial receivables/Securities held for trading | 219,855 | 94,910 |
| | Financial income / (expenses) | (76,963) | (133,765) |
| | Dividends paid | - | - |
| **C** | **Net cash flows provided by / (used in) financing activities** | **(316,626)** | **140,935** |
| **D** | **Net cash flows provided by (used in) discontinued operations** | **(145,690)** | **(53,885)** |
| **E** | **Total cash flows provided / (used) during the period (A+B+C+D)** | **(1,109,832)** | **(435,553)** |
| **F** | **Cash and cash equivalents at the beginning of the period** | **1,523,928** | **1,067,158** |
| **G** | **Exchange differences from translation of cash and cash equivalents** | 2,839 | (25,444) |
| **H** | **Cash and cash equivalents at the end of the period (E+F+G) (°)** | **416,935** | **606,161** |
| **(°)** | **of which:** | | |
| | cash and cash equivalents | 457,992 | 636,506 |
| | passive current accounts | (41,057) | (30,345) |

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

## FORM AND CONTENT

This Interim Financial Report at March 31, 2017 has been prepared on a voluntary basis since, following the delisting of Pirelli, the company has no statutory obligation to prepare quarterly reports.

The accounting standards applied for the evaluation and measurement of the accounting measures were the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the relative interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as approved by the European Commission and in force at the time of approval of these Financial Statements.

The accounting standards used are the same as those used for the preparation of the consolidated Financial Statements at December 31, 2016, to which reference should be made for further details. The following standards listed below came into force as of January 1, 2017 but have not yet been approved by the European Union and are therefore not applicable:

- Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses: no impacts are foreseen on the Group's Financial Statements arising from the application of these amendments.
- Amendments to IAS 7 – Disclosure Initiative: these amendments did have an impact on the disclosure of the Financial Statements of the Group.
- Amendments to IFRS 2 - Share-based Payment: there were no impacts on the Group's Financial Statements arising from the application of these amendments.

## Exchange rates

(local currency vs euro)

| | Period-end exchanges rates | | Change in % | Average exchange rates | | Change in % |
|---|---|---|---|---|---|---|
| | 03/31/2017 | 12/31/2016 | | 2017 | 2016 | |
| Swedish Krona | **9.5322** | 9.5525 | (0.21%) | **9.5063** | 9.3264 | 1.93% |
| Australian Dollar | **1.3982** | 1.4596 | (4.21%) | **1.4056** | 1.5283 | (8.03%) |
| Canadian Dollar | **1.4265** | 1.4188 | 0.54% | **1.4101** | 1.5136 | (6.84%) |
| Singaporean Dollar | **1.4940** | 1.5234 | (1.93%) | **1.5080** | 1.5463 | (2.47%) |
| U.S. Dollar | **1.0691** | 1.0541 | 1.42% | **1.0648** | 1.1022 | (3.39%) |
| Taiwan Dollar | **32.4451** | 34.0748 | (4.78%) | **33.1010** | 36.5043 | (9.32%) |
| Swiss Franc | **1.0696** | 1.0739 | (0.40%) | **1.0694** | 1.0960 | (2.43%) |
| Egyptian Pound | **19.4406** | 20.1624 | (3.58%) | **19.0980** | 8.8820 | 115.02% |
| Turkish Lira (new) | **3.9083** | 3.7099 | 5.35% | **3.9346** | 3.2424 | 21.35% |
| New Romanian Leu | **4.5511** | 4.5411 | 0.22% | **4.5220** | 4.4905 | 0.70% |
| Argentinian Peso | **16.4535** | 16.7497 | (1.77%) | **16.6956** | 15.9687 | 4.55% |
| Mexican Peso | **20.1521** | 21.5539 | (6.50%) | **21.6482** | 19.8714 | 8.94% |
| South African Rand | **14.2404** | 14.4570 | (1.50%) | **14.0814** | 17.4416 | (19.27%) |
| Brazilian Real | **3.3896** | 3.4042 | (0.43%) | **3.3523** | 4.2960 | (21.97%) |
| Chinese Renminbi | **7.3760** | 7.3123 | 0.87% | **7.3323** | 7.1953 | 1.90% |
| Russian Ruble | **60.5950** | 63.8111 | (5.04%) | **62.5923** | 82.3162 | (23.96%) |
| British Pound | **0.8555** | 0.8562 | (0.08%) | **0.8601** | 0.7704 | 11.65% |
| Japanese Yen | **119.5500** | 123.4000 | (3.12%) | **121.0139** | 126.9926 | (4.71%) |

## Net financial liquidity/(debt) position

(in thousand of euro)

| | 03/31/2017 | 12/31/2016 |
|---|---|---|
| Current borrowings from banks and other financial institutions | 1,689,816 | 642,047 |
| Current derivative financial instruments (liabilities) | 29,254 | 35,742 |
| Non-current borrowings from banks and other financial institutions | 4,426,624 | 5,945,999 |
| **Total gross debt** | **6,145,694** | **6,623,788** |
| Cash and cash equivalents | (457,992) | (1,532,977) |
| Securities held for trading | (24,864) | (48,597) |
| Current financial receivables and other assets | (17,490) | (29,951) |
| Current derivative financial instruments (assets) | (21,616) | (3,718) |
| Non-current financial receivables and other assets | (98,579) | (95,714) |
| **Total net financial (liquidity)/debt position** | **5,525,153** | **4,912,831** |