HALF-YEAR FINANCIAL REPORT AT JUNE 30, 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	Ning Gaoning
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	Giovanni Lo Storto
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. The Director Giovanni Lo Storto was appointed by the Shareholders' Meeting held on May 15, 2018. Ning Gaoning has been co-opted by the Board of Directors on August 7, 2018, replacing Mr. Ren Jianxin, who resigned on July 30, 2018. The Chairman Ning Gaoning will expiry with the next Shareholders' Meeting.

[2] Appointment: May 15, 2018. Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2020).

	Luca Nicodemi
	Alberto Villani
Alternate Auditors	Elenio Bidoggia
	Franca Brusco
	Giovanna Oddo

Audit, Risk, Sustainability and Corporate Governance Committee

Chairman – Independent Director	Fan Xiaohua
Independent Director	Laura Cioli
Independent Director	Giovanni Lo Storto
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	Ning Gaoning
Director	Bai Xinping
Director	Giovanni Tronchetti Provera

Remuneration Committee

Chairman – Independent Director	Tao Haisu
Director	Bai Xinping
Independent Director	Laura Cioli
Independent Director	Giovanni Lo Storto

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, 2018.

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

MACROECONOMIC AND MARKET SCENARIO

The global economy recorded a positive growth performance for the second quarter of 2018 in continuity with the first quarter, despite tensions on the trade tariffs front.

In Europe, economic activity during the second quarter recorded a growth of +0.4% for the European Union, consistent with that of the preceding quarter. The ECB expressed the intention to leave the reference rate for inflation unchanged until the summer of 2019, and announced the ending of its quantitative easing program by the end of the financial year.

The US economy instead recorded a growth in GDP of +4.1% for the second quarter, thanks to the increase in private consumption due to the effect of the tax reform bill passed at the end of 2017. The robust growth of the economy was reflected in the rise of inflation (+2.3% in June) and in the confirmation by the Federal Reserve of its policy for the gradual increase of interest rates, which were upwardly revised by 25 basis points during March and June.

China’s GDP recorded a growth rate of +6.7% for the second quarter of 2018 compared to the corresponding period of 2017, but which was slightly lower compared to the +6.8% recorded for the first quarter of the financial year.

After a growth of +1.6% for the first quarter, the Brazilian economy was negatively impacted during the second quarter of 2018 by the transport workers’ strike in May, as well as by the depreciation of its currency versus the US Dollar.

The recovery in the price of oil instead lent support to the Russian economy despite the tightening of sanctions by the USA, while growth in GDP was +1.3% year-on-year for the first quarter.

Trend in Exchange Rates

During the course of the first half-year of 2018, the Euro appreciated by approximately +12% versus the US Dollar compared to the first half-year of 2017, recording an average price of USD 1.19 (an average price of USD 1.08 for the first half-year of 2017), an appreciation attenuated by a devaluation of -3.0% for the second quarter of 2018 compared to the preceding quarter.

The British Pound Sterling (average price of 0.876 for the first half-year) was slightly stronger (+1.0%) against the Euro compared to the previous quarter, but which in any case had depreciated by -2.0% on an annual basis.

The increase in US interest rates brought more volatility to the major currencies of emerging countries which weakened against the US Dollar during the second quarter.

The Chinese Renminbi which appreciated reaching Yuan 6.29 per USD at the end of March, then reversed its trend, closing the month of June at 6.62. The average second quarter price of Renminbi 6.38 per US Dollar remained almost unchanged compared to the previous quarter average, but had appreciated by approximately +8.0% compared to the same period in 2017.

During the second quarter the Russian Rouble recorded a depreciation of -8.0% compared to the previous quarter, also on an annual basis against the US Dollar due to the effect of the rise in US rates, as well as to the tightening of international sanctions.

The Brazilian Real recorded an average price of 3.61 against the US Dollar for the second quarter of 2018, with depreciation of -10% against the US Dollar compared to the previous quarter, and of -11% compared to the second quarter of 2017.

The depreciation of the main currencies of emerging countries compared to the Euro, was even more pronounced compared to the US Dollar, with -1.0% on an annual basis for the Renminbi, -15% for the Rouble, and -18% for the Real compared to the second quarter of 2017.

Trend in Raw Materials

The second quarter of 2018 was characterised by new increases in the price of energy resources and butadiene, while the price of natural rubber fell.

- the average price of oil (Brent) stood at USD 75 per barrel for the second quarter, an increase compared to the both the first three months of 2018 and the second quarter of 2017, leaving the average price of oil at USD 71 per barrel for the first half-year, up by +34% on an annual basis. The price was influenced by the growth in global demand, and by an agreement between the main oil producing countries which limited production. The price was further impacted by an unexpected drop in production by Venezuela. In order to avoid excessive increases in crude prices, at the OPEC meeting held on June 22, the OPEC member countries and Russia decided to increase production by 1 million barrels per day;
- the average price of butadiene for the second quarter of 2018 stood at Euro 1,037 per tonne, up by +28.0% compared to the previous quarter (Euro 808 per tonne) but decreased by -31.0% compared to the second quarter of 2017 (an average price of Euro 1,500 per tonne for the period, during which there was a strong increase in the demand for butadiene in Asia which subsequently stabilised). The average price for the first quarter of 2018 was Euro 923 per tonne, down by -36% compared to the corresponding period of 2017;
- the price of natural rubber fell slightly during the second quarter of 2018, recording an average price of USD 1,400 per tonne, a decrease of -5.0% compared to the previous quarter. The average price for the first half-year of 2018 was USD 1,434 per tonne down by -21% compared to the average price for the first half-year of 2017 (of USD 1,814 per tonne, a price that was driven by a sharp increase in demand in Asia).

Trend in Car Tyre Markets

The performance in tyre sales signalled a growth in the Car market for the first half-year of +1.0 (-1.2% in the first quarter, with a growth of +3.3% for the second quarter, driven by Europe, NAFTA and Apac). New Premium (tyres with a rim diameter ≥18 inches) was the segment with the highest growth, up by +10.2% for the first half-year (+8.1% for the first quarter, +12.3% for the second quarter) compared to -0.5% for Standard sales (tyres with a rim diameter ≤17 inches, which were down by -2.7% for the first quarter, up by +1.8% for the second quarter quarter).

In more detail:

- in Europe the Car tyre market recorded a growth of +0.5% with a strong recovery for the second quarter (+6.1% compared to -4.2% for the first quarter). Different performances were recorded by the New Premium and Standard segments. The high-end tyre market rose sharply, up by +10.2% for the first half-year (+5.1% for the first quarter and +15.8% for the second quarter) compared to -0.9% for Standard segment sales (-5.6% for the first quarter and +4.5% for the second quarter);

- NAFTA recorded an essentially stable performance for the first half-year compared to the first six months of 2017, (-0.3% for the first half-year, -2.2% for the first quarter and +1.6% for the second quarter) with opposing trends for the two channels (Original Equipment fell by -2.6% for the first half-year, with +0.5% for the Replacement channel). New Premium sales recorded a growth of +8.7% (+7.6% for the first quarter and +9.8% for the second quarter) while the contraction in Standard segment sales continued with the first half-year at -3.6% (-5.9% for the first quarter and -1.4% for the second quarter);

- a positive market performance was recorded for Apac with +1.5% for the first six months of 2018 (-0.3% for the first quarter and +3.3% for the second quarter), with sustained growth in the New Premium segment (+13.9% for the first half-year, +13.1% for the first quarter and +14.7 % for the second quarter) while Standard segment sales were essentially stable compared to the corresponding period of 2017 (+0.1% for the first half-year, -1.8% for the first quarter and +2.0% for the second quarter);

- the LatAm market was impacted by the transport workers' strike which led to a fall in sales in May of -13.0% for Original Equipment, and of -7.0% in May and June for the Replacement channel. For the first 6 months of 2018, the total Car market recorded a contraction of -1.0% (+3.0% for the first quarter and -4.0% for the second quarter) with sales for the Original Equipment channel up by +9.0% (+11.0% for the first quarter and +8.0% for the second quarter) while the Replacement channel recorded a contraction of -3.0% (+2.0% for the first quarter, -7.0% for the second quarter);

- Russia recorded sustained growth of +14.7% for the first half-year (+15.2% for the first quarter, +14.2% for the second quarter) both for the Original Equipment channel (+15.8% for the first six months) and the Replacement channel (+14.5%).

SIGNIFICANT EVENTS OF THE FIRST HALF-YEAR 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, 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%. 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 bank 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 in effect were in line 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 what was already known by the market, at the Shareholders' Meeting the Board of Directors proposed not to distribute any dividends and to carry forward the entire gains for the financial year.

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 the same 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 **May 14, 2018**, the Pirelli Board of Directors, upon the proposal of the Executive Vice Chairman and CEO, Marco Tronchetti Provera, approved the development of an organisational structure aimed at consolidating the implementation of the integrated business model. The new organisation model provides that all staff functions and as well as the *"Regions*" (geographical areas) continue to report to the Executive Deputy Chairman and CEO as regards institutional issues and overall coordination. In addition, the General Operations Department entrusted to 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, will also report to the Executive Vice Chairman and CEO.

On **May 15, 2018,** the Shareholders' Meeting of Pirelli & C. S.p.A. approved the Financial Statements for 2017, as well as the increase to the number of members of the Board of Directors to 15, and - upon the proposal by a group of institutional investors - appointed a new Director, Giovanni Lo Storto, who has joined the Audit, Risk, Sustainability and Corporate Governance Committee and the Remuneration Committee. Giovanni Lo Storto has declared that he possesses the requisites to qualify as an Independent Director pursuant to the Finance Consolidation Act and the self-regulatory Code of Conduct for listed companies. With this appointment, the Pirelli Board of Directors is composed of a majority (8 out of 15 members) of Independent Directors. In addition, the Shareholders' Meeting, appointed by list vote, the new Board of Statutory Auditors for the 2018-2020 financial years, which is composed of Francesco Fallacara (as Chairman); Antonella Carù, Fabio Artoni, Luca Nicodemi and Alberto Villani (as Statutory Auditors), and Franca Brusco, Elenio Bidoggia and Giovanna Oddo (as Alternate Auditors). Their fees were set at euro 50,000 for the Statutory Auditors and euro 75,000 for the Chairman of the Board of Statutory Auditors. The Shareholders also authorised the Board of Directors to stipulate a new D&O (Directors & Officers Liability Insurance Policy), expressed a favourable opinion on the Remuneration Policy, and approved for the section related to Total Shareholder Return, the adoption of the 2018-2020 three-year monetary Long Term Incentives (*"LTI Plan"*), the latter intended for the entire management sector correlates with the 2018-2020 objectives contained in the 2017-2020 Industrial Plan.

On **June 22, 2018**, the Pirelli Board of Directors extended the expiry date (from January 31 to December 31, 2019) and increased the size of the previous Board's authorisation for bond loans from euro 1.0 billion to euro 1.8 billion, of which euro 800 million was placed during the first quarter of 2018.

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 the 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.

* * *

As a result of the assignment in March 2017 by Pirelli & C. S.p.A. to the parent company Marco Polo International Holding Italy S.p.A., 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 for Argentina was completed in the month of June 2018, and for China is expected to be completed during the course of the current financial year.

* * *

It is to be noted that the only comparative data at June 30, 2017 included in these present Financial Statements refers to the Carve out Interim Consolidated Financial Statements at June 30, 2017, prepared in accordance with IAS 34, in order to represent the assets, liabilities, revenues and costs directly and indirectly attributable to the Consumer Activities of the Pirelli Group. Those Financial Statements which were approved by the Board of Directors on July 28, 2017, were included in the registration document, prepared for the admission to trading of the ordinary shares of the Company on the Mercato Telematico Azionario (screen-based stock exchange), organised and managed by Borsa Italiana S.p.A..

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The Half-Year Financial Report at June 30, 2018 has been 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 relative to variable considerations payable to indirect customers and mainly linked to the achievement of sales 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. The comparative data for the first half-year of 2017 has not been subjected to restatement.

* * *

The results for the first half-year of 2018 were characterised by:

- Net sales which amounted to euro 2,630.3 million, representing an organic growth of +5.5% thanks to the strengthening of the leadership position in the high-end products range in all geographic regions (+12.7% organic growth for the High Value segment);
- EBIT adjusted without start-up costs equal to euro 473.3 million, with a margin of 18.0%, which had improved by +1.5 percentage points (16.5% for the first half-year of 2017, equal to euro 443.0 million);
- Net income related to continuing operations (Consumer) which grew to euro 181.9 million (euro 67.6 million for the first half-year of 2017);
- the Net Financial Position which was negative to the amount of euro 3,916.5 million, had increased compared to euro 3,218.5 million at December 31, 2017, due to the seasonality of working capital, but stable compared to euro 3,938.9 million at March 31, 2018.

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 half-year of 2018 represented 64.0% of revenues (up by +5.8 percentage points compared to 58.2% for the first half-year of 2017). High Value volumes recorded a growth of +13.1%, with an improvement in the market share for the Car New Premium segment (Pirelli sales volumes up by +18.3% for Car ≥18 inches compared to the +10.2% growth of the market). Of note was the growing demand for Specialties tyres with ≥18 inches rim diameters (Run-flat, Pirelli Noise Cancelling System, Seal-Inside), due to the continuous expansion of the homologations portfolio for these technologies (during the first half-year approximately 37% of about200 new High Value homologations were represented by Specialties);
- **reduction of exposure on the Standard segment** with a -11.3% contraction in volumes driven by the gradual exit from products with a lower rim diameter and profitability, in context of the general slowdown of the Standard market (-0.5%). The contraction of the Standard market in LatAm (-4.7%) was particularly pronounced for the second quarter due to the prolonged strike by transport workers in Brazil during May.

  The combination of the High Value and Standard trends resulted in an overall change in volumes (cars and motorcycles) of -1.2% (-0.9% for the second quarter);
- **consequent improvement in the price/mix component** which once again asserted itself at the highest level amongst peers: +6.7% for the first half-year of 2018 due to effect of the progressive improvement of the mix, and the price increases put in place as of April 1, 2017.

As regards the more specific programs, of note were:

- the **strengthening of the partnership** with Prestige and Premium car manufacturering houses, with more than 200 new High Value homologations during the first half-year of 2018, with a portfolio which reached 2,350 high-end homologations increasingly oriented towards new technologies. During the first half-year, Pirelli intensified its collaborative relationships for the electric car with the major global Premium and Prestige car manufacturers and with the most innovative Chinese brands;

- **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. For the first half-year, High Value capacity reached a 58% share with an increase in the High Value capacity of 1.5 million tyres, of which 40% was due to the conversion;

- **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 share of these channels rose from 51% for 2017 to 55% for the first half-year of 2018;

- **the development of business programs which intercept new end-customer needs** (such as Cyber and Velo), also through the collaboration with the Premium and Prestige Original Equipment channel. There was the continuation of the **projects for the digital transformation of the Company, and 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 by start-up costs of approximately euro 23.2 million for the first half-year 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 more competitive production costs, the improvement in productivity, 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)	06/30/2018	06/30/2017 Carve-out	12/31/2017
Net sales	**2,630.3**	**2,685.3**	**5,352.3**
EBITDA adjusted without start-up costs	608.3	566.8	1,175.1
% of net sales	23.1%	21.1%	22.0%
EBITDA adjusted	**587.9**	**546.4**	**1,137.7**
% of net sales	22.4%	20.3%	21.3%
EBIT adjusted without start-up costs	473.3	443.0	926.6
% of net sales	18.0%	16.5%	17.3%
EBIT adjusted (°)	**450.1**	**416.2**	**876.4**
% of net sales	17.1%	15.5%	16.4%
EBIT	**377.7**	**318.2**	**673.6**
% of net sales	14.4%	11.8%	12.6%
Net income (loss) from equity investments	(4.5)	(12.9)	(6.9)
Financial income/(expenses)	(118.0)	(226.4)	(362.6)
Net income (loss) before tax	**255.2**	**78.9**	**304.1**
Tax expenses	(73.3)	(11.3)	(40.8)
Tax rate %	(28.7%)	(14.3%)	(13.4%)
Net income (loss) related to continuing operations (Consumer)	**181.9**	**67.6**	**263.3**
Eanings/(loss) per share related to continuing operations (in euro per share)	0.18	0.10	0.31
Net income (loss) related to continuing operations (Consumer) adjusted	232.6	159.0	386.8
Net income (loss) related to discontinued operations (Industrial)	(4.7)	n.a.	(87.6)
Total net income (loss)	**177.2**	**67.6**	**175.7**
Net income attributable to the Parent Company	172.0	67.0	176.4
Fixed assets related to continuing operations	**8,881.2**	**9,131.5**	**9,121.0**
Inventories	983.3	937.1	940.7
Trade receivables	864.4	968.4	652.5
Trade payables	(1,052.2)	(1,139.8)	(1,673.6)
Operating working capital related to continuing operations	**795.5**	**765.7**	**(80.4)**
% of net sales (°°)	15.1%	14.3%	(1.5%)
Other receivables/other payables	113.5	189.8	(42.2)
Net working capital related to continuing operations	**909.0**	**955.5**	**(122.6)**
% of net sales (°°)	17.3%	17.8%	(2.3%)
Net invested capital held for sale	**38.6**	**n.a.**	**60.7**
Net invested capital	**9,828.8**	**10,087.0**	**9,059.1**
Equity	**4,323.2**	**4,057.3**	**4,177.0**
Provisions	1,589.1	1,853.2	1,663.6
Net financial (liquidity)/debt position	**3,916.5**	**4,176.5**	**3,218.5**
Equity attributable to the Parent Company	4,242.9	3,999.9	4,116.7
Investments in property, plant and equipment and intangible assets	179.2	215.7	489.4
Research and development expenses	116.8	111.5	221.5
% of net sales	4.4%	4.2%	4.1%
Research and development expenses - High Value	106.8	99.0	199.9
% on sales High Value	6.3%	6.3%	6.5%
Employees (headcount at end of period)	31,526	30,828	30,189
Industrial sites (number)	19	19	19

(°) Adjustments refer to amortization of intangible assets identified during PPA amounting to 57.3 millions of euro (euro 52.3 millions in the first half of 2017 and euro 109.6 millions in 2017), non recurring and restructuring expenses amounting to euro 6.5 millions (euro 45.7 millions in the first half 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 8.6 millions.

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

For a better understanding of the Group's performance, the following quarterly performance figures are provided below:

(In millions of euro)		1 Q		2 Q		TOTAL 1 H	
		2018	2017	2018	2017	2018	2017
Net sales		**1,310.3**	1,339.3	**1,320.0**	1,346.0	**2,630.3**	2,685.3
	yoy	-2.2%		-1.9%		-2.0%	
	*organic yoy **	5.7%		5.3%		5.5%	
EBITDA adjusted without start-up costs		**298.0**	281.7	**310.3**	285.1	**608.3**	566.8
	% of net sales	22.7%	21.0%	23.5%	21.2%	23.1%	21.1%
EBITDA adjusted		**288.1**	270.4	**299.8**	276.0	**587.9**	546.4
	% of net sales	22.0%	20.2%	22.7%	20.5%	22.4%	20.3%
EBIT adjusted and without start-up costs		**229.4**	219.5	**243.9**	223.5	**473.3**	443.0
	% of net sales	17.5%	16.4%	18.5%	16.6%	18.0%	16.5%
EBIT adjusted (°)		**218.4**	205.0	**231.7**	211.2	**450.1**	416.2
	% of net sales	16.7%	15.3%	17.6%	15.7%	17.1%	15.5%
EBIT		**184.0**	168.7	**193.7**	149.5	**377.7**	318.2
	% of net sales	14.0%	12.6%	14.7%	11.1%	14.4%	11.8%

* before exchange rate effect and adoption effect of new accounting standard IFRS 15

Group sales amounted to euro 2,630.3 million and recorded an organic growth of +5.5% compared to the previous financial year. Including the exchange rate effect (-6.9%), 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 -2.0%.

High Value revenues for the first half-year of 2018 which amounted to euro 1,683.7 million, an organic growth of +12.7% (+7.8% including the negative exchange rate effect of -4.9%) accounted for a 64.0% share of turnover (up by +5.8% compared to the corresponding period of 2017).

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

	1 Q		2 Q		1 H	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Volume	-1.5%	2.9%	-0.9%	-0.3%	-1.2%	1.3%
Price/mix	7.2%	5.5%	6.2%	6.5%	6.7%	5.9%
Change on a like-for-like basis	**5.7%**	**8.4%**	**5.3%**	**6.2%**	**5.5%**	**7.2%**
Translation effect	-7.3%	4.0%	-6.6%	1.2%	-6.9%	2.6%
Change in scope of consolidation - Aeolus car	-	1.0%	-	0.6%	-	0.8%
Adoption of new accounting standard IFRS 15	-0.6%	-	-0.6%	-	-0.6%	-
Total change	**-2.2%**	**13.4%**	**-1.9%**	**8.0%**	**-2.0%**	**10.6%**

The performance for sales volumes for the first half-year of 2018 (-1.2%) reflected the diverse dynamics within the High Value and Standard segments.

High Value volumes grew sharply (up by +13.1% for the first half-year of 2018, +12.8% for the first quarter and +13.4% for the second quarter), with an improvement in market share in all the main regions. Growth was more pronounced for Car tyres ≥18 inch rim diameters (+18.3% for the first half-year compared to the +10.2% of the market) thanks to:

- strong demand on the Original Equipment channel (+23.1%), especially in Europe and Apac which benefitted from the expansion of the homologation portfolio and new collaborations with car manufacturers;
- the growing demand for Pirelli Specialties with rim diameters ≥18 inches (Run-flat, Pirelli Noise Cancelling System, Seal-Inside).

The differential between the growth trend of the High Value segment and that of Car tyres ≥18 inches was attributable to the lower demand for Specialties with ≤17 inch rim diameters, in favour of those with higher rim diameters, and to the performance of the Premium motorcycle market (-2.1% for the first half-year of 2018).

There were opposite trending signals on the Standard segment which recorded a contraction of -11.3% compared to the first half-year of 2017 (-10.6% for the first quarter, -12.1% for the second quarter). This trend was impacted by:

- the fall in demand for Standard products in mature markets (Europe -1.0% and NAFTA -4.0%);
- the negative effect, for the second quarter, deriving from the aforementioned strike by transport workers in Brazil;
- by Pirelli's decision to accelerate the reduction in volumes of lower profitability products.

The strong price/mix improvement (+6.7% compared to the +5.9% change for the first half-year of 2017) was a result of the implementation of the Pirelli 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 higher costs of raw materials. The price/mix improvement for the second quarter resulted in +6.2%, which was slightly lower than for the first quarter (+7.2%), due to:

- higher weight of sales in the Original Equipment channel, thanks to the strong demand for Car tyres ≥18-inches;
- a different regional mix, with an increase in sales in Apac;
- an elevated comparison basis in consideration of the price increases implemented as of April 2017.

The exchange rate trend was negative (-6.9% compared to +2.6% for the first half-year of 2017) due to the strengthening of the Euro against the US Dollar, and to the volatility of the Chinese currency and those of emerging countries (Brazil, Russia and Argentina) versus the Euro.

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

	1H 2018				1H 2017
	Euro\mln	*%*	*yoy*	*Organic Yoy**	*%*
Europe	1,155.4	43.9%	*2.3%*	*4.1%*	42.0%
NAFTA	487.0	18.5%	*-2.9%*	*7.5%*	18.7%
Asia\Pacific (APAC)	431.4	16.4%	*10.6%*	*15.2%*	14.5%
South America	354.9	13.5%	*-22.2%*	*-2.2%*	17.0%
Middle East\Africa\India (MEAI)	112.8	4.3%	*-8.5%*	*-1.1%*	4.6%
Russia and CIS	88.8	3.4%	*4.4%*	*17.0%*	3.2%
TOTAL	**2,630.3**	**100.0%**	***-2.0%***	***5.5%***	**100.0%**

* before exchange rate effect and adoption effect of new accounting standard IFRS 15

Europe (43.9% of sales) closed the first half-year with a growth in revenues of +2.3%, with net organic growth up by +4.1% both for the devaluation of exchange rates (-0.5%) and the impact deriving from the adoption of the new accounting standard IFRS 15 (-1.4%), almost entirely attributable to the European region. The strengthening of the High Value segment continued during the first half-year with an organic growth of +11.2% driven by the strong demand for High Value products, especially on the Original Equipment channel. There were opposite trending signals on the Standard segment with an organic contraction in revenues of -9.4%, due to:

- a general decline in Standard market volumes (-1.0% for the first half-year of 2018), particularly during the first quarter;
- the accelerated reduction of exposure to 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) was in the mid-teens range increased compared to the previous financial year, especially as a result of the continued improvement of the mix.

NAFTA (18.5% of sales) recorded an organic growth in revenues of +7.5% (-2.9% including the exchange rate effect which was particularly negative at -10.4%), driven by the High Value segment (an organic growth of +7.4%) 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), being penalised mostly by changes in exchange rates, but was still in recovery mode compared to the previous quarter due to the progressive strengthening of the US Dollar.

Apac (16.4% 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 +10.6% (an organic growth of +15.2% excluding the negative exchange rate effect of -4.6%), driven by the High Value segment (with organic growth in revenues of +25.7%), thanks to:

- the increased exposure on the Original Equipment channel which counted 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 (with an organic change of -11.3%) which reflected:

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

South America (13.5% of sales) recorded an organic change in revenues of -2.2% (-22.2% including the negative exchange rate effect of -19.8%) due to a drop in volumes of -9.4% as a result of:

- the weakness of the market, which was particularly pronounced during the second quarter of the year (-4.3% for the total market, -7.2% for the Replacement channel) due to the negative impact of the transport workers' strike in Brazil which in May disrupted the entire economy for 12 days. The situation gradually returned to normal with the recovery in Car production already occurring in June, while tyre sales on the Replacement channel were impacted by the uncertainties of the economic and political scenario.
- the continuing focus on the mix, with the progressive reduction of sales of less profitable Standard segment products with lower rim diameters;
- 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) was in the mid-single-digits range, representing an increase compared to the first half-year of 2017 (mid-single-digits) due to the continued actions aimed at the improvement and conversion of the mix. These actions were mitigated by the negative impact of the strike in Brazil on the EBIT to the amount of euro 10 million. In light of this event, Pirelli promptly initiated cost recovery measures.

MEAI (4.3% of sales) recorded a negative organic change in revenues of -1.1% (negative at -8.5% 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 half-year, with an organic growth in revenues of +17.0% (a growth of +4.4% including the negative exchange rate effect of --12.6%) with further improvement in profitability (an EBIT margin in the high-teens, compared to the low-teens range recorded for the corresponding period of 2017).

EBIT adjusted without start-up costs - amounted to euro 473.3 million, representing a growth of +6.8% and euro 30.3 million in absolute values compared to the previous financial year (euro 443.0 million). The EBIT margin adjusted without start-up costs attested itself at 18.0%, a growth of +1.5% compared to the previous financial year. Start-up costs which equalled euro 23.2 million (euro 26.8 million 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.

EBIT adjusted equalled euro 450.1 million, representing a growth of +8.1% and of euro 33.9 million in absolute values compared to the previous financial year (euro 416.2 million), with a margin of 17.1% representing an improvement of +1.6% compared to the previous financial year.

As illustrated in the following table, the improved result was 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 linked to business development;
- the negative exchange rate effect;
- the contraction of volumes in the Standard segment.

(In millions of euro)	**1 Q**	**2 Q**	**1 H**
2017 EBIT Adjusted	**205.0**	**211.2**	**416.2**
- Internal levers:			
Volumes	(8.0)	(4.5)	(12.5)
Price/mix	62.7	50.1	112.8
Amortisation, depreciation and other costs related to the development of High Value	(21.4)	(15.9)	(37.3)
Start-up costs	3.5	0.1	3.6
Efficiencies	9.0	10.0	19.0
- External levers:			
Cost of production factors: (commodities)	(13.8)	2.3	(11.5)
Cost of production factors (labour/energy/others)	(11.4)	(11.9)	(23.3)
Foreign currency translation	(7.2)	(9.7)	(16.9)
Total change	**13.4**	**20.5**	**33.9**
2018 EBIT adjusted	**218.4**	**231.7**	**450.1**

The **EBIT** which amounted to euro 377.7 million (euro 318.2 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 57.3 million (euro 52.3 million for the first half-year of 2017), and non-recurring and restructuring expenses to the amount of euro 6.5 million (euro 45.7 million for the first half-year of 2017), mainly due to structural rationalisation and expenses related to the retention plan approved by the Board of Directors on February 26, 2018 for the amount of euro 8.6 million.
It is to be noted that non-recurring and restructuring expenses relative to the first half-year of 2017 (euro 45.7 million) included provisions and costs linked to the IPO process.

Income from equity investments was negative at euro -4.5 million (negative at euro -12.9 million for the first half-year of 2017) and mainly refers to the pro-rata share of the negative result of the Indonesian Joint Venture PT Evoluzione Tyres (euro -7.8 million) evaluated using the equity method, which was partially offset by the positive result (euro +3.7 million) deriving from the positive change in fair value recorded by Mediobanca during the period up until the date of disposal (January 11). The negative result for the first half-year of 2017 had mainly included the loss attributable to the Indonesian PT Evoluzione Tyres Joint Venture (euro -5.3 million), the impairment of the investment in Pirelli de Venezuela C.A. (euro -5.5 million euro) and in Fenice S.r.l. (euro -1.1 million);

The **net income (loss) related to continuing operations (Consumer)** amounted to euro 181.9 million, compared to earnings of euro 67.6 million for the first half-year of 2017. This result was due to the aforementioned improvement in the operating income and lower **net financial expenses** of euro 108.4 million (euro 118.0 million for the first half-year of 2018 compared to euro 226.4 million for the first half-year of 2017) which reflected:

- the favourable comparison compared to the first half-year of 2017, which included euro 61.2 million in the not-yet-amortised wash down of fees relative to the old bank loan that was repaid in advance in June 2017;
- the balance – positive at euro 3.0 million - between the positive effect deriving from the repricing of the Group's main bank credit facility in January 2018, and the expenses arising from the early extinction in March 2018 of the bond placed by Pirelli International Plc (for the amount of euro 600 million, with a fixed coupon of 1.75%, with original maturity in November 2019) carried out through the exercise of the so-called make-whole option, and the consequent reversal to Income Statement of the portion of costs not amortised at the closing date;
- 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), as well as to the improved terms and conditions of the new bank credit facility originally for the amount of euro 4.2 billion, compared to the aforementioned bank credit facility repaid early in June 2017;
- the reduction in interest rates in Brazil.

The cost of debt on an annual basis (last 12 months) stood at 3.40%, (3.93% net of repricing impacts), compared to 5.76% for the corresponding period of the previous financial year and 5.36% at December 31, 2017.

Lastly, it should be noted that the increase in financial expenses for the second quarter (euro 62.8 million) compared to the first quarter of 2018 (euro 55.2 million) was impacted by translation losses in South America.

Tax expenses for the first half-year of 2018 amounted to euro 73.3 million against a net income before tax of euro 255.2 million with a tax rate which attested itself at 28.7%, which was consistent with the expected tax rate for the 2018 financial year.

The **net income (loss) related to continuing operations (Consumer) adjusted** amounted to euro 232.6 million compared to euro 159.0 million for the corresponding period of the previous financial year.

The **net income (loss) related to discontinued operations** which included the financial results for the first half-year of 2018 of some residual Industrial activities in China and Argentina, was negative to the total amount of euro 4.7 million. It is to be noted that during June 2018, the separation of Industrial activities in Argentina was completed, while for China the separation of Industrial activities is currently underway. As regards the comparative data, since Carve out Interim Consolidated Financial Statements refer only to the Group's Consumer Operations, do not include the result of discontinued operations.

The **total net income** was positive to the amount of euro 177.2 million compared to an income of euro 67.6 million for the corresponding period of the previous financial year. The latter refers to the Carve out Interim Consolidated Financial Statements for Consumer activity only, and does not include the results of Industrial activities.

The **net income attributable to the Parent Company** amounted to euro 172.0 million compared to the positive result of of euro 67 million for the first half-year of 2017, which did not include the results of Industrial activities.

Equity went from euro 4,177.0 million at December 31, 2017 to euro 4,323.2 million at June 30, 2018.

Equity attributable to the Parent Company at June 30, 2018 amounted to euro 4,242.9 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	(51.7)	(4.2)	(55.9)
Net income (loss)	172.0	5.2	177.2
Actuarial gains/(losses) on employee benefits	57.1	-	57.1
Transacions with minorities	(36.3)	19.0	(17.3)
Other	(13.9)	-	(13.9)
Total changes	**126.2**	**20.0**	**146.2**
Equity at 06/30/2018	**4,242.9**	**80.3**	**4,323.2**

The **net financial (liquidity)/debt position** was negative to the amount of euro 3,916.5 million compared to euro 3,218.5 million at December 31, 2017. It was composed as follows:

(In millions of euro)	**06/30/2018**	**12/31/2017**
Current borrowings from banks and other financial institutions	869.1	559.2
Current derivative financial instruments	26.4	11.2
Non-Current borrowings from banks and other financial institutions	3,791.8	3,897.1
Non-Current derivative financial instruments	7.5	55.0
Total gross debt	**4,694.8**	**4,522.5**
Cash and cash equivalents	(580.6)	(1,118.5)
Securities held for trading	-	(33.0)
Other financial assets at fair value through income statement	(9.3)	-
Current financial receivables and other assets**	(28.3)	(36.5)
Current derivative financial instruments	(63.6)	(21.4)
Net financial debt *	**4,013.0**	**3,313.1**
Non-Current derivative financial instruments	(9.5)	-
Non-current financial receivables and other assets**	(87.0)	(94.6)
Total net financial (liquidity)/debt position	**3,916.5**	**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 amount is reported net of the relating impairment amounting to euro 3.1 million.

The **structure of the gross financial debt**, which amounted to euro 4,694.8 million, was as follows:

(In millions of euro)	06/31/2018	Maturity date					
		2018	2019	2020	2021	2022	2023 and beyond
Use of unsecured financing ("Facilities")	2,970.6	-	-	1,179.0	-	1,791.6	-
Bond EURIBOR +0,70% - 2018/2020	199.5	-	-	199.5	-	-	-
Bond 1,375% - 2018/2023	592.3	-	-	-	-	-	592.3
EIB loans	20.0	10.0	10.0	-	-	-	-
ISP short term borrowing	200.0	-	200.0	-	-	-	-
Other loans	712.4	591.1	91.7	3.5	2.6	20.9	2.6
Total gross debt	**4,694.8**	**601.1**	**301.7**	**1,382.0**	**2.6**	**1,812.5**	**594.9**
		12.8%	*6.4%*	*29.4%*	*0.1%*	*38.6%*	*12.7%*

At June 30, 2018, the Group had a liquidity margin equal to euro 1,169.9 million composed of euro 580.0 million in the form of a non-utilised committed credit facilities, and euro 580.6 million in cash, in addition to financial assets at fair value through Income Statement to the amount of euro 9.3 million.

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

(In millions of euro)	2018			2017
	1 Q	2 Q	1 H	1H Carve-out
EBIT adjusted	218.4	231.7	450.1	416.2
Amortisation and depreciation (excluding PPA amortization)	69.7	68.1	137.8	129.8
Investments in property, plant and equipment and intangible	(85.3)	(93.9)	(179.2)	(215.7)
Change in working capital/other	(928.8)	(68.9)	(997.7)	(767.9)
Operating net cash flow	**(726.0)**	**137.0**	**(589.0)**	**(437.6)**
Financial income/(expenses)	(55.2)	(62.8)	(118.0)	(226.4)
Taxes paid	(31.1)	(36.2)	(67.3)	(51.8)
Financial (investments) / disinvestments	155.0	0.2	155.2	(2.5)
Acquisition of minorities	(18.5)	-	(18.5)	0.0
Cash Out for non-recurring and restructuring expenses	(38.2)	(11.9)	(50.1)	(16.5)
Liquidation Drahtcord Saar	-	-	-	(5.5)
Differences from foreign currency translation/other	(11.7)	6.4	(5.3)	(16.4)
Net cash flow before extraordinary transactions	**(725.7)**	**32.7**	**(693.0)**	**(756.7)**
Industrial reorganization	5.3	(10.3)	(5.0)	351.5
Share capital increase subscribed by Marco Polo	-	-	-	1,189.4
Net cash flow	**(720.4)**	**22.4**	**(698.0)**	**784.2**

More specifically, the **operating net cash flow** for the first half-year of 2018 was negative to the amount of euro -589.0 million (a negative seasonal amount of euro -437.6 million for 2017), but positive to the amount of euro 137.0 million for the second quarter..

The operating cash flow was impacted by:

- investments of euro 179.2 million (euro 93.9 million for the second quarter) 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 of all manufacturing plants.
- the change in working capital (euro 997.7 million in cash absorption for the first half-year of 2018,and euro -68.9 million for the second quarter of 2018).

The performance of working capital was impacted by:

- the increase in trade receivables, which reflected the seasonality of business and the extension of the summer sell-in season during the second quarter, which was nonetheless consistent with historical trends;
- the reduction of trade payables also continued for the second quarter;
- the increased inventory of finished and semi-finished products also as a result of the transport workers' strike in Brazil and the slowdown of the Original Equipment market in NAFTA, plus the improvement in the level of service in the High Value segment.

It is expected that these effects will be normalised during the second half-year.

Net cash flow before extraordinary transactions was negative to the amount of euro -693.0 million. Excluding the collection relative to the sale of the investment in Mediobanca (euro 152.8 million), the net cash flow would be negative to the amount of euro -845.8 million compared to the negative amount of euro -756.7 million recorded for the first half-year of 2017, due to the aforementioned performance in working capital.

Total net cash flow was negative to the amount of euro -698.0 million (positive to the amount of euro 784.2 million for 2017), and included the negative effect of euro -5.0 million deriving from the Industrial reorganisation relative to the disposal, in part, of residual Industrial assets in China and the change in working capital related to discontinued operations. This impact had been positive for the first half-year of 2017 to the amount of euro 351.5 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 other operations linked to the Industrial reorganisation. The positive result for June 2017 derived mostly from the capital increase carried out by Marco Polo for the amount of euro 1,189.4 million.

OUTLOOK FOR 2018

(in millions of euro)	**2017**	**2018**
Revenues	5,352.3	~5,400 (y/y)
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	489	~460

The 2018 forecast figures confirm the operating performance indicated on 14 May last, notwithstanding the greater exchange rate volatility and the decision to accelerate the reduction of exposure in the Standard segment with lower profitability. These forecasts are in line with the 2017-2020 business plan value strategy, centred on the High Value focus.

For 2018, based on first half results, Pirelli anticipates:

- Revenues of around 5.4 billion euro with organic growth of around 7% thanks to the strengthening of High Value which will represent over 60% of revenues;
- Growth in High Value Volumes (≥+13%) confirmed, while the reduction in exposure to the Standard segment continued, with an acceleration in the exit from smaller rim sizes and reduced profitability (approximately -9% the trend in standard volumes, -6%/-5% the previous indication). Total expected volumes unchanged compared to 2017;
- Price/mix improvement confirmed (+6.5%/+7.5%)
- Foreign exchange expectations revised: from -5%/-4.5% to -6%/-5% due to higher exchange rate volatility in emerging countries;
- Profitability forecasts are confirmed, with an Adjusted Ebit before start-up costs expected to exceed 1 billion euro. The effect deriving from the greater exchange rate volatility and lower volumes, due to the progressive further reduction on Standard, is offset by:
    - a greater price/mix contribution (~+15 million euro compared to the previous indication);
    - a lesser impact deriving from the costs of raw materials (expected positive impact of around 17 million euro);
    - lower costs of around 20 million euro related to the rationalization of Standard volumes, mainly in South America
- The impact of the High Value segment on Adjusted Ebit before start-up costs is expected to be higher than 83%;
- Start-up costs at around 40 million euro confirmed;
- Adjusted Ebit expected at around 1 billion euro confirmed;

- Relationship between net financial position and Adjusted Ebitda before start-up costs equal to approximately 2.3 times confirmed;
- CapEx amounting to around 460 million euro, in line with previous indications.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FIRST HALF-YEAR

On **July 26, 2018**, Pirelli & C. S.p.A. successfully completed the *"Schuldschein"* financing, already approved by the Board of Directors on June 22, 2018, for a total of euro 525 million. The loan, guaranteed by Pirelli Tyre and granted by primary market participants, consists of one tranche for the amount of euro 82 million with three-year maturity, another for euro 423 million with a five-year maturity, and another for euro 20 million with a seven-year maturity. The transaction will facilitate reimbursement of existing debt, further optimizing its structure and costs.

On **August 1, 2018**, Pirelli announced that it had reached a preliminary agreement with the Hixih Group for the creation of a Joint Venture that will entail a new Consumer tyre manufacturing plant in China. The terms of the agreement provide that Pirelli is responsible for the operational management of the plant and will acquire a 49% investment stake in the Joint Venture for approximately euro 65 million, with the right to increase its stake up to 70% during the period between January 1, 2021 and December 2025. The investment will allow Pirelli to have the necessary productive flexibility in the High Value segment, taking into account, the evolution of the Chinese market, the developments expected in the electric car segment and the increasing share of homologations obtained in the Original Equipment segment in China, Japan and Korea.

On **August 7, 2018** the Pirelli Board of Directors - as regards the "Pirelli & C. S.p.A. euro 600,000,000 1.375 per cent Guaranteed Notes due January 25, 2023" (ISIN: XS1757843146) issued by Pirelli & C. S.p.A., as part of the euro 2 billion EMTN (Euro Medium Term Note) program, listed on the Luxembourg Stock Exchange - resolved to proceed with the purchase of the bonds for a total nominal amount of a maximum of euro 150 million. The transactions for the direct market purchase through counter-parties will be carried out by a leading international intermediary in accordance with the terms and conditions of loan regulations and applicable laws. These transactions, aimed at the subsequent cancellation of purchased securities, will take place as part of the ongoing pro-active management of the Company's financial profile.

On **August 7, 2018**, the Pirelli Board of Directors, upon the proposal of the Executive Vice Chairman and CEO, Marco Tronchetti Provera proceeded with the co-option of Ning Gaoning, and with his appointment as Chairman of the Board of Directors, replacing Ren Jianxin who resigned on July 30, 2018. Ning Gaoning - who declared that he did not possess the requisites to qualify as independent pursuant to the Finance Consolidation Act and the self-regulatory Code of Conduct – was qualified by the Board as a non-executive Director and has been assigned the legal representation of the Company pursuant to the the Articles of Association. The Board also appointed the new Director as a member of the Nominations and Successions Committee.

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 should not be considered as alternatives to those required by the IFRS.

In particular, the Non-GAAP Measures used were 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 half-year 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 the net income (loss) related to discontinued operations, 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, the operational costs attributable to non-recurring and restructuring expenses and, with reference to the first half-year 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:
    - 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 half-year of 2018, the expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
    - non-recurring costs/income recognised under financial income and expenses;
    - non-recurring costs/income recognised as a tax 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

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 the administration in its entirety, with the competence for 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 make proposals regarding the business and industrial 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. The updated 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.

WAIVER TO PUBLISH DISCLOSURE DOCUMENTS

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 option 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.

FOREIGN SUBSIDIARIES OUTSIDE THE EUROPEAN UNION (NON-EU COMPANIES)

Pirelli & C. S.p.A. controls, directly or indirectly, companies based in countries outside the European Union (*"non-EU Companies"*) which have particular relevance as provided for by Article 15 of CONSOB Regulation 20249 of December 28, 2007 concerning the governance of the markets (*"Markets Regulation"*).With reference to June 30, 2017, the non-EU Companies controlled, directly or indirectly, by Pirelli & C. S.p.A. pursuant to Article 15 of the the Markets Regulation are: Limited Liability Company Pirelli Tyre Russia (Russia); Pirelli Pneus Ltda (Brazil); Pirelli Comercial de Pneus Brasil Ltda (Brazil); Pirelli Tire LLC (United States); Pirelli Tyre Co. Ltd (China); Pirelli Otomobil Lastikleri A.S. (Turkey); Pirelli Neumaticos S.A.I.C. (Argentina); Pirelli Neumaticos S.A. de C.V. (Mexico); Pirelli Asia Pte Ltd (Singapore).Also pursuant to the same regulations, the Company has put in place a specific and appropriate *"Group Operating Regulation"* which ensures the immediate, constant and full compliance with the provisions contained in the aforementioned CONSOB Regulation. In particular, the competent corporate departments ensure a timely and periodical identification and publication of the relevant non-EU companies under the Market Regulation, and - with the necessary and appropriate collaboration of the companies involved - guarantee the collection of data and information and the verification of the circumstances referred to in the aforesaid Article 15, ensuring the availability of the information and data provided by the subsidiaries in the event of a request by CONSOB. In addition, it also provides for a regular flow of information in order to ensure to the Board of Statutory Auditors that the Company carries out the required and appropriate verifications. Finally, the above *"Operating Regulation"*, consistently with the regulatory provisions, governs the provision to the public of the financial statements (the Statement of Financial Position and Income Statement) of the relevant non-EU companies which are subject to the preparation of the consolidated Financial Statements of Pirelli & C. S.p.A. It is therefore be noted that the Company is fully compliant with the provisions of Article 15 of the aforementioned CONSOB Regulation 16191 of December 28, 2007 and the fulfillment of the conditions required by the same.

RELATED-PARTY TRANSACTIONS

As part of the new listing process initiated and completed in 2017, the Company's Board of Directors again approved the Procedure for Related Party Transactions (***"the OPC Procedure"***). Subsequently, following the renewal of the administrative body and the constitution of the Committee for Related Party Transactions (***"OPC Committee"***), the OPC Procedure was adopted, without any modifications, and, following the unanimous favourable opinion expressed by the members of the OPC Committee, also by the currently serving Board of Directors.

The OPC Procedure can be consulted, together with the other corporate governance procedures, in the section dedicated to corporate governance on the website at www.pirelli.com.

For more details on the OPC Procedure, reference should be made to the sections on *"Directors' Interests"* and *"Related Party Transactions"* included in the Annual Report on *"Corporate Governance and Ownership Structure"* contained in the Financial Statements.

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Pursuant to Article 5, paragraph 8 of CONSOB Regulation no. 17221 of March 12, 2010 on Related Party Transactions, and the subsequent CONSOB Resolution No. 17389 of June 23, 2010, it shall be noted that during the first half-year of the 2018 financial year, that no transaction of significant importance as defined by Article 3, paragraph 1, letter a) of the aforementioned Regulation was submitted to the the Board of Directors of Pirelli & C. S.p.A. for approval.

Moreover, there are no Related Party Transactions that significantly affected the financial position or results of the Group.

Lastly, there were no significant related party transactions, including any non-recurring or unusual and/or atypical inter-group transactions.

The information on related party transactions as required by CONSOB Notice No. DEM/6064293 of July 28, 2006, is presented in the Financial Statements and in the Note entitled *"Related Party Transactions"* in the condensed consolidated Half-Year Financial Statements at June 30, 2018.

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, and carried out in the interest of the individual companies. 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. Furthermore, their execution has been carried out in compliance with the OPC Procedure.

It is to be noted that in the course of the 2010 financial year, the Board of Directors for the first time approved for the Procedure for Related Party Transactions, also in order to implement the aforementioned CONSOB Regulation. In addition, on November 6, 2017 on the occasion of the admission to trading of the ordinary shares of the Company on the Mercato Telematico Azionario (screen-based stock exchange), organised and managed by Borsa Italiana S.p.A. - as confirmation the resolutions adopted on August 31, 2017- the Board of Directors approved the adoption of the Procedure for Related Party Transactions, following the unanimous favourable opinion expressed by the members of the OPC Committee.

For more details on the Procedure for Related Party Transactions (“OPC Procedure”), reference should be made to the sections entitled *“Directors’ Interests”* and *“Related Party Transactions”* included in the *“Annual Report on Corporate Governance and Ownership Structure”* contained in the Financial Statements’ as at December 31, 2017.

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 half-year 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, August 7, 2018

HALF-YEAR REPORT ON CORPORATE GOVERNANCE

1. INTRODUCTION

Pirelli & C. S.p.A. (“**Pirelli**” or the “**Company**”) adopts the traditional administration and control system. The corporate governance system of Pirelli is based on: (i) the centrality of the Board of Directors (composed of 15 Directors), which is responsible for strategic guidance and supervision of the overall business activity; (ii) central role of independent Directors (representing the majority of the Board); (iii) effective internal control system; (iv) proactive risk management system; (v) remuneration system, in general, and incentives, in particular, for managers linked to medium and long term economic objectives so as to align the interests of the management with those of shareholders, pursuing the priority objective of creating sustainable value in the medium to long term; (vi) balances principles of conduct for carrying out transactions with related parties. Pirelli is aware that an efficient system of corporate governance, aligned to best practices of international organizations, is one of the essential elements for achieving the goals of sustainable value creation.

Pirelli adheres to the Corporate Governance Code for listed companies approved by the Corporate Governance Committee set up by the Business Associations (ABI, ANIA, Assonime, Confindustria) and professional investors (Assogestioni), as well as by Borsa Italiana S.p.A.[5].

The system of governance of the Company is formalized in the Code of Ethics, in the Articles of Association, in the Regulations of the Shareholders' Meetings and in a series of principles and procedures, periodically updated according to the national and international best practices.

The Company, on a voluntary basis, in the half-year financial report highlights the updates and additions made to its corporate governance system compared to the contents of the Annual Financial Report.

2. ORDINARY SHAREHOLDERS’ MEETING OF MAY 15, 2018

(i) Appointment of a new director

The ordinary shareholders' meeting held on May 15, 2018 approved with a percentage equal to around 93% of those voting, the increase from fourteen to fifteen of the number of members of the Board of Directors and, on the proposal of a group of Asset Management Companies and Institutional Investors, the appointment of Giovanni Lo Storto - who will expire together with the remaining Directors with the Shareholders' Meeting to be called to approve the financial statements for the year ended December 31, 2019 - as new independent Director of the Company.

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[5] Approved by the Corporate Governance Committee set up by the Business Associations (ABI, ANIA, Assonime, Confindustria) and professional investors (Assogestioni), as well as by Borsa Italiana S.p.A. The membership took place with theapproval of the Board of Directors as part of the Company's *relisting* process, which ended in October 2017. It is recalled that Pirelli has adhered to the Code since its first issue (October 1999) and that in the period 26 February 2016 - 3 October 2017 the Company was not listed on the Stock Exchange.

The majority shareholder Marco Polo International Italy S.p.A. (“**Marco Polo**”) did not take part in the vote on the matter, to allow minority shareholders to appoint their representative in complete autonomy, in accordance with the shareholders' agreements and the commitments made during the meeting of August 1, 2017.

The candidature of Giovanni Lo Storto was presented before the Shareholders' Meeting in compliance with the provisions of the Corporate Governance Code, even in the absence of a voting procedure through a list voting mechanism.

The new Director, as anticipated in the Company's relisting process, was also appointed as member of the Control, Risks, Sustainability and Corporate Governance Committee and of the Remuneration Committee.

(ii) **Integration of the Board of Statutory Auditors**

With the approval of the financial statements as of December 31, 2017 the Board of Statutory Auditors, appointed by the Shareholders' Meeting on May 14, 2015 for the 2015/2017 three-year period, expired. Therefore, the Shareholders' Meeting held on May 15, 2018 renewed the Board of Statutory Auditors, appointing five standing auditors and three alternate auditors for the years 2018-2020.

Through the adoption of the list vote, the so-called minorities have appointed the Chairman of the Board of Statutory Auditors (Francesco Fallacara) and an alternate auditor (Franca Brusco) and the majority shareholder has appointed four statutory auditors (Fabio Artoni, Antonella Carù, Luca Nicodemi and Alberto Villani) and two alternate auditors (Elenio Bidoggia and Giovanna Oddo).

In particular, two lists were presented to the Shareholders' Meeting: one by Marco Polo (which obtained about 79% of the votes of the capital represented at the meeting) and the other by a group of asset management companies and institutional investors (which obtained about 18% of the votes of the capital represented at the meeting).

The *curricula vitae* submitted during the filing of the lists were promptly published on the Company's website, where they are constantly available and periodically updated.

The shareholders' meeting set the gross annual remuneration for the Chairman of the Board of Statutory Auditors at 75 thousand euros and the gross annual remuneration of each standing statutory auditor at 50 thousand euros.

It should finally be highlighted that the Board of Directors decided to confirm the Auditor Antonella Carù as member of the Supervisory Body.

(iii) **Further resolutions**

In the aforementioned meeting of May 15, 2018, the Shareholders' Meeting was also called to resolve on the following:

a. Remuneration policy: the definition of this policy is the result of a clear and transparent process in which the Remuneration Committee and the Board of Directors of the Company play a central role. The policy, submitted to the advisory vote of the Shareholders' Meeting, was drawn up also on the basis of previous practical experiences and takes into account the regulatory provisions adopted by Consob, as well as the adoption in 2018 of a new Long Term Incentive Cash Plan for the period 2018-2020 to support the new 2017-2020 Business Plan, made known to the market during the new listing process (cf. point (b) that follows).
   The Shareholders' Meeting voted in favour of the consultation with a percentage equal to about 81% of the capital represented in the Shareholders' Meeting.
b. Three-year monetary incentive plan (2018/2020) for the management of the Pirelli Group: in line with the variable remuneration mechanisms adopted at international level and in continuity with what was done in the past, the new LTI plan is also based on the performance of the Pirelli shares (as reflected in the so-called Total Shareholder Return) and allows a complete alignment of the interests of the management with those of the shareholders.
   The Shareholders meeting approved - for the part linked to the Total Shareholder Return - the adoption of the 2018-2020 three-year LTI incentive plan (Long Term Incentive) with a percentage equal to about 96% of the capital represented in the Shareholders' Meeting.
c. Insurance policy so-called "Directors and Officers Liability Insurance": the Shareholders' Meeting authorized the signing of a so-called "Directors and Officers Liability Insurance" policy, in line with the widespread international practices in advanced financial markets, with a percentage equal to around 93% of the capital represented at the Shareholders' Meeting.

3. BOARD OF DIRECTORS MEETING OF AUGUST 7, 2018

The Board of Directors' of Pirelli held on August 7, 2018 has co-opted Ning Gaoning and has appointed the latter as Chairman of the Board of Directors, hence replacing Ren Jianxin, who resigned from the offices held in Pirelli effective from 30 July 2018.

The Board of Directors has also appointed Ning Gaoning has member of the Appointments and Succession Committee.

Therefore, as of the date of this report, the Board of Directors of Pirelli is composed of 15 Directors, most of whom are independent and, in particular by: Ning Gaoning (Chairman), Marco Tronchetti Provera (Executive Vice President and Chief Executive Officer), Yang Xingqiang, Bai Xinping, Giorgio Luca Bruno, Laura Cioli, Domenico De Sole, Ze'ev Goldberg, Giovanni Lo Storto, Tao Haisu, Marisa Pappalardo, Cristina Scocchia, Giovanni Tronchetti Provera, Fan Xiaohua and Wei Yintao.

For the sake of completeness, it should be noted that the current composition of the Board of Directors reflects the shareholders' agreements existing between Marco Polo's shareholders[6].

[6] See the following link *https://corporate.pirelli.com/corporate/it-it/governance/patti*.

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS AT JUNE 30, 2018

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

Note		06/30/2018	of which related parties (note 38)	12/31/2017	of which related parties (note 38)
6	Property, plant and equipment	2,970,884		2,980,294	
7	Intangible assets	5,832,190		5,893,704	
8	Investments in associates and J.V.	8,347		17,480	
9	Other financial assets	-		229,519	
9	Other financial assets at fair value through other comprehensive income	69,800		-	
9	Other financial assets at fair value through income statement	-		-	
10	Deferred tax assets	85,393		111,553	
12	Other receivables	195,462	*12,352*	204,051	*12,007*
13	Tax receivables	18,495		27,318	
24	Derivative financial instruments	9,537		878	
	Non-current assets	**9,190,108**		**9,464,797**	
14	Inventories	983,251		940,668	
11	Trade receivables	864,435	*61,458*	652,487	*62,731*
12	Other receivables	417,064	*56,095*	400,538	*36,482*
	Securities held for trading	-		33,027	
15	Other financial assets at fair value through income statement	9,298		-	
16	Cash and cash equivalents	580,641		1,118,437	
13	Tax receivables	49,091	-	35,461	*60*
24	Derivative financial instruments	76,204		27,770	
	Current assets	**2,979,984**		**3,208,388**	
36	**Assets held for sale**	**38,611**		**60,729**	
	Total Assets	**12,208,703**		**12,733,914**	
17.1	**Equity attributable to owners of the Group:**	**4,242,945**		**4,116,758**	
	- Share capital	1,904,375		1,904,375	
	- Reserves	2,166,527		2,035,991	
	- Net income (loss) for the period	172,043		176,392	
17.2	**Equity attributable to non-controlling interests:**	**80,294**		**60,251**	
	- Reserves	75,107		60,936	
	- Net income (loss) for the period	5,187		(685)	
17	**Total Equity**	**4,323,239**		**4,177,009**	
20	Borrowings from banks and other financial institutions	3,791,841		3,897,089	-
22	Other payables	75,402		74,435	
18	Provisions for liabilities and charges	128,920		127,124	
10	Provisions for deferred tax liabilities	1,210,173		1,216,635	
19	Employee benefit obligations	199,680		274,037	
23	Tax payables	2,126		2,399	
24	Derivative financial instruments	8,310		54,963	
	Non-current liabilities	**5,416,452**		**5,646,682**	
20	Borrowings from banks and other financial institutions	869,123		559,168	-
21	Trade payables	1,052,184	*146,371*	1,673,642	*197,954*
22	Other payables	426,066	*37,501*	565,254	*16,437*
18	Provisions for liabilities and charges	49,606		45,833	
19	Employee benefit obligations	768		-	
23	Tax payables	39,088	-	48,416	*9,895*
24	Derivative financial instruments	32,177		17,910	
	Current liabilities	**2,469,012**		**2,910,223**	
	Liabilities held for sale	**-**		**-**	
	Total Liabilities and Equity	**12,208,703**		**12,733,914**	

CONSOLIDATED INCOME STATEMENT (In thousands of euro)

Note		1/1 - 06/30/2018	of which related parties (note 38)	1/1 - 06/30/2017 (*)	of which related parties (note 38)
26	**Revenues from sales and services**	**2,630,292**	*5,124*	**2,685,314**	*10,107*
27	Other income	223,769	*57,370*	318,624	*119,365*
	Changes in inventories of unfinished, semi-finished and finished products	59,418		87,475	
	Raw materials and consumables used (net of change in inventories)	(891,152)	*(11,709)*	(942,213)	*(22,256)*
28	Personnel expenses	(534,642)	*(12,290)*	(551,187)	*(17,059)*
	- of which non-recurring events	-		*(27,167)*	
29	Amortisation, depreciation and impairment	(195,107)		(182,520)	
30	Other costs	(909,582)	*(105,282)*	(1,098,924)	*(184,826)*
	- of which non-recurring events	*(1,039)*		*(13,160)*	
31	Net impairment loss on financial assets	(7,041)			
	Increase in fixed assets for internal work	1,742		1,594	
	Operating income (loss)	**377,697**		**318,163**	
32	Net income (loss) from equity investments	(4,529)		(12,881)	
	- share of net income (loss) of associates and j.v.	*(8,258)*	*(8,258)*	*(5,560)*	*(5,560)*
	- gains on equity investments	*4,007*		*188*	
	- losses on equity investments	*(874)*		*(7,557)*	
	- dividends	*596*		*48*	
33	Financial income	73,055	*2,214*	96,507	*3,055*
34	Financial expenses	(191,001)	*(29)*	(322,863)	*(1,570)*
	- of which non-recurring events	*7,534*		*(61,244)*	
	Net income (loss) before tax	**255,222**		**78,926**	
35	Tax	(73,250)		(11,331)	
	- of which non-recurring events	*(2,218)*		*51,689*	
	Net income (loss) from continuing operations	**181,972**		**67,595**	
36	Net income (loss) from discontinued operations	(4,742)	*(23,926)*	n.a.	
	Total net income (loss)	**177,230**		**67,595**	
	Attributable to:				
	Owners of the parent company	172,043		66,985	
	Non-controlling interests	5,187		610	
37	**Total earnings/(loss) per share (in euro per share)**	**0.172**		**0.095**	
	Earnings/(loss) per share related to continuing operations (in euro per share)	0.177		0.095	
	Earnings/(loss) per share related to discontinued operations (in euro per share)	(0.005)		n.a.	

(*) the figures refer to the "Carve out" Interim Consolidated Financial Statements at 06.30.2017 of the Consumer Business included in the Registration Document, approved by the Board of Directors on July 28, 2017 and prepared for the listing of Pirelli Group.

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

		1/1 - 06/30/2018	1/1 - 06/30/2017 (*)
A	**Net income (loss) for the period**	**177,230**	**67,595**
Other components of comprehensive income:			
	B - Items that will not be reclassified to income statement:		
	- Net actuarial gains (losses) on employee benefits	57,123	(31,115)
	- Tax effect	(12,055)	2,337
	- Fair value adjustment of other financial assets at fair value through other comprehensive income	(7,299)	-
	Total B	**37,769**	**(28,778)**
	C - Items reclassified / that may be reclassified to income statement:		
	Exchange differences from translation of foreign financial statements		
	- Gains / (losses) for the period	(52,742)	(97,988)
	- (Gains) / losses reclassified to income statement	-	-
	Fair value adjustment of other financial assets available for sale:		
	- Gains / (losses) for the period	-	26,239
	Fair value adjustment of derivatives designated as cash flow hedges:		
	- Gains / (losses) for the period	57,799	(1,629)
	- (Gains) / losses reclassified to income statement	(63,476)	(3,821)
	- Tax effect	915	923
	Cost of hedging		
	- Gains / (losses) for the period	16,332	-
	- (Gains) / losses reclassified to income statement	(3,353)	-
	- Tax effect	(1,136)	-
	Share of other comprehensive income related to associates and JVs net of tax	(3,150)	2,828
	Total C	**(48,811)**	**(73,448)**
D	**Total other comprehensive income (B+C)**	**(11,042)**	**(102,226)**
A+D	**Total comprehensive income (loss) for the period**	**166,188**	**(34,631)**
	Attributable to:		
	- Owners of the parent company	165,220	(33,847)
	- Non-controlling interests	968	(784)
	Attributable to owners of the parent company:		
	- Continuing operations	169,962	(33,847)
	- Discontinued operations	(4,742)	-
	Total attributable to owners of the parent company	**165,220**	**(33,847)**

(*) the figures refer to the "Carve out" Interim Consolidated Financial Statements at 06.30.2017 of the Consumer Business included in the Registration Document, approved by the Board of Directors on July 28, 2017 and prepared for the listing of Pirelli Group.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 06/30/2018

(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	-	-	-	-	-	-	-
- Reclassification from available for sale financial assets to other financial assets at FV through income statement	-	-	(10,554)	10,554	-	-	-
- Change due to impairment of financial assets at amortised cost	-	-	-	(1,023)	(1,023)	-	(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	-	(51,673)	44,850	-	(6,823)	(4,219)	(11,042)
Net income (loss) for the period	-	-	-	172,043	172,043	5,187	177,230
Total conprehensive income (loss)	**-**	**(51,673)**	**44,850**	**172,043**	**165,220**	**968**	**166,188**
Transactions with minorities	-	(619)	-	(35,726)	(36,345)	19,033	(17,312)
Other	-	-	(141)	(1,524)	(1,665)	42	(1,623)
Total at 06/30/2018	**1,904,375**	**(272,916)**	**(36,110)**	**2,647,596**	**4,242,945**	**80,294**	**4,323,238**

(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	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	1,000	(1,000)	-	-	(10,554)
Total at 01/01/2018	**-**	**8,856**	**1,000**	**(14,454)**	**(59,110)**	**(17,111)**	**(80,819)**
Other components of comprehensive income	-	(7,299)	12,979	(5,677)	57,123	(12,276)	44,850
Other changes	**-**	**(109)**	**-**	**-**	**(42)**	10	(141)
Balance at 06/30/2018	**-**	**1,448**	**13,979**	**(20,131)**	**(2,029)**	**(29,377)**	**(36,110)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 06/30/2017 (*)

(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**	**(57,091)**	**(70,991)**	**1,355,442**	**2,569,641**	**63,722**	**2,633,363**
Other components of comprehensive income	-	(93,766)	(7,066)	-	(100,832)	(1,394)	(102,226)
Net income (loss) for the period	-	-	-	66,985	66,985	610	67,595
Total conprehensive income (loss)	**-**	**(93,766)**	**(7,066)**	**66,985**	**(33,847)**	**(784)**	**(34,631)**
Share capital increase	558,994	-	-	630,381	1,189,375	-	1,189,375
Annulment of treasury shares	3,100	-	-	(3,100)	-	-	-
Distribution of Industrial activities' reserves	-	-	-	190,000	190,000	-	190,000
Disposal of know-how to Industrial activities	-	-	-	41,846	41,846	-	41,846
Liquidation of equity investments	-	-	-	-	-	(5,540)	(5,540)
Carve out adjustment China and Argentina Industrial business	-	-	-	45,831	45,831	-	45,831
Other	-	-	-	(2,937)	(2,937)	-	(2,937)
Total at 06/30/2017	**1,904,375**	**(150,857)**	**(78,057)**	**2,324,448**	**3,999,909**	**57,398**	**4,057,307**

(*) the figures refer to the "Carve out" Interim Consolidated Financial Statements at 06.30.2017 of the Consumer Business included in the Registration Document, approved by the Board of Directors on July 28, 2017 and prepared for the listing of Pirelli Group.

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of euro)

		1/1 - 06/30/2018		1/1 - 06/30/2017 (*)	
			of which related parties (note 38)		**of which related parties (note 38)**
	Net income (loss) before taxes	255,223		78,926	
	Reversals of amortisation, depreciation, impairment losses and restatement of property, plant and equipment and intangible assets	195,107		182,520	
	Reversal of Financial expenses	191,001		322,863	
	Reversal of Financial income	(73,055)		(96,507)	
	Reversal of Dividends	(596)		(48)	
	Reversal of gains/(losses) on equity investments	(3,133)		7,369	
	Reversal of share of net income from associates and joint ventures	8,258		5,560	
	Taxes paid	(67,250)		(11,331)	
	Change in Inventories	(74,164)		(103,611)	
	Change in Trade receivables	(236,497)	*1,273*	(235,985)	*281*
	Change in Trade payables	(497,804)	*(51,583)*	(97,984)	*33,063*
	Change in Other receivables/Other payables	(169,750)	*(8,729)*	(219,030)	*26,130*
	Change in Provisions for employee benefit obligations and Other provisions	(7,159)		(31,268)	
	Other changes	(3,679)		1,992	
A	**Net cash flows provided by / (used in) operating activities**	**(483,498)**		**(196,535)**	
	Investments in property, plant and equipment	(228,178)		(213,402)	
	Disposal of property, plant and equipment/intangible assets	2,902	-	3,932	
	Investments in intangible assets	(2,497)		(2,287)	
	Acquisition of minorities	(18,492)		-	
	Dividends/reserves received from associates	2,474	*2,474*	-	-
	Disposals (Acquisition) of other non current financial assets at fair value through income statement - Other financial assets	152,808		(2,459)	
	Dividends received	596		48	
B	**Net cash flows provided by / (used in) investing activities**	**(90,387)**		**(214,168)**	
	Increase in equity	4,500		1,189,375	
	Flows for separation of Industrial Activities	-		251,000	
	Change in Financial payables	283,182		(1,686,787)	*(22,922)*
	Change in Financial receivables/Other current financial assets at fair value through income statement - Assets held for trading	(57,251)	-	964	
	Financial income / (expenses)	(134,270)		(181,639)	
	Dividends paid	-		-	
C	**Net cash flows provided by / (used in) financing activities**	**96,161**		**(427,087)**	
D	**Net cash flows provided by (used in) discontinued operations**	**(5,342)**	*12,900*	**-**	
E	**Total cash flows provided / (used) during the period (A+B+C+D)**	**(483,066)**		**(837,790)**	
F	**Cash and cash equivalents at the beginning of the period**	**1,109,640**		**1,397,380**	
G	**Exchange differences from translation of cash and cash equivalents**	(45,933)		(49,118)	
H	**Cash and cash equivalents at the end of the period (E+F+G)**	**580,641**		**510,472**	

(*) the figures refer to the "Carve out" Interim Consolidated Financial Statements at 06.30.2017 of the Consumer Business included in the Registration Document, approved by the Board of Directors on July 28, 2017 and prepared for the listing of Pirelli Group.

EXPLANATORY NOTES

1. GENERAL INFORMATION

Under art. 154 ter of Legislative Decree no. 158/1998, the Pirelli & C. Group has prepared the condensed consolidated half-year financial statements in accordance with IAS 34, which regulates interim financial reporting, in condensed form.

The information contained in the explanatory notes must be read together with the half-year financial report, an integral part of the condensed consolidated half-year financial statements, and the annual financial statements at December 31, 2017.

These condensed consolidated half-year financial statements have been prepared using the euro as reporting currency and all values have been rounded to thousands of euro unless otherwise indicated.

The condensed consolidated half-year financial statements at June 30, 2018 of Pirelli & C. S.p.A. were approved by the Board of Directors of Pirelli & C. S.p.A. on August 7, 2018.

2. BASIS FOR THE SUBMISSION

Financial statement formats

The Group has applied the provisions of Consob Resolution no. 15519 of July 27, 2006 in regard to the formats of financial statements and Consob Notice no. 6064293 of July 28, 2006 in regard to corporate disclosure.

The condensed consolidated half-year financial statements at June 30, 2018 consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Explanatory Notes, and are accompanied by the half-year financial report.

The format adopted for the Statement of Financial Position classifies assets and liabilities as current and non-current.

The Group has opted to present the components of profit/loss for the year in a separate Income Statement, rather than include these components directly in the Statement of Comprehensive Income. The income statement format adopted classifies costs by nature.

The Statement of Comprehensive Income includes the result for the period and, for homogeneous categories, the revenues and costs which, in accordance with IFRSs, are recognised directly in equity.

The Group opted for the presentation of the tax effects and reclassifications to the income statement of profits/losses recognised in equity in previous years directly in the statement of comprehensive income and not in the notes.

The Statement of Changes in Equity sets forth, in addition to total profits / losses of the period, the amounts of transactions with equity holders and the changes in the period of the retained earnings.

In the Statement of Cash Flows, the cash flows deriving from operating activities are presented using the indirect method, according to which the profit or loss for the period is adjusted by the effects of non-monetary items, by any deferment or accrual of past or future operating receipts or payments, and by any revenue or cost items connected with the cash flows arising from investing activities or financing activities.

Comparative figures at June 30, 2017

It should also be noted that the comparative figures at June 30, 2017 included in this report refer to the Carve Out interim consolidated financial statements at June 30, 2017, prepared in accordance with IAS 34, in order to represent the assets, liabilities, revenues and costs directly and indirectly attributable to the Consumer activities of the Pirelli Group. These financial statements, approved by the Board of Directors on July 28, 2017, were included in the registration document, prepared for admission to listing on the Electronic Stock Exchange (Mercato Telematico Azionario) organized and managed by Borsa Italiana S.p.A. of the Pirelli shares.

Discontinued operation

As a result of the assignment made in March 2017 by Pirelli & C S.p.A. to Marco Polo International Holding Italy S.p.A. of the shares of TP Industrial Holding S.p.A., a company in which almost all Pirelli Industrial assets converged, some residual assets in China and Argentina related to the Industrial business not yet separated qualify as “discontinued operation”. In accordance with the provisions of IFRS 5, the result of the period of these residual activities was reclassified in the income statement for the first six months of 2018 in a single item “income (loss) from discontinued operations”. The Argentina separation process was completed in June 2018 while the process in China is expected to be completed during the year. The comparative figures, referring to the Carve Out interim consolidated financial statements only of the Group's Consumer activities, do not include the result of these activities.

Scope of consolidation

The scope of consolidation includes the subsidiaries, associates and joint arrangements.

Subsidiaries are defined as all the companies held over which the Group has at the same time:

- decision-making power, or the ability to direct the relevant activities of the investee, i.e. activities that have a significant influence on the results of the investee;
- the right to variable results (positive or negative) resulting from the shareholding in the entity;

- the ability to use its own decision-making power to determine the amount of the results arising from the shareholding in the entity.

The financial statements of subsidiaries are included in the condensed consolidated half-year financial statements beginning on the date when control is acquired until the time when control ceases. Non-controlling interests in equity and net income (loss) are indicated separately respectively in the consolidated Statement of Financial Position, Income Statement and Statement of Comprehensive Income.

All companies for which the Group can exercise significant influence (as defined by IAS 28 – Investments in Associates and Joint Ventures) are considered associates. This influence is presumed to exist when the Group holds a percentage of voting rights between 20% and 50%, or when - even with a lower share of voting rights - has the power to participate in determining financial and operating policies by virtue of specific legal relationships, such as, for example, participation in shareholders' agreements together with other forms of significant exercise of governance rights.

Joint arrangements are agreements under which two or more parties have joint control under a contract. Joint control is the shared, established by agreement, control of an economic activity, which exists only when, decisions on these activities require the unanimous consent of all the parties sharing control. These agreements may give rise to joint ventures or joint operations.

A joint venture is a joint control agreement of an entity whereby the parties that have joint control, have rights to the net assets of said entity. Joint ventures are distinguished from joint operations that are configured instead as agreements that give the parties of the agreement, which have joint control of the initiative, rights of individual assets and obligations for individual liabilities relating to the agreement.

The complete list of subsidiaries is provided in the annex “Scope of consolidation: list of companies included in the consolidation using the line-by-line method”.

Minority interests in the subsidiaries of the Group are not significant either individually or in aggregate form.

3. ACCOUNTING STANDARDS

3.1 Accounting standards adopted

- the following new standards or amendments to already existing standards, which apply from January 1, 2018:
  - IFRS 15 – Revenues from contracts with customers: the impacts deriving from the application of this standard, which replaces the previous IAS 18, are described in Note 3.3 “Impacts deriving from the adoption of IFRS 15 and IFRS 9”.
  - IFRS 9 – Financial Instruments: IFRS 9 replaces the previous IAS 39 standard regarding the classification and measurement of financial assets and liabilities, the impairment of financial assets and hedge accounting. See Note 3.3 “Impacts deriving from the adoption of IFRS 15 and IFRS 9” for the impacts resulting from the first application of this standard.
  - Amendments to IFRS 2 – Share-based payments and Classification and recognition of transactions with share-based payment: there are no impacts on the Group financial statements due to the application of said amendments;
  - IFRIC 22 – Foreign currency transactions and advances: there are no impacts on the Group financial statements due to the application of said interpretation;
  - Amendments to IAS 40: Transfers of property investments: these changes do not apply to the Group financial statements;
  - Improvements to the 2014-2016 IFRS cycle (issued by the IASB in December 2016): there are no impacts on the Group financial statements due to the application of said amendments.

- Income taxes are recognised on the basis of the best estimate of the weighted average tax rate expected for the entire year, in line with the indications provided by IAS 34 for the preparation of interim financial statements;
- Application of IFRS 2 – Share-based payments (cash settled)
  The additional monetary benefits (cash settled) granted to certain Group executives are recorded in Employee benefit obligations(other long-term benefits) as a balancing entry to “Personnel costs”. The cost is estimated at fair value and accounted for the duration of the plan according to the degree of maturity of the vesting conditions at the reporting date. The estimate is reviewed at each reporting date up to the settlement date.

3.2 Seasonality

We note seasonality factors with respect to trade receivables, which involve an increase in the values of the end of the first half compared to the corresponding values at year-end. Said phenomena, more accentuated in the more seasonal markets such as Europe and Russia, generally favour a total amount of trade receivables at the end of the year lower than as recorded during the year, due to the almost total collection of receivables related to revenues of winter products in these markets in the fourth quarter, while the collection of most of the receivables related to revenues of summer products was generally completed in the same markets in the third quarter.

3.3 Impacts deriving from the adoption of IFRS 15 AND IFRS 9

The table below shows the effects on the opening Statement of Financial Position at January 1, 2018 following the first application of IFRS 15 and IFRS 9:

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

Note		12/31/2017	IFRS 15 1st adoption	IFRS 9 1st adoption	01/01/2018
6	Property, plant and equipment	2,980,294			2,980,294
7	Intangible assets	5,893,704			5,893,704
8	Investments in associates and J.V.	17,480			17,480
9	Other financial assets	229,519		*(229,519)*	-
9	Other financial assets at fair value through other comprehensive income	-		*80,492*	80,492
9	Other financial assets at fair value through income statement	-		*149,027*	149,027
10	Deferred tax assets	111,553		*517*	112,070
12	Other receivables	204,051		*(633)*	203,418
13	Tax receivables	27,318			27,318
24	Derivative financial instruments	878			878
	Non-current assets	**9,464,797**	**-**	**(116)**	**9,464,681**
14	Inventories	940,668			940,668
11	Trade receivables	652,487			652,487
12	Other receivables	400,538		*(907)*	399,631
	Securities held for trading	33,027		*(33,027)*	-
15	Other financial assets at fair value through income statement	-		*33,027*	33,027
16	Cash and cash equivalents	1,118,437			1,118,437
13	Tax receivables	35,461			35,461
24	Derivative financial instruments	27,770			27,770
	Current assets	**3,208,388**	**-**	**(907)**	**3,207,481**
36	**Assets held for sale**	**60,729**			**60,729**
	Total Assets	**12,733,914**	**-**	**(1,023)**	**12,732,891**
17.1	**Equity attributable to owners of the Group:**	**4,116,758**	**-**	**(1,023)**	**4,115,735**
	-Share capital	1,904,375			1,904,375
	-Reserves	2,035,991		*(1,023)*	2,034,968
	-Net income (loss) for the period	176,392			176,392
17.2	**Equity attributable to non-controlling interests:**	**60,251**	**-**	**-**	**60,251**
	-Reserves	60,936			60,936
	-Net income (loss) for the period	(685)			(685)
17	**Total Equity**	**4,177,009**	**-**	**(1,023)**	**4,175,986**
20	Borrowings from banks and other financial institutions	3,897,089			3,897,089
25	Other payables	74,435			74,435
18	Provisions for liabilities and charges	127,124			127,124
10	Provisions for deferred tax liabilities	1,216,635			1,216,635
19	Employee benefit obligations	274,037			274,037
23	Tax payables	2,399			2,399
24	Derivative financial instruments	54,963			54,963
	Non-current liabilities	**5,646,682**	**-**	**-**	**5,646,682**
20	Debiti commerciali	559,168			559,168
21	Trade payables	1,673,642			1,673,642
22	Other payables	565,254			565,254
18	Provisions for liabilities and charges	45,833			45,833
19	Employee benefit obligations	-			-
23	Tax payables	48,416			48,416
24	Current assets	17,910			17,910
	Current liabilities	**2,910,223**	**-**	**-**	**2,910,223**
	Liabilities held for sale	**-**			**-**
	Total Liabilities and Equity	**12,733,914**	**-**	**(1,023)**	**12,732,891**

IFRS 15 – Revenues from contracts with customers

Following the application of the new standard that replaces the previous IAS 18, some amounts, previously recorded under costs and mainly related to variable fees due to indirect customers against the achievement of commercial targets, have been shown as a reduction in revenues or other revenues, with non-significant impact. The reclassification of these amounts does not change the Group's shareholders' equity at the transition date that coincides with January 1, 2018. The comparative figures for the first half of 2017 have not been restated since the Group opted for the application of the modified retrospective approach at transition.

The restatement of the income statement in accordance with the previous IAS 18 standard is presented below:

(In thousands of euro)	**1/1 - 06/30/2018 IAS 18**	**Reclassifications**	**1/1 - 06/30/2018 IFRS 15**
Revenues from sales and services	2,646,184	(15,892)	2,630,292
Other income	229,729	(5,960)	223,769
Changes in inventories of unfinished, semi-finished and finished products	59,418		59,418
Raw materials and consumables used (net of change in inventories)	(891,152)		(891,152)
Personnel expenses	(534,642)		(534,642)
Amortisation, depreciation and impairment	(195,107)		(195,107)
Other costs	(931,435)	21,852	(909,582)
Net impairment loss on financial assets	(7,041)		(7,041)
Increase in fixed assets for internal work	1,742		1,742
Operating income (loss)	**377,697**	**-**	**377,697**

IFRS 15 had no impact on the methods for recognising revenues.

IFRS 9 – Financial instruments

IFRS 9 has been applied retrospectively and the date of first application coincides with January 1, 2018. The comparative figures for the first half of 2017 have not been restated.

- Classification and measurement
  At January 1, 2018, based on the assessment of the applicable business model and the contractual characteristics of the cash flows associated with the assets, financial assets were classified in the categories envisaged by IFRS 9. Equity instruments that at December 31, 2017 were classified as available for sale financial assets (AFS) were designated as financial assets at fair value through other comprehensive income (FVOCI) with the sole exception of the investment in Mediobanca S.p.A., which has instead been classified in financial assets at fair value through income statement (FVPL). The investment in Mediobanca S.p.A. was sold in the first days of January 2018 and the positive fair value change of euro 3,780 thousand was recognised in the income statement under the item "Gains on equity investments (Nota 32.2).
  The financial assets that at December 31, 2017 were classified as securities held for trading were classified as financial assets at fair value through income statement (FVPL).

The following table summarises the reclassifications made:

(In thousands of euro)	**Other non current financial assets at FV through income statement**	**Other current financial assets at FV through income statement (Securities held for trading at 2017)**	**Other financial assets at FV through other comprehensive income (available for sale financial assets 2017)**	**Financial assets at amortised cost (gross trade receivables and gross other receivables)**
Total at 12/31/2017	**-**	**33,027**	**229,519**	**1,526,549**
Reclassification from available for sale financial assets to other financial assets at FV through income statement	149,027		(149,027)	
Total at 01/01/2018	**149,027**	**33,027**	**80,492**	**1,526,549**

- Impairment of financial assets

  The Group analysed the impacts of the new impairment model of IFRS 9 based on expected losses in relation to trade and financial receivables.

  For trade receivables, the Group has applied the simplified approach permitted by the standard, based on which it calculated the lifetime expected losses. The Group used a matrix based on historical experience and linked to the aging of the loans, adjusted to take account of specific factors to some creditors. There are no impacts on the Group' assets at the transition date due to the application of the new impairment model to trade receivables.

  For financial receivables, considered with a low credit risk, the calculation of the write-down was made with reference to expected losses in the subsequent 12 months and is based on a matrix that includes the ratings of customers provided by independent market operators.

  The application of the new model of expected losses to financial receivables entailed the recognition of a loss on the transition date - net of the deferred tax effect - of euro 1,023 thousand, recognised as a reduction in equity, in line with the rule of transition established by IFRS 9.

- Hedge accounting: The Group has adopted the new rules for hedge accounting required by IFRS 9 prospectively starting from January 1, 2018. Hedging relations outstanding at December 31, 2017 met the conditions required by IFRS 9 to continue adopting hedge accounting. It should be noted that, based on the provisions of IFRS 9, the cash flow hedge reserve relating to cash flow hedges outstanding at December 31, 2017 was in part reclassified to a new reserve for cost of hedging in equity for an amount equal to euro 1,000 thousand. The reclassification relates to the change in the fair value of the cross currency basis spread which, not being hedge accounting, is separated and recorded in a separate equity reserve, while the cash flow hedge reserve only includes changes in fair value in hedge accounting.

The impacts on the individual components of Group equity deriving from the first application of IFRS 9 are summarised in the following table:

(In thousands of euro)	**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 cash flow hedge**	**Reserve for cost of hedging**	**Other reserves / retained earnings**
Total at 12/31/2017	**19,410**	**-**	**(13,454)**	**-**	**2,503,272**
Reclassification from available for sale financial assets to other financial assets at FV through income statement (Mediobanca)	(10,554)				10,554
Reclassification from available for sale financial assets to other financial assets at FV through other comprehensive income	(8,856)	8,856			
Impairment of financial assets					(1,023)
Reclassification for hedge accounting			(1,000)	1,000	
Total at 01/01/2018	**-**	**8,856**	**(14,454)**	**1,000**	**2,512,803**

It should be noted that the fair value adjustment reserve for available for sale financial assets at December 31, 2017 (positive for euro 19,410 thousand) was reclassified to a new reserve in equity for investments designated as assets at fair value through other comprehensive income, while it was reclassified in retained earnings for investments for which the changes in fair value are recognised in the income statement. These reserves will not be reversed to the income statement if the investments are sold.

3.4 IFRS 15 and IFRS 9 - accounting policies adopted as of January 1, 2018

The changes to the accounting policies adopted by the Group compared to those applied at December 31, 2017 are shown below, as a result of the entry into force on January 1, 2018 of the new standards IFRS 15 and IFRS 9.

Revenue Recognition

Revenues are recognised for an amount that reflects the consideration to which the Group believes to be entitled in exchange for the transfer of goods and/or services to customers. The variable consideration that the Group deems necessary to recognise to direct or indirect customers are recognised as a reduction in revenues.

Sales of products

Revenues from product sales are recognised when the performance obligations to customers are met. The performance obligations are met when the control of the asset is transferred to the customer, i.e. generally when the goods are delivered to the customer.

Provisions of services

Revenues from services are recognised when the service rendered has been completed.

Financial assets measured at fair value through other the comprehensive income (FVOCI)

This measurement category includes equity instruments for which the Group - at the time of initial recognition or at transition - exercised the irrevocable election to present the gains and losses deriving from changes in the fair value in equity (FVOCI). They are classified as non-current assets in the item “Other financial assets at fair value through other comprehensive income”.

They are initially recognised at fair value, including transaction costs directly attributable to the acquisition.
They are subsequently measured at fair value and profits and losses deriving from changes in fair value are recognised in a specific equity reserve. This reserve will not reverse in the income statement. In the event of sale of the financial asset, the amount suspended in equity is reclassified to retained earnings.

Dividends deriving from these financial assets are recorded in the income statement when the right to receive them arises.

Financial assets measured at fair value through income statement (FVPL)
This measurement category includes:

- equity instruments for which the Group - at the time of initial recognition or at transition - has not exercised the irrevocable election to present the gains and losses deriving from changes in the fair value in equity. They are classified as non-current assets in the item "Other financial assets at fair value through income statement";
- the debt instruments for which the business model of the Group for the management of assets provides for the sale of instruments and cash flows associated with the financial asset represent the payment of the outstanding capital. They are classified as current assets in the item "Other financial assets at fair value through income statement";
- derivative instruments, with the exception of those designated as hedging instruments, classified in the item "derivative financial instruments".

They are initially recognised at fair value. Transaction costs directly attributable to the purchase are recognised in the income statement.

They are subsequently measured at fair value and profits and losses deriving from changes in fair value are recognised in the income statement.

Derivative financial instruments designated as hedging instruments
In accordance with IFRS 9, derivative financial instruments are subject to hedge accounting only when:

- the items hedged and the hedging instruments meet the eligibility requirements;
- at the beginning of the hedging relation there is formal designation and documentation of the hedging relation, of the Group's objectives in risk management and of the strategy to proceed with the hedge;
- the hedging relation meets all of the following effectiveness requirements:
  - there is an economic relation between the hedged item and the hedging instrument
  - the effect of credit risk is not dominant with respect to changes associated with the risk hedged;
  - the hedge ratio defined in the hedging relation is respected, also through rebalancing actions and is consistent with the risk management strategy adopted by the Group.

These derivative instruments are measured at fair value.

The following accounting treatments are applied based on the type of hedge:

- Fair value hedge – if a derivative financial instrument is designated as a hedge against exposure to changes in the fair value of an asset or liability attributable to a specific risk, the gain or loss resulting from subsequent changes in fair value of the hedging instrument is recognised in the income statement. For the portion attributable to the hedged risk, the gain or loss on the hedged item modifies the carrying value of that asset or liability (basis adjustment), and it is recognised in the income statement as well;

- Cash flow hedge – if a derivative instrument is designated as a hedge against exposure to the variable cash flow of an asset or liability recognised in the Statement of Financial Position or a highly probable future transaction, the effective portion of the change in fair value of the hedging instrument is recognised directly in equity, while the ineffective portion is immediately recognised in the income statement. The amounts recognised directly in equity are reversed to the income statement in the year when the hedged item produces an effect on the income statement.
  If the hedge of a highly probable future transaction subsequently involves the recognition of a non-financial asset or liability, the amounts that are suspended in equity are included in the initial value of the non-financial asset or liability.
  When future transactions are hedged by forward contracts, the Group may designate in hedge accounting:
  - The full fair value (including forward points): the effective portion of the changes in fair value of the entire derivative instrument are recognised in equity (cash flow hedge reserve);
  - The spot component (excluding forward points): the effective portion of the fair value changes related to the spot component only are recognised in equity in the cash flow hedge reserve, while the change in the forward points relating to the hedged item is recorded in the cost of hedging reserve, also in equity.

When a hedging instrument expires or is sold, terminated in advance, exercised, or no longer meets the conditions to be designated as a hedge, hedge accounting is discontinued: fair value adjustments accumulated in equity (in both the cash flow hedge reserve and in the cost of hedging reserve) remain in equity until the hedged item affects the income statement. Subsequently they are reversed in the income statement over the periods in which the acquired financial asset or assumed financial liability impact the income statement.

When the hedged item is no longer expected to have any impact on the income statement, the fair value adjustments accumulated in equity (in both the cash flow hedge reserve and in the cost of hedging reserve) are immediately reversed in the income statement.

For the derivative instruments that do not satisfy the prerequisites established by IFRS 9 for adoption of hedge accounting, please see the section “Financial assets at fair value through income statement”.

Impairment of receivables

For trade receivables , the Group applies a simplified approach, calculating the lifetime expected losses from the time of initial recognition. The Group uses a matrix based on historical experience and linked to the aging of the loans, adjusted to take account of specific forecast factors to some creditors.

For financial receivables, the calculation of the impairment is made with reference to expected losses in the following 12 months. This calculation is based on a matrix that includes the ratings of customers provided by independent market operators. In the event of a significant increase in the credit risk subsequent to the origination date of the receivable, the expected loss is calculated with reference to the entire life of the receivable. The Group assumes that the credit risk related to a financial instrument has not increased significantly after initial recognition, if it is determined that the financial instrument has a low credit risk at the reporting date.

The Group assesses whether there has been a significant increase in credit risk when the customer rating, attributed by independent market operators, undergoes a change that shows an increase in the probability of default.

The Group considers a financial asset in default when internal or external information indicates that it is unlikely that the Group will receive the entire contracted amount overdue (for example, when the receivables are under legal procedure).

Payables

In the event of a change in a financial liability that does not entail the cancellation, the gain or loss resulting from the change is calculated by discounting the change in contractual cash flows using the original effective interest rate and is immediately recognised in the income statement.

3.5 Accounting standards issued but not yet in force in 2018

IFRS 16 – Leases

The new leasing standard, which will replace the current IAS 17, provides for the lessee a single accounting model under which all leases must be recognised in the Statement of Financial Position. In fact, the concept of operating leases disappears.

The lessee must recognise in the Statement of Financial Position the asset subject of the lease in a new category of assets (“rights of use”) and at the same time recognise financial liabilities equal to the present value of future payments.

The only exceptions allowed are short-term leases (with a duration of less than or equal to 12 months) and leases of “small assets” (ex. office furniture, PC) for which the accounting treatment remains similar to that currently used for operating leases. If a leasing contract includes a provision of a service, the service may not be capitalized.

Said standard, endorsed by the European Union, is applicable from January 1, 2019. The Group will apply the new standard starting from the date of entry into force.

The impact of the Standard on the Group's accounts is being assessed. The analysis is mainly focused on the effects potentially deriving from the definition of the term of the contracts and the options for renewal, extension and/or early termination in existing contracts. The portion of payments related to short-term contracts and to contracts that concern “small assets” is also being calculated to assess whether to use the exemption granted by the standard for non-capitalization of such contracts.

With regard to the other accounting standards issued but not yet in force in 2018, please refer to Note 3.2 “International accounting standards and/or interpretation issued but not yet in force” of the Annual Financial Statements at December 31, 2017.

4. INFORMATION ON FAIR VALUE

4.1 Fair value measurement

In relation to financial instruments measured at fair value, the following table shows the classification of these instruments on the basis of the hierarchy of levels pursuant to IFRS 13, reflecting the significance of the inputs used in determining the fair value. The levels are as follows:

- level 1 – unadjusted quotations recorded on an active market for assets or liabilities subject to valuation;
- level 2 – inputs different from the quoted prices referred to at the preceding level, which are observable on the market either directly (as in the case of prices) or indirectly (because they are derived from prices);
- level 3 – inputs that are not based on observable market data.

The following table shows assets and liabilities carried at fair value at June 30, 2018, divided into the three levels defined above:

(In thousands of euro)	Note	Carrying amount at 06/30/2018	Level 1	Level 2	Level 3
FINANCIAL ASSETS:					
Financial assets carried at fair value through Income Statement:					
Other current financial assets at fair value through income statement	15	9,298	-	9,298	-
Current derivative financial instruments	24	76,204	-	76,204	-
Non current derivative financial instruments	24	585	-	585	-
Hedging instruments:					
Non current derivative financial instruments	24	8,952	-	8,952	-
Other financial assets at fair value through other comprehensive income					
Securities and shares		54,655	26,670	16,838	11,147
Investment funds		15,145	-	15,145	-
	9	69,800	26,670	31,983	11,147
TOTAL ASSETS		**164,839**	**26,670**	**127,022**	**11,147**
FINANCIAL LIABILITIES:					
Financial liabilities carried at fair value through Income Statement:					
Current derivative financial instruments	24	(30,815)	-	(30,815)	-
Hedging instruments:					
Current derivative financial instruments	24	(1,362)	-	(1,362)	-
Non current derivative financial instruments	24	(8,310)	-	(8,310)	-
TOTAL LIABILITIES		**(40,487)**		**(40,487)**	

The following table shows assets and liabilities carried at fair value at December 31, 2017, divided into the three levels defined above:

(In thousands of euro)	Note	Carrying amount at 12/31/2017	Level 1	Level 2	Level 3
FINANCIAL ASSETS:					
Financial assets carried at fair value through Income Statement:					
Securities held for trading		33,027	-	33,027	-
Current financial derivative instruments	24	27,770	-	27,771	-
Hedging instruments:					
Non-current financial derivative instruments	24	878	-	878	-
Financial assets available-for-sale:					
Other financial assets					
Securities and shares		214,250	179,204	19,908	15,138
Investment funds		15,269	-	15,269	-
	9	229,519	179,204	35,177	15,138
TOTAL ASSETS		**291,194**	**179,204**	**96,853**	**15,138**
FINANCIAL LIABILITIES:					
Financial liabilities carried at fair value through Income Statement:					
Current financial derivative instruments	24	(17,910)	-	(17,910)	-
Hedging instruments:					
Non-current derivative financial instruments	24	(54,963)	-	(54,963)	-
TOTAL LIABILITIES		**(72,873)**	**-**	**(72,873)**	**-**

The following table shows the **changes that occurred in level 3 of financial assets in first half of 2018:**

(In thousands of euro)	**06/30/2018**
Opening balance	15,138
Translation differences	5
Disposals	(2,835)
Fair value adjustments through other comprehensive income	(1,203)
Other changes	42
Closing balance	**11,147**

These financial assets consist mainly of equity investments in Istituto Europeo di Oncologia (European Institute of Oncology) (euro 6,961 thousand), Tlcom I LP (euro 186 thousand) and the investment in Pirelli de Venezuela C.A. (euro 1,544 thousand).

Decreases mainly refer to the liquidation of the investment in Emittenti Titoli.

The **fair value adjustment through other components comprehensive income,** equal to a negative net value of euro 1,203 thousand, mainly refers to the investment in Pirelli de Venezuela C.A. (euro 1,066 thousand).

In the half-year ended June 30, 2018, there were no transfers from level 1 to level 2 and vice versa, nor from level 3 to other levels and vice versa.

The fair value of financial instruments traded on active markets is based on the price quotations published at the reporting date of the condensed consolidated half-year financial statements. These instruments, included in level 1, mainly include equity investments classified as financial assets at fair value through other comprehensive income.

The fair value of financial instruments not traded on active markets (e.g. derivatives) is measured by means of techniques that maximise the use of observable and available market data, using widely applied financial measurement techniques:

- market prices for similar instruments;
- the fair value of interest rate swaps is calculated by discounting estimated future cash flows based on observable yield curves;
- the fair value of foreign exchange derivatives (forward contracts) is determined by using the forward exchange rate at the date of the condensed consolidated half-year financial statements;
- The fair value of cross currency interest rate swaps is calculated by discounting estimated future cash flows based on observable yield curves and converted in euro using the exchange rate at the date of the condensed consolidated half-year financial statements;
- The fair value of natural rubber futures is determined using the closing price of the contract at the date of the condensed consolidated half-year financial statements.

5. OPERATING SEGMENTS

IFRS 8 – Operating segments defines an operating segment as a component:

- involving business activities that generate revenues and costs;
- the operating results of which are reviewed periodically by the Chief Executive Officer, in his role as Chief Operating Decision Maker (CODM);
- for which separate economic-financial figures are available.

For the purposes of IFRS 8, the activity carried out by Consumer Activities is identifiable in a single operating segment.

The following are revenues from sales and services by geographical area:

(In thousands of euro)	**01/01 - 06/30/2018**	**01/01 - 06/30/2017**
Europe	1,155,373	1,129,518
NAFTA	486,971	501,524
Asia\Pacific (APAC)	431,430	389,991
South America	354,928	456,036
Middle East\Africa\India (MEAI)	112,812	123,226
Russia and CIS	88,778	85,019
TOTAL	**2,630,292**	**2,685,314**

The following are the **non-current assets** by geographical area allocated on the basis of the country in which the assets are located:

(*in thousands of euro*)	**06/30/2018**		**12/31/2017**	
Europe	5,442,518	61.82%	5,504,481	62.03%
Russia & CIS	185,308	2.11%	192,382	2.17%
NAFTA	408,264	4.64%	373,950	4.21%
Central and South America	395,572	4.49%	435,488	4.91%
Asia/Pacific	491,288	5.58%	487,560	5.49%
Middle Est/Africa/India	2,762	0.03%	2,773	0.03%
Non-current unallocated assets	1,877,363	21.33%	1,877,363	21.16%
Total	**8,803,075**	**100.00%**	**8,873,999**	**100.00%**

The **allocated non-current assets** reported in the above table consist of property, plant and equipment and intangible assets, excluding goodwill. The **unallocated non-current assets** pertain to goodwill.

6. PROPERTY, PLANT AND EQUIPMENT

The breakdown and changes are as follows:

(in thousands of euro)	06/30/2018			12/31/2017		
	Gross Value	**Accumulated Depreciation**	**Net Value**	**Gross Value**	**Accumulated Depreciation**	**Net Value**
Land	191,289	-	191,289	201,216	-	201,216
Buildings	756,039	(91,006)	665,033	773,903	(107,466)	666,437
Plant and machinery	2,245,678	(410,334)	1,835,344	2,175,308	(354,350)	1,820,958
Industrial and trade equipment	394,244	(165,808)	228,436	385,301	(148,028)	237,273
Other assets	96,674	(45,892)	50,782	111,722	(57,312)	54,410
TOTAL	**3,683,924**	**(713,040)**	**2,970,884**	**3,647,450**	**(667,156)**	**2,980,294**

NET VALUE *(in thousands of euro)*	**12/31/2017**	**Translation differ.**	**Increases**	**Decreases**	**Reclassif.**	**Depreciation**	**Other**	**06/30/2018**
Land	**201,216**	(9,339)	-	(667)	-	-	79	**191,289**
Buildings	**666,437**	(10,518)	23,656	(453)	331	(14,858)	438	**665,033**
Plant and machinery	**1,820,958**	(28,960)	119,927	(370)	333	(77,301)	757	**1,835,344**
Industrial and trade equipment	**237,273**	(6,790)	23,114	(937)	9,664	(34,038)	150	**228,436**
Other assets	**54,410**	(1,767)	10,050	(474)	(10,328)	(5,424)	4,315	**50,782**
Total	**2,980,294**	**(57,374)**	**176,747**	**(2,901)**	**-**	**(131,621)**	**5,739**	**2,970,884**

Increases, totalling euro 176,747 thousand, are mainly intended to increase the High Value capacity in Europe and Nafta and to constantly improve the mix and quality in all the factories.
The investment ratio with amortizations in the first half of 2018 totals 1.34.

The **property, plant and equipment in progress** at June 30, 2018, included in the individual fixed asset categories, total euro 243,569 thousand (euro 227,509 thousand at December 31, 2017).

The value of buildings and other assets for which the Group has entered into a finance leasing agreement is included in the related categories of property, plant, and equipment.

The breakdown of the item is indicated below:

(in thousands of euro)	06/30/2018			12/31/2017		
	Cost	**Accumulated Depreciation**	**Net value**	**Cost**	**Accumulated Depreciation**	**Net value**
Leased buldings	330	(330)	-	330	(330)	-
Other leased assets	2,153	(1,949)	204	2,286	(2,001)	285
Leased plant and machinery	178	(41)	137	266	(107)	159
TOTAL	**2,661**	**(2,320)**	**341**	**2,882**	**(2,438)**	**444**

7. INTANGIBLE ASSETS

The breakdown and changes are as follows:

(In thousands of euro)	12/31/2017	Translation differences	Increase	Amortisation	Reclassif.	Other	06/30/2018
Concessions/licenses/trademarks - finite life	**67,797**	(349)	240	(2,391)	-	26	**65,323**
Pirelli Brand - indefinite life	**2,270,000**	-	-	-	-	-	**2,270,000**
Goodwill	**1,877,363**	-	-	-	-	0	**1,877,363**
Customer relationships	**377,242**	48	-	(17,266)	-	(0)	**360,024**
Technology	**1,276,017**	-	1,976	(38,425)	-	(0)	**1,239,568**
Software applications	**20,744**	(134)	246	(4,749)	132	184	**16,423**
Other intangible assets	**4,541**	(289)	35	(654)	(132)	(12)	**3,489**
TOTAL	**5,893,704**	**(724)**	**2,497**	**(63,485)**	**-**	**198**	**5,832,190**

Intangible assets are broken down as follows:

- with reference to the value of the Pirelli Brand (assets with indefinite useful life), amounting to euro 2,270,000 thousand, it is noted that the valuation of the useful life of the brands is based on a series of factors including the competitive environment, market share, history of the brand, life cycles of the underlying product, operational plans and macroeconomic environment of the countries in which the related products are sold. In particular, the useful life of the Pirelli Brand was assessed as indefinite based on its history of over one hundred years of success (created in 1872) and the intention and ability of the Group to continue investing to support and maintain the brand.
  At June 30, 2018, the Company, in accordance with the provisions of IAS 36, verified the absence of impairment indicators. In particular:
  a) the analyst consensus on revenues in the plan horizon remain substantially unchanged with respect to the consensus used for the impairment test at December 31, 2017;
  b) the discount rate remained substantially in line with the rate used for the impairment test at December 31, 2017.

- concessions, licenses and trademarks with definite useful life mainly include the value of the Metzeler Brand (useful life of 20 years) for an amount of euro 57,508 thousand;

- Customer relationships (useful life 10-20 years) include mainly the value of commercial relations both in the original equipment channel and in the replacement channel;

- the item Technology includes both the value of the product and process technology, and the value of In-Process R&D (at the time of acquisition of the Group in 2015) for an amount equal respectively to euro 1,147,592 thousand and euro 90,000 thousand. The useful life of the product and process technology has been determined as over 20 years while the useful life of In-Process R&D as 10 years.

With reference to the caption Goodwill of euro 1,877,363 thousand, which for the purposes of the impairment test at December 31, 2017 was allocated to the “Consumer Activities” CGU (Cash

Generating Unit), the company verified, in accordance with the the provisions of IAS 36, the absence of impairment indicators at June 30, 2018. In particular, it should be noted that the stock market capitalisation of Pirelli & C. S.p.A. at the end of the first half, that represents the main input in determining the fair value of Consumer Activities (configuration value used at December 31, 2017 to determine the recoverable value of Consumer Activities), is substantially in line with the stock market capitalisation at the end of 2017.

8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

8.1 Investments in associates

Changes in investments in associates and joint ventures were as follows:

(In thousands of euro)	**06/30/2018**			**12/31/2017**		
	Associates	**JV**	**Total**	**Associates**	**JV**	**Total**
Opening balance	**12,529**	**4,951**	**17,480**	**32,446**	**14,564**	**47,010**
Decreases	-	-	-	(10,410)	-	(10,410)
Increases	-	-	-	1,496	-	1,496
Distribution of dividends	(2,674)	-	(2,674)	(8,556)	-	(8,556)
Impairment	(874)	-	(874)	(754)	-	(754)
Share of net income (loss)	(457)	(7,801)	(8,258)	1,361	(9,613)	(8,252)
Share of other components recognised in Equity	-	(3,150)	(3,150)	(2,915)	-	(2,915)
Reclassification to provision for future risks and expenses	-	6,000	6,000	-	-	-
Reclassifications and other	(177)	-	(177)	(139)	-	(139)
Closing balance	**8,347**	**-**	**8,347**	**12,529**	**4,951**	**17,480**

The **breakdown by investment in associates** is as follows:

(In thousands of euro)	**12/31/2017**	**Distrib. of dividends and reserves**	**Impairment**	**Share of net income (loss)**	**Reclass. and other**	**06/30/2018**
Eurostazioni S.p.A.	**6,271**	-	-	(5)	-	**6,266**
Fenice S.r.l.	**2,477**	(2,474)	(4)	-	1	**0**
Focus Investments S.p.A.	**1,352**	-	(870)	(482)	-	**(0)**
Other Group companies	**2,429**	(200)	(0)	30	(178)	**2,081**
Total associates	**12,529**	**(2,674)**	**(874)**	**(457)**	**(177)**	**8,347**

With reference to the investment in Fenice S.r.l., the company, following the sale of the investment of Prelios S.p.A. on December 28, 2018 to Lavaredo S.p.A., a newly established joint-stock company designated by the Burlington fund counterparty in the transaction was placed in liquidation. The liquidation was concluded in July 2018.

The item **distribution of dividends and reserves** mainly refers to the distribution of reserves and dividends made during the period by Fenice S.r.l., for euro 2,474 thousand.

Impairment mainly refer to the investment in Focus Investments S.p.A.. This impairment was recorded in order to align the book value after applying the equity method to its fair value, following impairment indicators emerged during the half-year.

The **share of net income (loss)** (negative for euro 457 thousand) mainly refers to the negative result of Focus Investments S.p.A., equal to euro 482 thousand.

Investments in associates, measured using the equity method, are immaterial in terms of total consolidated assets both individually and in aggregate form.

8.2 Investments in joint ventures

The Group holds an investment of 60% (ownership unchanged from the previous year) in PT Evoluzione Tyres, an entity which operates in Indonesia active in the production of moto tyres. Although it is now owned 60%, due to contractual agreements between shareholders it falls within the definition of a joint venture as the governance rules explicitly require unanimous consent in decisions relating to significant activities. The investment accounted for using the equity method.

The **share of net income (loss)** negative for euro 7,801 thousand mainly refers to the pro rata of the loss related to the first half of 2018. It should be noted that the Group has reclassified the negative value of the investment after application of the equity method to a specific provision for risks and charges.

9. OTHER FINANCIAL ASSETS - OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – OTHER FINANCIAL ASSETS NON CURRENT AT FAIR VALUE THROUGH INCOME STATEMENT

Other financial assets

Following the application starting from January 1, 2018 of IFRS 9, other financial assets, consisting of financial assets available for sale and equal to euro 229,519 thousand at December 31, 2017, have been designated as financial assets at fair value through other comprehensive income (FVOCI) for euro 80,492 thousand and as financial assets for which fair value through income statement (FVPL) for euro 149,027 thousand.

Total other financial assets at 12/31/2017 (IAS 39)	**229,519**
Reclassification to other financial assets at FV through other comprehensive income (FVOCI)	(80,492)
Reclassification to other financial assets at FV through income statement (FVPL)	(149,027)
Total other financial assets at 1/1/2018 (IFRS 9)	**0**

Other financial assets at fair value through other comprehensive income (FVOCI)

Other financial assets at fair value through other comprehensive income amount to euro 69,800 thousand at June 30, 2018.

(In thousands of euro)	**06/30/2018**
Opening balance other financial assets at FV through other comprehensive income FVOCI (IFRS 9) at 01/01/2018	**80,492**
Translation differences	(4)
Decreases	(2,857)
FV adjustment through other comprehensive income	(7,299)
Other	(532)
Closing balance	**69,800**

The breakdown of the item for each security is as follows:

(In thousands of euro)	**06/30/2018**	**12/31/2017**
	Closing balance	
RCS Mediagroup S.p.A.	26,670	30,177
Total listed securities	**26,670**	**30,177**
Fin. Priv. S.r.l.	16,838	19,908
Fondo Anastasia	15,145	15,269
Istituto Europeo di Oncologia S.r.l.	6,961	6,599
Euroqube	12	12
Tlcom I LP	186	186
Emittenti Titoli	-	2,748
Equinox Two SCA	-	601
Pirelli De Venezuela C.A.	1,544	2,610
Other companies	2,444	2,382
Total unlisted securities	**43,130**	**50,315**
Total other financial assets at FV through other comprehensive income	**69,800**	**80,492**

Decreases mainly refer to the liquidation of the investment in Emittenti Titoli.

The **fair value adjustment in other comprehensive income,** equal to a negative net value of euro 7,299 thousand, mainly refers to RCS MediaGroup S.p.A. (euro 3,507 thousand), Fin.Priv (euro 3,070 thousand) and Pirelli de Venezuela C.A. (euro 1,066 thousand).

For listed securities, the fair value corresponds to the Stock Exchange listing at June 30, 2018. The fair value of unlisted securities was determined by making estimates on the basis of the best information available.

Other financial assets at fair value through profit or loss (FVPL) – Non-current portion

The changes in the fair value of other financial assets non-current at fair value recorded in the income statement in the first half of 2018 are shown below:

(In thousands of euro)	**06/30/2018**
Opening balance other financial assets at FV through income statement FVPL (IFRS 9) at 01/01/2018	**149,027**
FV adjustment through income statement	3,780
Decreases	(152,807)
Closing balance	**-**

The initial value of other financial assets recorded in the income statement refers to the investment in Mediobanca S.p.A. sold in January 2018.

10. DEFERRED TAX ASSETS AND PROVISION FOR DEFERRED TAX LIABILITIES

The breakdown is as follows:

(In thousands of euro)	**06/30/2018**	**12/31/2017**
Deferred tax assets	85,393	111,553
Provision for deferred tax liabilities	(1,210,173)	(1,216,635)
Total	**(1,124,780)**	**(1,105,082)**

Deferred tax assets and deferred tax liabilities are offset if there is a legal right that allows compensation of current tax assets and current tax liabilities and the deferred taxes refer to the same legal entity and the same taxation authority.

The item includes deferred tax assets for euro 517 thousand recorded at January 1, 2018 due to the application of the new impairment model of financial assets as provided for by IFRS 9 and based on the expected losses model.

The item provision for deferred tax liabilities mainly refers to the intangible assets identified during the Purchase Price Allocation completed in 2016 following the acquisition of the Pirelli Group from Marco Polo Industrial Holding S.p.A. and the related reverse merger.

The tax effect of gains and losses recognised directly in equity was negative for euro 12,276 thousand (positive for euro 3,260 thousand in first half of 2017), and is disclosed in the Comprehensive Income Statement; these changes were mainly due to the tax effects associated with actuarial gains/losses on employee benefits obligations and to the adjustment of derivatives in cash flow hedges to their fair value.

11. TRADE RECEIVABLES

Trade receivables are analyzed as follows:

(In thousands of euro)	**06/30/2018**			**12/31/2017**		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Trade receivables	1,133,046	-	1,133,046	919,573	-	919,573
Provision for bad debts	(268,611)	-	(268,611)	(267,086)	-	(267,086)
TOTAL	**864,435**	**-**	**864,435**	**652,487**	**-**	**652,487**

The increase compared to December 31, 2017 is due to the usual seasonal trend, which leads to an increase in values at the end of the first half compared to the corresponding values at year-end.

The impaired receivables include both significant individual positions written down separately, and positions with similar characteristics in terms of credit risk, grouped and written down on a collective basis.

For trade receivables, it is maintained that the accounting value is approximately the fair value.

12. OTHER RECEIVABLES

Other receivables may be analysed as follows:

(In thousands of euro)		06/30/2018			12/31/2017	
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Financial receivables	118,257	87,518	30,739	131,096	94,585	36,511
Trade accruals and deferrals	46,731	8,183	38,548	34,548	1,513	33,035
Receivables from employees	17,006	1,058	15,948	6,974	1,225	5,749
Receivables from social security and welfare institutions	7,183	-	7,183	5,535	-	5,535
Receivables from tax authorities not related to income taxes	243,538	14,269	229,269	247,015	13,521	233,494
Other receivables	185,926	84,928	100,998	181,808	93,207	88,601
	618,641	**195,956**	**422,685**	**606,976**	**204,051**	**402,925**
Provision for bad debts	(6,115)	(494)	(5,621)	(2,387)	-	(2,387)
TOTAL	**612,526**	**195,462**	**417,064**	**604,589**	**204,051**	**400,538**

Non-current financial receivables (euro 87,518 thousand) mainly refer for euro 37,350 thousand to sums deposited to guarantee tax and legal disputes relating to the subsidiary Pirelli Pneus Ltda (Brazil), remunerated at market rates, for euro 18,396 thousand sums deposited in the year on escrow accounts in favour of the pension funds of Pirelli UK Ltd and of Pirelli UK Tyres Ltd, for euro 12,352 thousand of loans granted to the Indonesian Joint Venture PT Evoluzione Tyres and for euro 2,801 thousand to insurance premiums paid in advance for the issue of guarantees in favour of the same pension funds.

Current financial receivables (euro 30,739 thousand) mainly refer for euro 8,728 thousand to accruals on cross currency interest swaps related to the unsecured syndicated loans “Facilities” granted to Pirelli International Plc., for euro 6,004 thousand to the short-term portion of loans granted to the Indonesian Joint Venture PT Evoluzione Tyre and for euro 3,717 thousand to the short-term portion of insurance premiums paid in advance for the issue of guarantees in favour of the same pension funds.

The **provision for the write-down of receivables and financial receivables** (euro 6,115 thousand) includes euro 3,066 thousand relating to financial receivables that were written down following the application of the new impairment model introduced by IFRS 9 and based on expected losses and euro 3,039 thousand related to other receivables from Pirelli de Venezuela C.A. More specifically, the change compared to December 31, 2017 of euro 3,728 thousand is mainly due to:

- euro 1,540 thousand attributable to the application of the new impairment model required by IFRS 9 and based on expected losses, at the transition date (January 1, 2018); this impact was recorded directly against shareholders' equity, net of the related deferred tax effect (euro 517 thousand);
- Increase for euro 1,850 thousand for additional provision recorded on new financial receivables in the half-year.

Receivables from tax authorities for taxes not related to income (euro 243,538 thousand) mainly consist of VAT receivables and other indirect taxes.

Other non-current receivables (euro 84,928 thousand) mainly refer to sums deposited to guarantee legal and tax disputes relating to the Brazilian units (euro 65,746 thousand), to a receivable of euro 13,768 thousand related to a contribution paid in cash at the time of signing an association in participation contract and loans for guarantees in favour of Pirelli exercisable in the case in which potential liabilities are manifested relative to the acquisition of the company Campneus Lider de Pneumaticos Ltda (Brazil) for euro 2,202 thousand.

Other current receivables (euro 100,998 thousand) mainly include advances to suppliers for euro 40,029 thousand and receivables from the Prometeon Group for euro 29,776 thousand.

For other current and non-current receivables, the carrying amount is considered to approximate the related fair value.

13. TAX RECEIVABLES

Tax receivables relate to income taxes amount to euro 67,586 thousand (of which euro 18,495 thousand non-current), compared to euro 62,779 thousand at December 31, 2017 (of which euro 27,318 thousand non-current). They mainly refer to receivables for advances paid on taxes for the year and to IRES credits of previous years registered by Pirelli & C. S.p.A.

14. INVENTORIES

Inventories are analyzed as follows:

(In thousands of euro)	**06/30/2018**	**12/31/2017**
Raw and auxiliary materials and consumables	155,410	147,645
Sundry materials	5,785	5,197
Work in progress and semi-finished products	54,665	48,782
Finished products	766,146	737,558
Advances to suppliers	1,245	1,486
Total	**983,251**	**940,668**

The impairment of inventories recognised in the income statement in the period, net of recoveries amounted to euro 2.397 thousand (reversals for euro 7,486 thousand at December 31, 2017, net of impairment).

15. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT - CURRENT

Current assets at fair value through income statement amounted to euro 9,298 thousand at June 30, 2018.

It should be noted that following application of IFRS 9 at January 1, 2018, the financial assets that at December 31, 2017 were classified as securities held for trading amounted to euro 33,027 thousand were classified as other financial assets at fair value through income statement (FVPL).

The fair value of unlisted securities was determined by making estimates on the basis of the best information available.

Changes in fair value in the period are recognised in the Income Statement as “Financial expenses” (Note 34).

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents went from euro 1,118,437 at December 31, 2017 to euro 580,641 thousand at June 30, 2018.

These were concentrated in the financial companies of the Group and in companies that generate cash and use it locally. They are essentially invested in the market of short-term maturity deposits with major banking counterparties at interest rates in line with the prevailing market terms.

17. EQUITY

17.1 Equity attributable to owners of the Group

The **equity attributable to owners of the Group** went from euro 4,116,758 thousand at December 31, 2017 to euro 4,242,945 thousand at June 30, 2018. The change is essentially due to the result for the period (positive for euro 172,043 thousand), to actuarial profits on pension funds (positive for euro 57,123 thousand), offset by reductions due to the effect of transactions with minority shareholders (euro 36,345 thousand) and exchange rate differences from the conversion of foreign financial statements (negative for euro 51,673 thousand).

The subscribed and paid-in **share capital** at June 30, 2018 is represented by 1,000,000,000 registered ordinary shares with no nominal value, for a total of euro 1,904,375 thousand.

17.2 Equity attributable to non-controlling interests

The equity attributable to minorities went from euro 60,251 thousand at December 31, 2017 to euro 80,294 thousand at June 30, 2018. The increase is mainly due to the net impact of the transactions with minority interests, as described in the following note 17.3.

17.3 Main transactions with minority interests

In June 2018, the separation of the residual industrial assets that the Group held in Argentina was completed. The transaction was structured as follows:

- On June 28, 2018, the Group acquired from Prometeon Tyre Group S.r.l. the minority interest (28.5%) held in Pirelli Neumaticos S.A.I.C. for euro 31.2 million, increasing its shareholding from 71.5% to 100%. The book value of the minority interest acquired was negative for approximately euro 6.1 million. The difference between the price paid and equity acquired, equal to euro 37.3 million, since it refers to a transaction with minorities, was recognised as a reduction of the equity attributable to the Parent Company;
- On June 29, 2018, the subsidiary Pirelli Neumaticos S.A.I.C. sold to the company Prometeon Tyre Group de Argentina S.A., part of the Prometeon Group, the assets relating to the Industrial Business for about euro 27 million. The transaction generated a gain of approximately euro 21 million (approximately euro 15 million net of the tax effect), which was recognized as an increase in the Group's shareholders' equity in continuity with the accounting adopted upon assignment of the industrial business, since it refers to transactions between subjects under common control.

Both transactions took place on the basis of values determined by a third-party and independent professional.

In May 2018, the reserved capital increase of Pirelli Tyre Russia was finalized, amounting to approximately euro 14 million, subscribed by some minority shareholders for a total shareholding of 35% of the company's capital. The transaction generated a negative impact on the Group equity of approximately 12 million, given the differential between the book value of the equity acquired by the minorities and the value of the contribution made and inclusive of ancillary transaction costs. It should also be noted that as part of this reorganization, an option contract was entered into regarding the entire shareholding of the minority shareholder Panaland, equal to 10% of the capital of Pirelli Tyre Russia. This option provides for a crossed Call and Put system: the call option will be exercisable by E-Volution Tyre B.V. (“EVO” - company owned 100% from Pirelli Tyre S.p.A.) in the period between January 1 and June 30, 2020, while the put option will be exercisable by Panaland, subject to the non-exercise of the call option by EVO, in the period between July 1 and December 31, 2020; for this option, a financial liability was recorded for a total of euro 4.2 million with a simultaneous reduction in the equity attributed to minorities. The impact of the transaction on the equity attributable to non-controlling interests is positive and amounts to euro 13.1 million.

18. PROVISIONS FOR LIABILITIES AND CHARGES

Below are the changes during the period:

PROVISION FOR LIABILITIES AND CHARGES - NON-CURRENT PORTION *(In thousands of euro)*	**06/30/2018**
Opening balance	127,124
Translation differences	(1,955)
Increases	10,287
Uses	(5,240)
Reversals	(1,593)
Other	297
Closing balance	**128,920**

The **non-current portion** mainly refers to provisions made by the subsidiary Pirelli Pneus Ltda with headquarters in Brazil for legal and tax disputes and risks (euro 19,622 thousand) and labour disputes (euro 11,151 thousand), by the Parent Company Pirelli & C. S.p.A. and other Group companies for tax risks and disputes (euro 15,529 thousand) and for commercial risks, site remediation and labour disputes (euro 3,992 thousand), disputes for occupational illnesses (euro 14,304 thousand), and a provision for risks in respect of the investment in PT Evoluzione Tyres (euro 6,000 thousand) relating to the surplus between the pro rata of the loss for the period and the value of the investment.

The item also includes contingent liabilities (the outlay of which is not considered probable) identified during the Purchase Price Allocation following the acquisition of the Pirelli Group from Marco Polo Industrial Holding S.p.A. and the related reverse merger, referable to the decision made by the European Commission - and subsequently confirmed by the sentence of the European Union Court of July 12, 2018 - at the conclusion of the antitrust investigation initiated in relation to the energy cables business, which provides for a fine for Prysmian Cavi e Sistemi S.r.l. (“Prysmian”) equal to approximately euro 104 million for a portion of which (euro 67 million) Pirelli & C. S.p.A. (“Pirelli”), although not directly involved in the alleged cartel, is called to respond jointly with Prysmian exclusively in application of the principle of so-called “parental liability”, since, during part of the alleged infringement, Prysmian was controlled by Pirelli. The amount accrued is equal to euro 33.5 million, which correspond to the amount of the first demand bank guarantee issued by Pirelli - similar to as was carried out by Prysmian - for the benefit of the Commission (and at the request of the latter) for an amount equal to 50% of the aforementioned euro 67 million.

The **increases** mainly refer to provisions for labour disputes in the subsidiary Pirelli Pneus Ltda, for tax risks and for the excess between the pro rata of the loss for the period and the value of the investment in PT Evoluzione Tyres.

Uses are for costs incurred mainly for labour disputes by the subsidiary Pirelli Pneus Ltda (Brazil), for the closure of pending proceedings of Pirelli Tyre S.p.A. and Pirelli & C. S.p.A. in relation to disputes relating to occupational diseases and remediations of dismissed areas.

The **reversals** of excess funds are mainly linked to changes in estimates related to tax risks.

PROVISION FOR LIABILITIES AND CHARGES - CURRENT PORTION *(In thousands of euro)*	**06/30/2018**
Opening balance	45,833
Translation differences	182
Increases	6,541
Uses	(1,330)
Reversals	(1,620)
Closing balance	**49,606**

The **current portion** mainly includes provisions for product claims and warranties (euro 11,758 thousand), remediation of dismissed areas (euro 6,151 thousand), insurance risks (euro 7,098 thousand) and work accidents relating to the English subsidiary (euro 3,246 thousand).

Increases mainly refer to provisions for product claims and insurance risks.

The **uses** are mainly due to claims received by the various units of the group and to work accidents related to the British subsidiary.

Reversals of surplus provisions mostly concerned claims and insurance risks.

19. EMPLOYEE BENEFIT OBLIGATIONS

Empolyee benefit obligations – non-current portion

The item non-current employee benefit obligations includes:

(In thousands of euro)	**06/30/2018**	**12/31/2017**
Pension funds:		
- funded	22,083	92,144
- unfunded	87,614	91,035
Employee leaving indemnities (TFR - Italian companies)	31,956	33,083
Healthcare plans	18,075	18,885
Other benefits	39,952	38,890
Total	**199,680**	**274,037**

Pension funds

The following table shows the **breakdown of pension funds at June 30, 2018**:

(In thousands of euro)	06/30/2018						
	Germany	**Sweden**	**Total unfunded pension funds**	**USA**	**UK**	**Other countries**	**Total funded pension funds**
Funded funds							
Present value of funded liabilities				126,649	1,038,265	34,929	1,199,844
Fair value of plan assets				(110,553)	(1,037,210)	(29,997)	(1,177,761)
Unfunded funds							
Present value of unfunded liabilities	84,514	3,100	87,614				
Net liabilities recognised	**84,514**	**3,100**	**87,614**	**16,096**	**1,055**	**4,932**	**22,083**

The following table shows the **breakdown of pension funds at December 31, 2017**:

(In thousands of euro)	12/31/2017						
	Germany	**Sweden**	**Total unfunded pension funds**	**USA**	**UK**	**Other countries**	**Total funded pension funds**
Funded funds							
Present value of funded liabilities				132,483	1,137,456	36,067	1,306,006
Fair value of plan assets				(111,813)	(1,071,079)	(30,970)	(1,213,862)
Unfunded funds							
Present value of unfunded liabilities	87,773	3,262	91,035				
Net liabilities recognised	**87,773**	**3,262**	**91,035**	**20,670**	**66,377**	**5,097**	**92,144**

The characteristics of the main pension funds in place at June 30, 2018 are summarized below:

- **Germany:** this is an unfunded defined-benefit plan based on the last salary. It provides a pension in addition to the state pension. The plan was closed in October 1982; consequently the participants to this plan are employees whose employment began prior to that date;
- **USA**: this is a funded defined-benefit plan based on the last salary. It provides a pension in addition to the state pension and is administered by a trust. The plan was closed in 2001 and frozen in 2003 for employees who were transferred to a defined-contribution scheme. All participants to this plan have retired;
- **UK**: these are funded defined-benefit plans based on the last salary. They provide a pension in addition to the state pension and are administered in trusts. The plans of the associate Pirelli Tyres Ltd were closed in 2001 to new entrants. and frozen in 2010 for employees hired before 2001, who were offered the transition to defined contribution schemes. The plan operated by the subsidiary Pirelli UK Ltd, which includes the employees in the Cables and Systems segment sold in 2005, was already frozen at the date of the sale in 2005. In October 2017, for three UK pension funds, “buy in” contracts were stipulated, which consisted in the purchase of insurance policies (so-called “bulk annuities”) through the use of plan assets.
- **Sweden**: this involves a defined benefits plan (ITP2), which as closed to new participants, and the only participants are retired employees and recipients of deferred pensions..

Changes in the first half in net liabilities of defined benefits (related to pension funds funded and unfunded) are as follows:

(In thousands of euro)	**Present value of gross liabilities**	**Fair value of plan assets**	**Total net liabilities**
Opening balance at January 1, 2018	1,397,042	(1,213,863)	183,179
Translation difference	5,822	(5,000)	822
Movements through income statement:			
- current service cost	806	-	806
- cost of services rendered for previous years	104	-	104
- interest expense / (income)	17,142	(15,414)	1,728
	18,052	**(15,414)**	**2,638**
Remeasurements recognized in equity:			
- actuarial (gains) / losses from change in demographic assumptions	(19,639)	-	(19,639)
- actuarial (gains) / losses from change in financial assumptions	(82,427)	-	(82,427)
- experience adjustment (gains) losses	3,540	-	3,540
- return on plan assets, net of interest income	-	43,042	43,042
	(98,526)	**43,042**	**(55,484)**
Employer contributions	-	(19,175)	(19,175)
Employee contributions	7	(7)	-
Incentivised exit from benefits fund	-	-	-
Benefits paid	(34,698)	31,883	(2,815)
Settlements	-	-	-
Other	(240)	772	532
Closing balance at June 30, 2018	**1,287,458**	**(1,177,761)**	**109,697**

The actuarial gains deriving from changes in the demographic assumptions recognised in equity at June 30, 2018 relate to the UK pension funds and are due to the update of the generational improvement component of mortality. This change produced a profit due to a trend reversal in the improvement of life expectancy highlighted by the latest surveys.

The actuarial gains deriving from changes in the financial assumptions recognized in equity at June 30, 2018 are essentially due to the increase in discount rates compared to the values at December 31, 2017 in most countries where pension funds are present.

The cost for the service is included in “personnel expenses” (Note 28), and net interest expenses are included in the item “financial expenses” (Note 34).

Employee leaving indemnitties (TFR)

Changes in the period in the severance indemnity are as follows:

(In thousands of euro)	**06/30/2018**
Opening balance	33,083
Movements through Income Statement:	
- current service cost	449
- interest expense	269
Remeasurements recognized in equity:	
- actuarial (gains)/losses arising from changes in demographic assumptions	-
- actuarial (gains)/losses arising from changes in financial assumptions	(288)
- experience (gains)/losses	-
Indemnities/advanced payments	(780)
Other	(777)
Closing balance	**31,956**

The current cost of employee service is included in the item “Personnel costs” (Note 28), while the interest expense is included in the item “Financial expenses” (Note 34).

Medical care plans

The item refers only to the medical plan in place in the United States.

(In thousands of euro)	**USA**
Liabilities recognised in the Financial Statements at 06/30/2018	18,075
Liabilities recognised in the Financial Statements at 12/31/2017	18,885

The changes during the period were as follows:

(In thousands of euro)	**06/30/2018**
Opening balance	18,885
Translation differences	493
Movements through income statement:	
- current service cost	2
- interest expense	315
Remeasurements recognised in equity:	
- actuarial (gains) losses arising from changes in financial assumptions	(757)
- actuarial (gains) losses arising from changes in demographic assumptions	(154)
- experience adjustment (gains) losses	0
Benefits paid	(709)
Closing balance	**18,075**

The cost for the service is included in “Personnel costs” (Note 28), and net interest expense are included in “Financial expenses” (Note 34).

Additional information relating to benefits after the employment relationship

The net actuarial gains accrued in first half of 2018, attributed directly to equity, amount to euro 57,123 thousand.

The principal financial actuarial assumptions used at **June 30, 2018** are as follows:

	Italy	**Germany**	**Netherlands**	**Sweden**	**UK**	**USA**	**Switzerland**
Discount rate	1.70%	1.70%	2.25%	1.95%	2.90%	4.00%	0.85%
Inflation rate	1.50%	1.50%	1.60%	1.75%	3.00%	N/A	1.00%

The principal financial actuarial assumptions used at **December 31, 2017** were as follows:

	Italy	**Germany**	**Netherlands**	**Sweden**	**UK**	**USA**	**Switzerland**
Discount rate	1.60%	1.60%	2.15%	2.25%	2.50%	3.50%	0.70%
Inflation rate	1.50%	1.50%	1.60%	1.75%	3.10%	N/A	1.00%

Other long-term benefits

The breakdown is as follows:

(In thousands of euro)	**06/30/2018**
Long-term incentive plans	4,600
Jubilee awards	17,888
Leaving indemnities	11,747
Other long-term benefits	5,717
Total	**39,952**

The item "long-term incentive plans" refers to the related portion of the 2018-2020 three-year monetary incentive plan ("LTI Plan") for Group management approved by the Board of Directors on February 26, 2018. This incentive plan is monetary (cash settled), as it does not provide for the allocation of shares or options on shares or other securities but exclusively a cash incentive, partly linked to the performance of the ordinary share of Pirelli & C..

Employee benefit obligations – current portion

The item current employee benefit obligations amounting to euro 768 thousand refers to the portion accrued at June 30, 2018 of the second instalment of the retention plan, assessed in accordance with the accounting standard IAS 19 – Employee Benefits – which will be liquidated in the first half of 2019. The plan was approved by the Board of Directors on February 26, 2018 and is intended for Key Managers and a selected number of senior Managers and Executives whose contribution for the implementation of the Strategic Plan is considered particularly significant.

20. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Borrowings from banks and other financial institutions are as follows:

(In thousands of euro)		**06/30/2018**			**12/31/2017**	
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Bonds	791,864	791,864	-	596,280	596,280	-
Borrowings from banks	3,833,568	2,994,859	838,709	3,787,428	3,298,717	488,711
Borrowings from other financial institutions	10,676	785	9,891	50,267	1,176	49,091
Financial leasing payables	337	113	224	428	324	104
Accrued financial expenses and deferred financial income	17,235	(0)	17,235	18,175	30	18,145
Other financial payables	7,284	4,220	3,064	3,679	562	3,117
Total	**4,660,964**	**3,791,841**	**869,123**	**4,456,257**	**3,897,089**	**559,168**

The item **bonds** relates to unrated bonds, placed on January 22, 2018 for a nominal amount of euro 600 million with a fixed coupon of 1.375% and on March 15, 2018 for a nominal amount of euro 200 million at variable rate and maturity respectively of 5 and 2.5 years. Both loans, placed with international institutional investors, were issued under the EMTN program approved by the Board of Directors at the end of 2017 and signed on January 10, 2018. The previous bond loan placed by Pirelli International Plc in November 2014 for a nominal amount of euro 600 million with a 1.75% fixed coupon and original maturity in November 2019, was repaid early on March 20, 2018. The early repayment, which involved the entire loan and which responds to the announced objective of a constant optimization of the Group's financial structure, took place through the exercise of the “Make Whole Issuer Call” provided for by the Terms and Conditions of the loan, and entailed the recognition of the related expenses (see Note 34 “Financial expenses”).

The carrying amount of bonds was determined as follows:

(In thousands of euro)	**06/30/2018**	**12/31/2017**
Nominal value	800,000	600,000
Transaction costs	(5,830)	(6,176)
Bond discount	(2,988)	(3,012)
Amortisation of effective interest rate	682	5,468
Total	**791,864**	**596,280**

Borrowings from banks, amounting to euro 3,833,568 thousand, mainly refer to:

- use of the unsecured loan (“Facilities”) granted to Pirelli & C. S.p.A. and Pirelli International Plc for euro 2,970,551 thousand. The contractual amount of the refinancing operation, signed on June 27, 2017 (with closing on June 29, 2017), is equal to euro 3.65 billion (net of reimbursements made from the signing date – original amount of lines granted equal to euro 4.2 billion). The loan was repriced in January 2018 with the recognition of a benefit in the income statement related to the debt remeasurement (see Note 34 “Financial expenses”). The loan had an original maturity of three and five years and is entirely classified as long-term payables to banks;
- euro 538,101 thousand relating to loans granted in Brazil by local banking institutions, of which euro 19,114 thousand classified as non-current payables to banks;
- euro 200,000 thousand relating to the loan granted by Intesa Sanpaolo to Pirelli & C. S.p.A. at a fixed rate and maturing in January 2019, classified as current payables to banks. It should be noted that in July 2018, the maturity of the loan was extended until July 19, 2019;
- loans granted by the European Investment Bank (EIB) to S.C. Pirelli Tyre Romania S.r.l. for local industrial investments for a total of euro 20,000 thousand, entirely classified as current payables to banks;
- euro 52,997 thousand related in particular to some loans classified as current payables to banks granted to Mexican subsidiaries;
- euro 13,185 thousand related to the loan granted to the associate Pirelli Otomobil Lastikleri (Turkey), classified as current payables to banks;
- bank loans and uses of credit lines at local level in Russia (euro 24,707 thousand) and Japan (euro 6,200 thousand), classified entirely as current payables to banks.

At June 30, 2018, the Group had a liquidity margin of euro 1,169.9 million, consisting of euro 580.0 million of unused committed credit lines and euro 580.6 million related to cash and cash equivalents and financial assets measured at fair value through profit or loss for euro 9.3 million.

Accrued financial expenses and deferred financial income (euro 17,235 thousand) mainly refer to the portion of interest on loans from banks for euro 13,188 thousand (euro 16,784 thousand at December 31, 2017) and to the portion of interest accrued on bonds for euro 3,559 thousand (euro 1,237 thousand at December 31, 2017).

For current financial payables, it is maintained that the book value is approximately the fair value. The table below compares the fair value of non-current financial payables with their book value:

(In thousands of euro)	**06/30/2018**		**12/31/2017**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Bonds	791,864	780,752	596,280	613,998
Borrowings from banks	2,994,859	3,047,877	3,298,717	3,355,453
Other financial payables	5,118	5,118	2,092	2,092
Total non-current financial payables	**3,791,841**	**3,833,747**	**3,897,089**	**3,971,543**

The public bonds issued by Pirelli & C. S.p.A. are listed on an active market and the related fair value was measured with reference to its prices at the end of the half-year. Therefore, it is classified in level 1 of the hierarchy required by IFRS 13 – Fair Value Measurement. The fair value of borrowings from banks was calculated by discounting each debtor cash flow expected at the market swap rate for the currency and at the reference maturity date, increased by the Group credit rating for similar debt instruments by nature and technical characteristics and is therefore classified as level 2 in the hierarchy required by IFRS 13 – Fair Value Measurement.

At June 30, 2018, there are hedging derivatives for interest rate and exchange rate on payables at variable rate in foreign currency.

The cost of debt on an annual basis (last 12 months) stands at 3.40% (3.93% net of repricing impacts), against 5.76% in the same period of the previous year and 5.36% at December 31, 2017.

The reduction in the cost of debt in the first half of 2018 mainly reflects:

- the favourable comparison with respect to the first half of 2017, which included euro 61.2 million of wash down of the fees not yet amortised relating to the old bank loan, repaid in advance in June 2017;
- the balance - positive for euro 3 million - between the positive effect deriving from the repricing of the Group's main banking line that involved the debt remeasurement in January 2018, and the expenses deriving from the early termination in March 2018 of the Pirelli International Plc bond (euro 600 million coupon 1.75% and maturity November 2019) through the exercise of the so-called make-whole option and the consequent transfer to the income statement of the portion of costs not amortised at the closing date;
- the decrease in the Group's financial indebtedness (due to the share capital increase by the shareholder Marco Polo for euro 1.2 billion in June 2017 and the Group's organic cash

generation) and the improved economic conditions of the new banking line from an original euro 4.2 billion compared to the previously mentioned banking line repaid early in June 2017;

- the reduction in interest rates in Brazil.

With reference to the presence of financial covenants, it should be noted that the main bank financing of the Group ("Facilities") granted to Pirelli & C. S.p.A. and Pirelli International Plc requires compliance with a maximum ratio ("Total Net Leverage") between net indebtedness and gross operating profit as resulting from the Consolidated Financial Statements of Pirelli & C. S.p.A.

Failure to comply with the financial covenant is identified as an event of default which, if exercised according to the contract terms by a number of lending banks representing at least 66 2/3% percent of the total commitment, would result in early repayment (partial or total) of the loan with simultaneous cancellation of the related commitment. This parameter was fully satisfied at June 30, 2018.

The Facilities envisage a Negative Pledge clause the terms of which are in line with the market standards for this type of credit facility.

The other outstanding financial payables at June 30, 2018 do not contain financial covenants.

21. TRADE PAYABLES

Trade payables are broken down as follows:

(In thousands of euro)		**06/30/2018**			**12/31/2017**	
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Trade payables	1,023,285	-	1,023,285	1,634,950	-	1,634,950
Bill and notes payable	28,899	-	28,899	38,692	-	38,692
Total	**1,052,184**	**-**	**1,052,184**	**1,673,642**	**-**	**1,673,642**

For trade payables, it is maintained that the book value is approximately the fair value.

22. OTHER PAYABLES

Other payables are as follows:

(In thousands of euro)	06/30/2018			12/31/2017		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Accrued expenses and deferred income	83,828	49,982	33,846	75,787	43,995	31,792
Tax payables not related to income taxes	113,047	5,347	107,700	120,100	5,730	114,370
Payables to employees	98,101	575	97,526	115,835	817	115,018
Payables to social security and welfare intitutions	57,283	17,784	39,499	71,058	21,332	49,726
Dividends payable	9,518	-	9,518	338	-	338
Contract liabilities	5,621	0	5,621	-	-	-
Other payables	134,069	1,714	132,356	256,571	2,561	254,010
Total	**501,468**	**75,402**	**426,066**	**639,689**	**74,435**	**565,254**

Non-current commercial accrued expenses and deferred income relate for euro 44,726 thousand to capital contributions received for investments made in Mexico and Romania, whose benefits are recognised in the income statement in proportion to the costs for which the contribution was disbursed and for euro 3,118 thousand to costs for commercial initiatives in Brazil.

Current commercial accrued expenses and deferred income include euro 5,722 thousand for various commercial initiatives in Germany and Brazil, euro 8,531 thousand refer to government grants and tax incentives mainly in Italy and Romania, euro 1,579 thousand for costs related to insurance coverage in some countries in Europe and Argentina.

The item **tax payables not related to income taxes** mainly consists of VAT payables and other indirect taxes, withholding taxes for employees and other taxes not related to income.

Payables to employees mainly include amounts accrued during the period but not yet paid.

Contract liabilities refer to advances received from customers, for which the performance obligation has not yet been completed, in line with the provisions of IFRS 15. At December 31, 2017, these amounts were included in the item “other current payables”.

Other current payables (euro 132,356 thousand) mainly include:

- euro 53.999 thousand for the purchase of propery, plant and equipment (euro 105.431 thousand at December 31, 2017). The decrase is mainly due to the lower investments made in the second quarter of 2018 compared to last quarter of 2017;
- euro 36,896 thousand for payables to companies of the Prometeon Group, in particular Brazil and China;
- euro 12,433 thousand for income withholding tax (euro 14,872 thousand at December 31, 2017);
- euro 6,210 thousand for payables to directors, statutory auditors and supervisory bodies;
- euro 3,472 thousand for payables to representatives, agents, professionals and consultants. At December 31, 2017, the item included euro 21,111 thousand for costs incurred in relation to the IPO process;
- euro 2,425 thousand for payables relating to customs duties, import and transport costs

The reduction compared to December 31, 2017 is also due to the payment to the minority shareholder Distribudora Automotiva S.A. of the residual debt at the end of the previous year for euro 18,589 thousand for the purchase of a shareholding of 36% in the subsidiary Comercial e Importadora de Pneus Ltda, Group company that holds a network of sales points in Brazil.

23. TAX PAYABLES

Tax payables mostly relate to national and regional income taxes in the various countries and total euro 41,214 thousand (of which euro 2,126 thousand for non-current liabilities), compared to euro 50,815 thousand at December 31, 2017 (of which euro 2,399 thousand for non-current liabilities).

24. DERIVATIVE FINANCIAL INSTRUMENTS

The item includes the fair value measurement of derivative instruments. The breakdown is as follows:

(In thousands of euro)	**06/30/2018**				**12/31/2017**			
	Non current assets	**Current assets**	**Non current liabilities**	**Current liabilities**	**Non current assets**	**Current assets**	**Non current liabilities**	**Current liabilities**
Without adoption of hedge accounting								
Exchange rate derivatives - commercial positions	-	12,570	-	(4,442)	-	6,357	-	(6,662)
Exchange rate derivatives - included in net financial position	585	63,634	-	(26,373)	-	21,413	-	(11,248)
Hedge accounting adopted								
- cash flow hedge:								
Interest rate derivatives	-	-	(1,027)	-	878	-	-	-
Other derivatives	8,952	-	(7,283)	(1,362)	-	-	(54,963)	-
	9,537	**76,204**	**(8,310)**	**(32,177)**	**878**	**27,770**	**(54,963)**	**(17,910)**
- Total derivatives included in net financial position	9,537	63,634	(7,423)	(26,373)	-	21,413	(54,963)	(11,248)

The breakdown of the items by type of derivative instrument is as follows:

(In thousands of euro)	06/30/2018	12/31/2017
Current assets		
Forward foreign exchange contracts - fair value recognised in the Income Statement	76,204	27,770
Total current assets	**76,204**	**27,770**
Non current assets		
Forward foreign exchange contracts - fair value rilevato a conto economico	585	-
Cross currency interest rate swaps - cash flow hedge	8,952	-
Interest rate swap - cash flow hedge	-	878
Total non current assets	**9,537**	**878**
Current liabilities		
Forward foreign exchange contracts - fair value recognised in the Income Statement	(30,815)	(17,910)
Futures Natural Rubber - cash flow hedge	(1,362)	-
Total current liabilities	**(32,177)**	**(17,910)**
Non current liabilities		
Interest rate swaps - cash flow hedge	(1,027)	-
Cross currency interest rate swaps - cash flow hedge	(7,283)	(54,963)
Total non current liabilities	**(8,310)**	**(54,963)**

Derivative financial instruments not in hedge accounting

The value of **exchange rate derivatives** corresponds to the fair value measurement of purchases/sales in forex for the term in effect on the closing date of the period. These involve hedges of Group commercial and financial transactions for which hedge accounting was not adopted. The fair value is determined by using the forward exchange rate at the date of the condensed consolidated half-year financial statements.

Derivative financial instruments in hedge accounting

The value of **derivatives on interest rates**, recorded as non-current liabilities for euro 1,027 thousand (non-current assets for euro 878 thousand at December 31, 2017) refers entirely to the fair value measurement of 4 interest rate swaps forward start contracts with a notional of euro 350 million and that exchange fixed rate against variable EURIBOR to hedge both future transactions and liabilities already recognised in the financial statements.

The value of **other derivatives**, recognised as non-current assets for euro 8,952 thousand and non-current liabilities for euro 7,283 thousand (non-current liabilities for euro 54,963 thousand at December 31, 2017), refers to the fair value measurement of 11 cross currency interest rate swaps, grouped in the following table by maturity, with the following characteristics:

Derivative	Notional amount (USD million)	Notional amount (Euro million)	Start date	Maturity	
CCIRS	1,079	922	Jul-17	Jul-19	pay floating EURIBOR / receive floating LIBOR USD
CCIRS	284	243	Jul-17	Jun-20	pay floating EURIBOR / receive floating LIBOR USD
CCIRS	682	582	Jul-17	Jun-22	pay floating EURIBOR / receive floating LIBOR USD
	2,045	**1,747**			
CCIRS forward start	1,079	920	Jul-19	Jun-22	pay fix EUR / receive floating LIBOR USD
Total	**3,124**	**2,667**			

The objective of these derivatives, for which hedge accounting of the cash flow hedge type was adopted, is to hedge the group against the risk of fluctuations in cash flows associated with changes in the LIBOR USD rate and changes in the USD/EUR exchange rate, generated by a liability in USD (part referred to bank facilities). The positive change in fair value for the period was suspended in equity for euro 77,422 thousand (cash flow hedge reserve for euro 61,091 thousand and cost of hedging reserve for euro 16,331 thousand), while euro 49,001 thousand was reversed to the income statement in the item “fair value measurement of exchange rate derivatives” (Note 33 “Financial income”) to offset unrealised exchange rate losses recorded on liabilities hedged and euro 20,784 thousand was instead reversed in the item “financial expenses” (Note 34) correcting the financial expenses recorded on the liability hedged.

The value of **other derivatives** included in current liabilities for euro 1,362 thousand corresponds to the fair value measurement of natural rubber futures contracts traded on the Singapore Stock Exchange to hedge price fluctuations on future purchases of natural rubber. The amount was suspended in equity.

25. COMMITMENTS AND RISKS

Commitments for the purchase of property, plant and equipment
The commitments to purchase property, plant and equipment amount to euro 149,301 thousand and mostly relates to companies in Romania, Brazil, Russia, China and Mexico.

Commitments for the purchase of equity investments/fund units
These refer to commitments to purchase shares in Equinox Two S.c.a., a private equity company for a total value of euro 2,158 thousand.

Other Risks

Dispute towards Prysmian before the Court of Milan and the High Court of Justice arising from the antitrust dispute related to the energy cables business.

In November 2014, Pirelli & C. S.p.A. ("Pirelli") took action before the Court of Milan in order to obtain the ascertainment and declaration of the obligation of Prysmian Cavi e Sistemi S.r.l. to hold it free from any claim relating to the alleged anti-competitive agreement in the energy cables sector, including the penalty imposed by the European Commission and confirmed by the decision of the European Union Court of July 12, 2018, referred to in Note 18 "Provisions for Risks and Charges". The judgement was suspended by the Court of Milan pending a final judgement of the EU judges.

In November 2015 , Prysmian S.p.A. notified Pirelli of a summons in the judgement of compensation instituted before the High Court of Justice against Prysmian S.p.A. and other participants in the aforementioned anti-competitive agreement by National Grid and Scottish Power, a company damaged by the alleged cartel. Specifically, Prysmian S.p.A. submitted a request to obtain that Pirelli and Goldman Sachs, due to the role of parent companies at the time of the cartel, hold it free with respect to any compensation obligations (currently unquantifiable) with respect to National Grid and Scottish Power. Pending the aforementioned action before the Court of Milan, Pirelli raised the lack of jurisdiction of the High Court of Justice, considering that the decision on the merits should be referred to the Court previously referred to.

In April 2016, the High Court of Justice upheld a procedural agreement between Pirelli and Prysmian S.p.A. and consequently suspended said judgement until the sentence in the Italian judgement already pending became final.

Pirelli, on the basis of careful legal analysis supported by professional opinions of external legal advisors, believes it is not involved in the alleged irregularities of its former subsidiary, and that the ultimate full liability for any violation shall be the exclusive responsibility of the company directly involved. In consequence of the above, the risk assessment related to the request of Prysmian S.p.A. deriving from the action of National Grid & Scottish Power is such as not to have to request the allocation of any specific provision in the condensed consolidated half-year financial statements at June 30, 2018.

Tax disputes in Brazil

The subsidiary Pirelli Pneus is involved in some tax disputes and proceedings described below:

Dispute related to ICMS tax credits assigned by the State of Santa Catarina

With reference to the dispute related to the ICMS tax credits assigned by the State of Santa Catarina, Pirelli Pneus Ltda received some notices of assessment aimed at disavowing the ICMS tax credits. The claim was made by the State of São Paulo, according to which Pirelli Pneus benefited from ICMS tax credits assigned by the State of Santa Catarina and deemed by the first illegitimate as assigned by the latter in violation of the Brazilian Constitution, in the absence of a previous agreement between the various States. The dispute was before the competent administrative-tax commissions and, despite the first decisions are not favourable to Pirelli Pneus, the Group believes it has a good chance of winning in court. This assessment is based on the orientation in favour of the taxpayer that is consolidating at judicial level, and in particular on another case examined by the Brazilian Supreme Court, which will have to express itself through a sentence with binding force *erga omnes*, on the impossibility for a Federal state to penalize the taxpayer for the use of claims granted by law by another federal state, even if this law did not observe constitutional rules. According to the previous jurisprudence of the Supreme Court, this controversy should be managed by the Federal States, without unduly penalizing the taxpayer. In addition to the above, a legislative provision (Complementary Law no. 160) came into force on August 8, 2017, which should put an end to this dispute between the various states in Brazil. To date there are still some implementation aspects to be defined before confirming the application of this new provision to the dispute in question; however, there is a clear indication of the commitment by the Brazilian States to put an end to these forms of protest and to prevent new ones in the future. The risk is estimated at around euro 159 million, including taxes, interest and penalties. The risk of losing is not deemed as probable and, therefore, no provision is set aside in the condensed consolidated half-year financial statements for this dispute.

Dispute related to the IPI tax rate applicable to certain types of tyres

Pirelli Pneus is part of a dispute with the Brazilian tax authorities regarding the IPI tax and, in particular, with reference to the tax rate applicable to the production and import of tyres for Sport Utility Vehicles (SUVs), Vans and other light industrial means of transport (such as, for example, trucks). According to statements by Brazilian tax authorities in the tax assessment notices issued in 2015 and 2017, the aforementioned tyres should have been subjected to the IPI tax rate for the production and import of tyres for Cars – for which a rate of 15% is applicable – instead of the 2% rate applied by Pirelli Pneus, as envisaged for the production and import of tyres for heavy industrial vehicles. To date, the dispute is pending before the competent administrative-tax commissions and, despite a first unfavourable decision regarding the assessment relating to the 2015 tax period, the Group believes it has a good chance of winning. This position is also supported by an appraisal prepared by a Brazilian government institution (the INT – National Institute of Technology) specifically commissioned by Pirelli Pneus and which concluded its analysis by equating, in light of similar characteristics, the tyres in question with those for heavy industrial vehicles. The risk is estimated at around euro 34 million, including tax, interest and penalties. The risk of losing is not deemed as probable and, therefore, no provision is set aside in the condensed consolidated half-year financial statements for this dispute.

Dispute related to transfer pricing with reference to certain intragroup transactions

Pirelli Pneus has a dispute with the Brazilian tax authorities for income tax purposes (IRPJ – Imposto sobre a render das pessoas jurídicas) and social contributions (CSLL – Contribução Social sobre o Lucro Líquido) due by the company with reference to application of the rules of the so-called transfer pricing to transactions with related parties. The Brazilian tax authorities are mainly contesting the incorrect application by the company of the methodology envisaged by the administrative practice then in force (IN – Instrução Normativa 243) for the assessment of transfer prices applied to imports of goods from related parties. To date, the dispute by the company is pending before the competent administrative-tax courts. Although the first administrative sentence issued is unfavourable to Pirelli Pneus, the Group nevertheless believes it has a good chance of winning having assessed the intragroup transactions in question in accordance with the provisions of the internal legislation in force *pro-tempore*, which should prevail over administrative practice (IN 243) of the Brazilian tax administration. The risk is estimated at around euro 17 million, including tax, interest and penalties. The risk of losing is not deemed as probable and, therefore, no provision is set aside in the condensed consolidated half-year financial statements for this dispute.

Dispute related to the IPI with reference to the sale of tyres to the automotive sector

Pirelli Pneus is part of a dispute related to the IPI also with reference to a case of sale of components to companies operating in the automotive sector. According to the Brazilian tax authorities, in a notice of assessment issued in 2013, Pirelli Pneus could not benefit, with reference to its secondary office established in the city of Ibiritè in the Federal State of Minas Gerais, of the IPI exemption provided for by law in the case of sales of certain components to companies operating in the automotive sector. The Group believes it has sound reasons to resist the tax administration's claim. In particular, both the legislation applicable to this case regarding IPI and previous case law on similar cases seem to support this position. The risk is estimated at around euro 19 million, including tax, interest and penalties. The risk of losing is not deemed as probable and, therefore, no provision is set aside in the condensed consolidated half-year financial statements for this dispute.

Further disputes of Pirelli Pneus

Pirelli Pneus is part of three other tax disputes on certain federal taxes and excises (such as IPI, PIS and COFINS) and on the ICMS. In particular, Pirelli Pneus has in place some administrative and judicial proceedings aimed at making its own reasons prevail over those of the financial administration with reference to:

(i) dispute referred to as “Operação Vulcano” and related to some exports of goods to Paraguay which, in the opinion of the Brazilian tax authorities, could not benefit from the tax exemption envisaged – around euro 10 million including taxes, penalties and interest;
(ii) dispute referred to as “Desenvolve” and related to a tax incentive recognised by the Federal State of Bahia but, as claimed by the Brazilian tax authorities, incorrectly calculated by Pirelli Pneus – about euro 9 million including taxes, penalties and interest;

(iii) dispute related to the customs import value of natural rubber which, in the opinion of the Brazilian tax authorities, is underestimated not considering the value of intragroup royalties – around euro 11 million including taxes, penalties and interest.

For all three of the aforementioned disputes, also on the basis of the outcome of the first degrees of judgement, the risk of losing is not assessed as probable and, therefore, no provision is set aside in the condensed consolidated half-year financial statements for these disputes.

26. REVENUES FROM SALES AND SERVICES

Revenues from sales and services can be analysed as follows:

(In thousands of euro)	**1/1 - 06/30/2018**	**1/1 - 06/30/2017**
Revenues from sales of goods	2,555,943	2,614,390
Revenues from services	74,349	70,924
Total revenues from sales and services	**2,630,292**	**2,685,314**

27. OTHER REVENUES

This item is broken down as follows:

(In thousands of euro)	**1/1 - 06/30/2018**	**1/1 - 06/30/2017**
Other income from Prometeon Group	41,612	118,260
Sales of Industrial products	90,457	117,821
Gains on disposal of property, plant and equipment	1,920	1,253
Rent income	2,264	1,930
Recoveries and reimbursements	43,788	31,249
Government grants	3,913	3,195
Other income	39,815	44,916
Total other income	**223,769**	**318,624**

The item **other revenues from Prometeon Group** mainly includes sales of semi-finished products and materials for euro 10,677 thousand and services rendered for euro 23,108 thousand to Prometeon Group companies. The decrease recorded compared to the same period of the previous year is mainly attributable to the fact that raw materials are no longer supplied to the Prometeon Group by the British subsidiary Pirelli International Plc. (euro 61,480 thousand in the first half of 2017). Also see Note 39 “Related party transactions”.

The item **sale of Industrial product** mainly refers to revenues and income generated by the sale of tyres for trucks and agricultural vehicles, mainly purchased by the Prometeon Group and sold by the distribution network controlled by the Group.

The item **recoveries and repayments** includes in particular:

- tax and duty reimbursements totalling euro 12,216 thousand, of which euro 1,725 thousand received in Germany for tax reimbursements on the purchase of gas and energy and euro 10,327 thousand received in Brazil for VAT reimbursements;
- tax reimbursements totalling euro 2,929 thousand deriving from tax incentives obtained in Argentina and the state of Bahia in Brazil on commercial exports;
- income deriving from the sale of tyres and waste materials obtained in the United Kingdom for a total of euro 3,346 thousand;
- income from sales of tyres for tests and recoveries of transport costs in Germany for euro 1,125 thousand.

The item **other** includes income for sports activities amounting to euro 16,444 thousand.

28. PERSONNEL EXPENSES

This item is broken down as follows:

(In thousands of euro)	**1/1 - 06/30/2018**	**1/1 - 06/30/2017**
Wages and salaries	401,031	400,688
Costs for Special Award	-	27,167
Social security and welfare contributions	89,741	93,184
Costs for employee leaving indemnities and similar	8,156	9,525
Costs for defined contribution pension funds	10,830	10,717
Costs for defined benefit pension funds	692	(6,290)
Costs for jubilee awards	1,060	2,125
Costs for defined contribution healthcare plans	12,366	10,137
Other costs	10,766	3,934
Total	**534,642**	**551,187**

Costs for the Special Award referred to the extraordinary incentive plan approved on January 17, 2017 by the Board of Directors in relation to the listing process of the Pirelli Group and represented non-recurring expense (4.9% of the total)

29. AMORTISATION, DEPRECIATION AND IMPAIRMENT

This item is broken down as follows:

(In thousands of euro)	**1/1 - 06/30/2018**	**1/1 - 06/30/2017**
Amortisation	63,485	57,664
Depreciation	131,622	124,518
Impairment of property, plant and equipment	-	338
Total	**195,107**	**182,520**

30. OTHER COSTS

The item is broken down as follows:

(In thousands of euro)	**1/1 - 06/30/2018**	**1/1 - 06/30/2017**
Selling costs	149,552	158,407
Purchases of goods for resale	236,131	261,005
Purchases of natural rubber for Prometeon Group	-	60,017
Fluids and energy	78,240	82,007
Advertising	109,496	131,895
Consultants	22,195	28,903
Maintenance	26,226	26,806
Warehouse operating costs	35,882	36,743
Lease, rental and lease installments	60,918	61,476
Outsourcing	18,700	38,732
Travel expenses	26,274	28,458
IT expenses	17,940	16,545
Key managers compensations	5,684	13,320
Other provisions	13,615	10,787
Duty stamps, duties and local taxes	17,896	17,930
Canteen	8,427	9,244
Bad debts (*)	-	8,112
Insurance	20,028	18,367
Cleaning expenses	7,337	8,225
Waste disposal	4,459	9,604
Security expenses	4,527	5,733
Telephone expenses	5,411	5,769
Other	40,644	60,839
Total	**909,582**	**1,098,924**

(*) According to the new accounting principle IFRS 9, applicable from January 1, 2018, bad debts are recognised in net impairment loss on financial assets (note 31)

The reduction in **natural rubber purchases for Prometeon Group** compared to the same period of the previous year (euro 60,017 thousand in the first half of 2017) is mainly attributable to the fact that intermediation for natural rubber purchases are no longer made for the Prometeon Group, since Prometeon has adopted its own structure.
The item includes **non-recurring expenses** for euro 1,039 thousand in the first half of 2018 (0.1% of the total), while in the same period of the previous year, it included euro 13,160 thousand (1.2% of the total).

31. NET IMPAIRMENT LOSS OF FINANCIAL ASSETS

The item, negative for euro 7,041 thousand, mainly includes:

- net impairment of trade receivables for euro 4,778 thousand. At June 30, 2017, the net impairment of trade receivables amounted to euro 8,112 thousand and was included in the item “Other costs” (Note 30).

- impairment of financial receivables for euro 1,850 thousand (see Note 12 “Other receivables”).

32. NET INCOME (LOSS) FROM EQUITY INVESTMENTS

32.1 Share of net income (loss) of associates and joint ventures

The share of net income (loss) of equity investments in associates and joint ventures accounted for using the equity method is negative for euro 8,258 thousand and mainly refers to the investment in the joint venture PT Evoluzione Tyres in Indonesia (negative for euro 7,801 thousand – negative for euro 5,313 thousand in the first half of 2017).

32.2 Gains on equity investments

The item mainly refers to the positive impact of euro 3,780 thousand related to the investment in Mediobanca S.p.A., classified as “Other financial assets at fair value through income statement” (Note 9) and sold on January 11, 2018.

32.3 Losses on equity investments

The value of the first half of 2018, equal to euro 874 thousand, mainly refers to the impairment of the investment in Focus Investments S.p.A., classified as investment in associates (Note 8 “Investments in associates and joint ventures”). In the first half of 2017, the item included the impairment of the investment in Pirelli de Venezuela C.A. (euro 5,499 thousand), Fenice S.r.l. (euro 1,128 thousand) and Alitalia – Compagnia Aerea Italiana (euro 781 thousand).

33. FINANCIAL INCOME

This item is broken down as follows:

(In thousands of euro)	**1/1 - 06/30/2018**	**1/1 - 06/30/2017**
Interest	4,416	9,029
Other financial income	2,131	7,012
Net gains on exchange rates	-	80,466
Fair value measurement of currency derivatives	66,482	-
Fair value measurement of other derivatives	26	-
Total	**73,055**	**96,507**

Interest includes euro 940 thousand in interest on fixed-income securities, euro 1,416 thousand in interest income from financial institutions and euro 1,407 thousand in interest income on financial receivables.

The item **other financial income** mainly includes euro 2,034 thousand of accrued interest on tax receivables and security deposits paid by the Brazilian subsidiaries to guarantee legal and tax disputes.

The **fair value measurement of currency derivatives** refers to forward purchases/sales of foreign currencies to hedge commercial and financial transactions, in accordance with the Group foreign exchange risk management policy. For transactions outstanding at the end of the period, the fair value is determined using the forward exchange rate at the date of the condensed consolidated half-year financial statements. The fair value includes two elements: the interest component linked to the interest rate spread between the currencies subject to the individual hedges, a net cost of euro 33,450 thousand, and the exchange rate component, a net gain of euro 99,932 thousand. Comparing net losses on exchange rates, equal to euro 122,781 thousand recorded on receivables and payables in currencies other than the functional currency of the various subsidiaries, included in financial expenses (see Note 34), with the fair value measurement of the exchange rate component of exchange rate hedging derivatives equal to a net profit of euro 99,932 thousand, there is a negative imbalance of euro 22,289 thousand, due mainly to the exchange rate loss realized in Argentina, where in periods of high devaluation (the Argentine peso depreciated by about 50% in the first half), hedging activities would have been difficult to put in place and economically onerous.

34. FINANCIAL EXPENSES

This item is broken down as follows:

(In thousands of euro)	**1/1 - 06/30/2018**	**1/1 - 06/30/2017**
Interest	52,771	192,875
Commissions	9,618	10,974
Other financial expenses	3,114	6,051
Net losses on exchange rates	122,781	-
Net interest costs on employee benefit obligations	2,717	3,805
Fair value measurement of exchange rate derivatives	-	109,158
Total	**191,001**	**322,863**

Interest includes euro 43,355 thousand for the unsecured financing line (“Facilities”) granted to Pirelli & C. S.p.A. and Pirelli International Plc entered into on June 27, 2017 and a positive effect of euro 29,781 thousand (euro 25,286 thousand net of the relative amortised portion) relating to the repricing of the same banking line in January 2018 and that involved remeasurement of the related debt. At June 30, 2017, the item included euro 154,322 thousand for the unsecured financing line (“Senior Facilities”) granted to Pirelli & C. S.p.A. and Pirelli International Plc for nominal euro 5,280,746 thousand and repaid in advance on June 29, 2017, of which euro 61,244 thousand related to the subsequent reversal to the income statement of the portion of costs not amortised at the closing date.
The item also includes:

- euro 28,052 thousand of financial expenses relating to bonds, of which euro 18,690 thousand incurred for the early termination of the bond of Pirelli International Plc (euro 600 million coupon 1.75% and original maturity November 2019) by means of the exercise of the so-called make-whole option and the consequent transfer to the income statement of the portion of costs not amortised at the closing date for euro 3,557 thousand;
- euro 20,784 thousand for net interest income on Cross Currency Interest Rate Swaps to adjust the flow of interest expense on the liability hedged. For further details, refer to as reported in Note 24 “Derivative financial instruments”.

Commissions include in particular euro 1,987 thousand related to costs for transfers of receivables with without recourse clause mainly in LATAM, Italy and Germany.

Net exchange rate losses of euro 122,781 thousand (exchange rate gains of euro 1,029,437 thousand and exchange rate losses of euro 1,152,218 thousand) refer to the adjustment to the exchange rate at the end of the period of the items expressed in the currency other than the functional one still open at the closing date of the condensed consolidated half-year financial statements and the net losses on items realised during the period.

Financial expenses include **non-recurring** events with a positive net effect of euro 7,534 thousand (3.9% of the total) relating to:

- expenses for the early settlement of the Pirelli International Plc bond (euro 600 million coupon 1.75% and original maturity November 2019), which resulted in the reversal to the income statement of the portion of costs not amortised at the settlement date (euro 3,557 thousand) and additional financial expenses resulting from the exercise of the so-called make-whole option (euro 18,690 thousand);
- positive impact of euro 29,781 thousand related to the repricing of the unsecured banking line (“Facilities”) in January 2018.

In the first half of 2017, the amount of euro 61,244 thousand (12.5% of the total) referred to the early closure of the secured loan (“Senior Facilities”) as described in the item interest.

35. TAXES

Taxes are broken down as follows:

(In thousands of euro)	**1/1 - 06/30/2018**	**1/1 - 06/30/2017**
Current taxes	67,287	73,130
Deferred taxes	5,963	(61,799)
Total	**73,250**	**11,331**

The item includes the tax effect of amounts relating to **non-recurring** events for euro 2,218 thousand (3% of the total). In the first half of 2017, the item included a positive amount of euro 51,689 thousand related to the recognition of deferred tax assets of Italian companies and to the tax impact of non-recurring expenses for the year.

36. ASSETS AND LIABILITIES HELD FOR SALE AND NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS

As a result of the assignment in March 2017 by Pirelli & C. S.p.A. to the parent company Marco Polo International Holding Italy S.p.A. of the shares of TP Industrial Holding S.p.A., a company in which almost all of Pirelli's Industrial assets converged, in continuity with 2017, some residual activities in China and Argentina relating to the Industrial business qualify as “discontinued operation”. The table below shows the economic values for the first half of 2018 classified in the income statement, in accordance with IFRS 5, in a single item “income (loss) from discontinued operations”. The separation process with reference to Argentina was completed in June 2018 while with reference to China it is expected that it will be completed during the year. The comparative figures, referring to the Carve Out interim consolidated financial statements only of the Group's Consumer activities, do not include the result of these activities.

(In thousands of euro)	**1/1 - 06/30/2018**
Revenues from sales and services	12
Other income	37,973
Personnel expenses	(2,814)
Amortisation, depreciation and impairment	(55)
Other costs	(39,498)
Operating income (loss)	**(4,382)**
Financial income	84
Financial expenses	(370)
Net income (loss) before tax	**(4,668)**
Tax	(74)
Net income (loss) from discontinued operations	**(4,742)**

The value of “assets held for sale” (euro 38,611 thousand) is mainly attributable to the Industrial production plants held by the Chinese subsidiary that are expected to be sold to the Prometeon Group in the second half of 2018.

37. EARNINGS (LOSS) PER SHARE

Basic earnings (losses) per share are given by the ratio between net income (loss) attributable to the owners of the parent and the weighted average of the number of ordinary shares outstanding during the period, with the exclusion of treasury shares.

(In thousands of euro)	**01/01 - 06/30/2018**	**01/01- 06/30/2017**
Net income attributable to the Parent Company related to **continuing operations**	176,785	66,985
Weighted average number of ordinary shares outstanding (in thousands)	1,000,000	706,464
Earnings/(loss) per share related to continuing operations (in euro per share)	**0.177**	**0.095**

Net income attributable to the Parent Company related to **discontinued operations**	(4,742)	n.a.
Weighted average number of ordinary shares outstanding (in thousands)	1,000,000	706,464
Earnings/(loss) per share related to discontinued operations (in euro per share)	**(0.005)**	**n.a.**

It should be noted that the earning (loss) per basic and diluted share coincide as there are no potential issue shares with dilutive effects on the results.

38. RELATED PARTY TRANSACTIONS

Related party transactions, including intercompany transactions, are neither unusual nor exceptional, but are part of the ordinary course of business of Group companies. Such transactions, when not concluded at standard conditions or dictated by specific laws, are in any case regulated at conditions in line with market conditions and implemented in accordance with the provisions of the Company's Procedure for transactions with related parties.

The statement below shows a summary of the Statement of Financial Position, the Income Statement and the Statement of Cash flows that include transactions with related parties and their impact:

STATEMENT OF FINANCIAL POSITION *(In millions of euro)*	**Total reported at 06/30/2018**	**of which related parties**	**% incidence**	**Total reported at 12/31/2017**	**of which related parties**	**% incidence**
Non current assets						
Other receivables	**195.5**	12.4	6.32%	**204.1**	12.0	5.88%
Current assets						
Trade receivables	**864.4**	61.5	7.11%	**652.5**	62.7	9.61%
Other receivables	**417.1**	56.1	13.45%	**400.5**	36.5	9.11%
Income tax receivables	**49.1**	-	0.00%	**35.5**	0.1	0.2%
Current liabilities						
Trade payables	**1,052.2**	146.4	13.91%	**1,673.6**	198.0	11.83%
Other payables	**426.1**	37.5	8.80%	**565.3**	16.4	2.91%
Income tax payables	**39.1**	-	0.00%	48.4	9.9	20.44%

INCOME STATEMENT *(in millions of euro)*	**1st half 2018**	**of which related parties**	**% incidence**	**1st half 2017**	**of which related parties**	**% incidence**
Revenue from sales and services	**2,630.3**	5.1	0.19%	**2,685.3**	10.1	0.38%
Other income	**223.8**	57.4	25.64%	**318.6**	119.4	37.46%
Raw materials and consumables used	**(891.2)**	(11.7)	1.31%	**(942.2)**	(22.3)	2.36%
Personnel expenses	**(534.6)**	(12.3)	2.30%	**(551.2)**	(17.1)	3.09%
Other costs	**(909.6)**	(105.3)	11.57%	**(1,098.9)**	(184.8)	16.82%
Financial income	**73.1**	2.2	3.03%	**96.5**	3.1	3.17%
Financial expenses	**(191.0)**	(0.0)	0.00%	**(322.9)**	(1.6)	0.5%
Net income (loss) from equity investments	**(4.5)**	(8.3)	n.s.	**(12.9)**	(5.6)	43.16%
Net income (loss) from discontinued operations	**(4.7)**	(23.9)	n.s.	**-**	-	-

CASH FLOW (in millions of euro)	**1st half 2018**	**of which related parties**	**% incidence**	**1st half 2017**	**of which related parties**	**% incidence**
Net cash flows operating activities:						
Trade receivables	**(236.5)**	1.3	0.54%	**(236.0)**	0.3	0.12%
Trade payables	**(497.8)**	(51.6)	10.36%	**(98.0)**	33.1	33.74%
Other receivables/payables	**(169.7)**	(8.7)	5.14%	**(219.0)**	26.1	11.93%
Net cash flows investing activities:						
Dividends received from associates	**2.5**	2.5	100.00%	**-**	-	0.00%
Net cash flows financing activities:						
Change in Financial payables	**283.2**	0	0.00%	**(1,686.8)**	(22.9)	1.36%
Net cash flows provided by (used in) discontinued operations	**(5.3)**	12.9	n.s.	**-**	-	0.00%

The financial and equity effects of related party transactions on the consolidated figures of are detailed below:

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

STATEMENT OF FINANCIAL POSITION		
(in millions of euro)	**06/30/2018**	**12/31/2017**
Other non current receivables	12.4	12.0
Trade receivables	2.0	1.8
Other current receivables	24.2	14.8
Trade payables	21.2	24.0
Other current payables	0.1	0.4

INCOME STATEMENT		
(in millions of euro)	**06/30/2018**	**06/30/2017**
Revenues from sales and services	3.3	0.1
Other Income	0.4	0.6
Other costs	20.0	17.6
Financial income	0.6	0.4
Financial expenses	-	0.1

CASH FLOW		
(in millions of euro)	**06/30/2018**	**06/30/2017**
Net cash flows provided by / (used in) investing activities	2.5	-

Transactions – Statement of Financial Position

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

The item **trade receivables** includes receivables for services rendered to PT Evoluzione Tyres for euro 1.8 million and to Joint Stock Company “Kirov Tyre Plant” for euro 0.1 million.

The item **other current receivables** mainly refers to receivables for advances paid by Pirelli Tyre S.p.A. to PT Evoluzione Tyres for euro 10.9 million for motorcycle product supplies, sales of materials and moulds to Joint Stock Company “Kirov Tyre Plant” for euro 6.1 million and a loan granted by Pirelli International Plc to PT Evoluzione Tyres for euro 6 million.

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

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

Transactions – Income Statement

The item **revenues from sales and services** mainly refers to royalties from PT Evoluzione Tyres for euro 0.9 million and sales of materials and services to Joint Stock Company “Kirov Tyre Plant” for euro 2.4 million.

The item **other costs** mainly refers to costs for the purchase of energy and rental of machinery from Industriekraftwerk Breuberg GmbH for euro 10.8 million and costs for the purchase of products from PT Evoluzione Tyres for euro 9 million.

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

OTHER RELATED PARTY TRANSACTIONS

Transactions below reported mainly refer to Aeolus Tyre Co. and Prometeon Group, both subject to common control.

STATEMENT OF FINANCIAL POSITION		
(in millions of euro)	**06/30/2018**	**12/31/2017**
Trade receivables	59.5	61.0
Other current receivables	31.9	21.7
Current tax receivables	0.0	0.1
Trade payables	125.2	174.0
Other current payables	37.4	16.1
Current tax payables	0.0	9.9

INCOME STATEMENT		
(in millions of euro)	**06/30/2018**	**06/30/2017**
Revenues from sales and services	1.8	10.0
Other income	56.9	118.8
Raw materials and consumables used	11.7	22.3
Other costs	79.6	167.3
Financial income	1.6	2.7
Financial expenses	0.0	1.5
Other income of discontinued operations	2.7	-
Other costs of discontinued operations	26.6	-

With reference to transactions with Prometeon Group, comparative income amounts refer to the first semester 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.).

CASH FLOW		
(in millions di euro)	**06/30/2018**	**06/30/2017**
Change in trade receivables	1.3	0.3
Change in trade payables	(51.6)	33.1
Change in Other receivables/Other payables	(8.7)	26.1
Net cash flows provided by / (used in) financing activities	-	(22.9)
Net cash flows provided by (used in) discontinued operations	12.9	

Transactions – Statement of Financial Position

The item **trade receivables** mainly refers to receivables for royalties from Aeolus Tyre Co. for euro 14.9 million and trade receivables for euro 44.6 million from Prometeon Group companies.

The item **other current receivables** mainly refers to amounts from Prometeon Group companies for euro 29.8 million.

The item **trade payables** refers almost exclusively to payables to Prometeon Group companies for euro 125.2 million.

The item **other current payables** mainly refers to other current payables to Prometeon Group companies for euro 36.9 million.

The item **current tax payables** refers to Prometeon Group companies for tax consolidation interrupted in 2017.

Transactions – Income Statement

The item **revenues from sales and services** mainly refers to sales of goods and services rendered by Pirelli Pneus Ltda to Pirelli de Venezuela C.A. for euro 1.6 million.

The item **other income** at June 30, 2018 includes royalties paid from Aeolus Tyre Co. Ltd, for the license contract stipulated in 2016 for euro 7.5 million. Also included are revenues from Prometeon Group companies mainly related to:

- Sale of raw materials by Pirelli Pneus Ltda for euro 10.2 million for Toll manufacturing activities;
- Royalties registered for the trademark license contract for euro 8.8 million;
- Sale of finished and semi-finished products for a total of euro 7.2 million, of which euro 4.1 million made by Pirelli Tyres (Suisse) SA and sales of other Group companies for euro 3.1 million;
- Long-term service agreement for euro 6.5 million, of which euro 2.8 million of Pirelli Sistemi Informativi S.r.l. and other Group companies for euro 3.7 million;
- Logistics services for a total of euro 5.4 million, of which euro 4.6 million made by the Brazilian company Total Logistic Management Serviços de Logistica Ltda;
- License for know-how charged by Pirelli Tyre S.p.A. for euro 5 million
- Other for euro 6.3 million.

The decrease of other income recorded compared to the same period of the previous year is mainly attributable to the fact that raw materials are no longer supplied to the Prometeon Group by the British subsidiary Pirelli International Plc. (61,480 thousands of euro in the first half 2017).

The item **raw materials and consumables used** mainly refers to costs towards Prometeon Group companies for the purchase of direct materials/consumables/compounds for a total of euro 11.7 million, of which euro 6.6 million made by the Turkish company Pirelli Otomobil Lastikleri A.S. and the Brazilian company Pirelli Pneus Ltda for euro 3.9 million following Toll manufacturing activities.

The item **other costs** includes contributions to the Hangar Bicocca Foundation and the Pirelli Foundation for euro 0.5 million and costs to Prometeon Group companies mainly for:

- Purchase of truck products for a total of euro 24.4 million, of which euro 18 million made by the Brazilian company Comercial e Importadora de Pneus Ltda for the Brazilian commercial network, euro 2.2 million made by the German company Driver Reifen und KFZ-Technik GmbH and purchases from other Group companies for euro 4.2 million;

- Purchase of Car/Motorcycle and semi-finished products for a total of euro 42.7 million, of which euro 40.7 million made by the Turkish company Pirelli Otomobil Lastikleri A.S. for an Off-take contract.
- Costs incurred by Pirelli Pneus Ltda for the transformation of raw materials following the activities of the Toll manufacturing contract for euro 2.1 million.
- Other for euro 8.2 million

The item **other income from discontinued operations** refers to the Industrial product sales of the Chinese subsidiary Pirelli Tyre Co. for euro 2.2 million and reimbursement of the costs of TP Trading Beijing Co. LTD for euro 0.5 million from the Prometeon Group.

The item **other expenses for discontinued operations** refers to costs for Industrial product purchases form the Prometeon Group.

For further information regarding cotracts with related parties see Note 42 “Related party transactions” of Annual Report 2017.

Benefits for key managers

The remuneration payable to key managers totalled euro 17,974 thousand at June 30, 2018 (euro 30,379 thousand in first half of 2017). The portion relating to employee benefits was recognised in the income statement as “Personnel costs” for euro 12,290 thousand (euro 17,059 thousand in first half of 2017) and euro 5,864 thousand (euro 13,320 thousand in first half 2017) in the item of the income statement “Other costs”. The remuneration also includes euro 864 thousand (euro 928 thousand in first half of 2017) for employee leaving indemnities (TFR) and retirement benefits.

39. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE HALF-YEAR

On **July 26, 2018**, Pirelli & C. S.p.A. concluded a “Schuldschein” loan, already approved by the Board of Directors on June 22, 2018, for a total of euro 525 million. The loan, guaranteed by Pirelli Tyre and entered into by leading market operators, consists of a tranche of euro 82 million with maturity in 3 years, a tranche of euro 423 million with maturity in 5 years and a tranche of euro 20 million with maturity in 7 years. The transaction is intended to repay the existing debt, further optimizing the structure and costs.

On **August 1, 2018**, Pirelli announced that it had reached a preliminary agreement with the Hixih Group for the creation of a Joint Venture that will entail a new Consumer tyre manufacturing plant in China. The terms of the agreement provide that Pirelli is responsible for the operational management of the plant and will acquire a 49% investment stake in the Joint Venture for approximately euro 65 million, with the right to increase its stake up to 70% during the period between January 1, 2021 and December 2025. The investment will allow Pirelli to have the necessary productive flexibility in the High Value segment, taking into account, the evolution of the Chinese market, the developments expected in the electric car segment and the increasing share of homologations obtained in the Original Equipment segment in China, Japan and Korea.

On **August 7, 2018** the Pirelli Board of Directors - as regards the "Pirelli & C. S.p.A. euro 600,000,000 1.375 per cent Guaranteed Notes due January 25, 2023" (ISIN: XS1757843146) issued by Pirelli & C. S.p.A., as part of the euro 2 billion EMTN (Euro Medium Term Note) program, listed on the Luxembourg Stock Exchange - resolved to proceed with the purchase of the bonds for a total nominal amount of a maximum of euro 150 million. The transactions for the direct market purchase through counter-parties will be carried out by a leading international intermediary in accordance with the terms and conditions of loan regulations and applicable laws. These transactions, aimed at the subsequent cancellation of purchased securities, will take place as part of the ongoing pro-active management of the Company's financial profile.

On **August 7, 2018**, the Pirelli Board of Directors, upon the proposal of the Executive Vice Chairman and CEO, Marco Tronchetti Provera proceeded with the co-option of Ning Gaoning, and with his appointment as Chairman of the Board of Directors, replacing Ren Jianxin who resigned on **July 30, 2018**. Ning Gaoning - who declared that he did not possess the requisites to qualify as independent pursuant to the Finance Consolidation Act and the self-regulatory Code of Conduct – was qualified by the Board as a non-executive Director and has been assigned the legal representation of the Company pursuant to the the Articles of Association. The Board also appointed the new Director as a member of the Nominations and Successions Committee.

40. OTHER INFORMATION

Research and development expenses

Research expenses for the first half of 2018 amounted to euro 116.8 million and represent 4.4% of sales (euro 111.million in first half of 2017 equal to 4.2% of sales).

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 half-year of 2018 that no exceptional and/or unusual transactions as defined in the aforesaid Notice were carried out by the Company.

Exchange rates

The main exchange rates used for the consolidation are as follows:

(local currency vs euro)	**Period-end exchanges rates**		**Change in %**	**Average exchange rates**		**Change in %**
	06/30/2018	**12/31/2017**		**2018**	**2017**	
Swedish Krona	**10.4530**	9.8438	6.19%	**10.1534**	9.5968	5.80%
Australian Dollar	**1.5787**	1.5346	2.87%	**1.5689**	1.4364	9.22%
Canadian Dollar	**1.5442**	1.5039	2.68%	**1.5458**	1.4453	6.95%
Singaporean Dollar	**1.5896**	1.6024	(0.80%)	**1.6052**	1.5208	5.55%
U.S. Dollar	**1.1658**	1.1993	(2.79%)	**1.2103**	1.0830	11.75%
Taiwan Dollar	**35.5278**	35.6588	(0.37%)	**35.7477**	33.2205	7.61%
Swiss Franc	**1.1569**	1.1702	(1.14%)	**1.1698**	1.0766	8.66%
Egyptian Pound	**20.9064**	21.3245	(1.96%)	**21.5177**	19.5329	10.16%
Turkish Lira (new)	**5.3092**	4.5155	17.58%	**4.9444**	3.9326	25.73%
New Romanian Leu	**4.6611**	4.6597	0.03%	**4.6537**	4.5368	2.58%
Argentinian Peso	**33.6333**	22.3658	50.38%	**26.1797**	17.0193	53.82%
Mexican Peso	**22.9582**	23.6250	(2.82%)	**23.0553**	21.0784	9.38%
South African Rand	**16.0484**	14.8054	8.40%	**14.8908**	14.3063	4.09%
Brazilian Real	**4.5032**	3.9693	13.45%	**4.1443**	3.4493	20.15%
Chinese Renminbi	**7.7136**	7.8365	(1.57%)	**7.7117**	7.4400	3.65%
Russian Ruble	**72.9921**	68.8668	5.99%	**71.8316**	62.7218	14.52%
British Pound	**0.8861**	0.8872	(0.13%)	**0.8798**	0.8606	2.23%
Japanese Yen	**129.0400**	135.0100	(4.42%)	**131.5608**	121.7804	8.03%

NET FINANCIAL POSITION
(alternative performance indicator not provided for by the accounting standards)

(In thousands of euro)	**Note**	**06/30/2018**	**of which related parties**	**12/31/2017**	**of which related parties**
Current borrowings from banks and other financial institutions	**20**	869,123		559,168	
Current derivative financial instruments (liabilities)	**24**	26,373		11,248	
Non-current borrowings from banks and other financial institutions	**20**	3,791,841		3,897,089	
Non current derivative financial instruments (liabilities)	**24**	7,423		54,963	
Total gross debt		**4,694,760**		**4,522,468**	
Cash and cash equivalents	**16**	(580,641)		(1,118,437)	
Securities held for trading		-		(33,027)	
Other financial assets at fair value through income statement	**15**	(9,298)		-	
Current financial receivables and other assets**	**12**	(28,167)	*(6,004)*	(36,511)	*(5,837)*
Current derivative financial instruments (assets)	**24**	(63,634)		(21,413)	
Net financial debt *		**4,013,020**		**3,313,080**	
Non-current derivative financial instruments (assets)	**24**	(9,537)		-	
Non-current financial receivables and other assets**	**12**	(87,024)	*(12,352)*	(94,585)	*(12,007)*
Total net financial (liquidity)/debt position		**3,916,459**		**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".

** The amount is reported net of the relating impairment amounting to euro 3,066 thousand.

41. SCOPE OF CONSOLIDATION

Companies consolidated line-by-line

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Europe						
Austria						
Pirelli GmbH	Tyre	Wien	Euro	726,728	100.00%	Pirelli Tyre (Suisse) SA
Belgium						
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700,000	100.00%	Pirelli Tyre (Suisse) SA
France						
Pneus Pirelli S.A.S.	Tyre	Villepinte	Euro	1,515,858	100.00%	Pirelli Tyre S.p.A.
Germany						
Deutsche Pirelli Reifen Holding GmbH	Tyre	Breuberg / Odenwald	Euro	7,694,943	100.00%	Pirelli Tyre S.p.A.
Driver Handelssysteme GmbH	Tyre	Breuberg / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Deutschland GmbH	Tyre	Breuberg / Odenwald	Euro	23,959,100	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Personal Service GmbH	Tyre	Breuberg / Odenwald	Euro	25,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
PK Grundstuecksverwaltungs GmbH	Tyre	Hoechst / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Driver Reifen und KFZ-Technik GmbH (ex Pneumobil Reifen und KFZ-Technik GmbH)	Tyre	Breuberg / Odenwald	Euro	259,225	100.00%	Deutsche Pirelli Reifen Holding GmbH
Greece						
Elastika Pirelli C.S.A.	Tyre	Elliniko-Argyroupoli	Euro	11,630,000	99.90%	Pirelli Tyre S.p.A.
					0.10%	Pirelli Tyre (Suisse) SA
Pirelli Hellas S.A. (in liquidation)	Tyre	Athens	US $	22,050,000	79.86%	Pirelli Tyre S.p.A.
The Experts in Wheels - Driver Hellas C. S.A.	Tyre	Elliniko-Argyroupoli	Euro	100,000	72.80%	Elastika Pirelli C.S.A.
Italy						
Driver Italia S.p.A.	Tyre	Milan	Euro	350,000	71.48%	Pirelli Tyre S.p.A.
Driver Servizi Retail S.p.A.	Tyre	Milan	Euro	120,000	100.00%	Pirelli Tyre S.p.A.
HB Servizi S.r.l.	Services	Milan	Euro	10,000	100.00%	Pirelli & C. S.p.A.
Maristel s.r.l.	Services	Milan	Euro	50,000	100.00%	Pirelli & C. S.p.A.
Pirelli Industrie Pneumatici S.r.l.	Tyre	Settimo Torinese (To)	Euro	40,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Servizi Amministrazione e Tesoreria S.p.A.	Services	Milan	Euro	2,047,000	100.00%	Pirelli & C. S.p.A.
Pirelli Sistemi Informativi S.r.l.	Information Systems	Milan	Euro	1,010,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre S.p.A.	Tyre	Milan	Euro	558,154,000	100.00%	Pirelli & C. S.p.A.
Poliambulatorio Bicocca S.r.l.	Services	Milan	Euro	10,000	100.00%	Pirelli Tyre S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104,000	91.32%	Pirelli & C. S.p.A.
					2.95%	Pirelli Tyre S.p.A.
					0.95%	Poliambulatorio Bicocca S.r.l.
					0.95%	Driver Italia S.p.A.
					0.98%	Pirelli Industrie Pneumatici S.r.l.
					0.95%	Pirelli Servizi Amministrazione e Tesoreria S.p.A.
					0.95%	Pirelli Sistemi Informativi S.r.l.
					0.95%	HB Servizi S.r.l.

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
The Netherlands						
E-VOLUTION Tyre B.V.	Tyre	Rotterdam	Euro	170,140,000	100.00%	Pirelli Tyre S.p.A.
Pirelli China Tyre N.V.	Tyre	Rotterdam	Euro	38,045,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Rotterdam	Euro	18,152	100.00%	Pirelli Tyre (Suisse) SA
Poland						
Driver Polska Sp. z o.o.	Tyre	Warsaw	Pol. Zloty	100,000	65.50%	Pirelli Polska Sp. z o.o.
Pirelli Polska Sp. z o.o.	Tyre	Warsaw	Pol. Zloty	625,771	100.00%	Pirelli Tyre S.p.A.
United Kingdom						
CTC 2008 Ltd	Tyre	Burton on Trent	British Pound	100,000	100.00%	Pirelli UK Tyres Ltd
Pirelli Cif Trustees Ltd	Financial	Burton on Trent	British Pound	4	25.00%	Pirelli General Executive Pension Trustees LTD
					25.00%	Pirelli General & Overseas Pension Trustees LTD
					25.00%	Pirelli Tyres Executive Pension Trustees LTD
					25.00%	Pirelli Tyres Pension Trustees LTD
Pirelli International plc	Financial	Burton on Trent	Euro	250,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Motorsport Services Ltd	Tyre	Burton on Trent	British Pound	1	100.00%	Pirelli Tyre S.p.A.
Pirelli General Executive Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli UK Ltd
Pirelli General & Overseas Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli UK Ltd
Pirelli Tyres Executive Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli Tyres Ltd
Pirelli Tyres Ltd	Tyre	Burton on Trent	British Pound	16,000,000	100.00%	Pirelli UK Tyres Ltd
Pirelli Tyres Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli Tyres Ltd
Pirelli UK Ltd	Financial	Burton on Trent	British Pound	163,991,278	100.00%	Pirelli & C. S.p.A.
Pirelli UK Tyres Ltd	Tyre	Burton on Trent	British Pound	85,000,000	100.00%	Pirelli Tyre S.p.A.
Slovakia						
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Euro	6,639	100.00%	Pirelli Tyre S.p.A.
Romania						
Pirelli & C. Eco Technology RO S.r.l.	Sustainable mobility	Slatina	Rom. Leu	40,002,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Romania S.r.l.	Tyre	Slatina	Rom. Leu	853,912,300	100.00%	Pirelli Tyre S.p.A.
Russia						
Closed Joint Stock Company "Voronezh Tyre Plant"	Tyre	Voronezh	Russian Rouble	1,520,000,000	100.00%	Limited Liability Company Pirelli Tyre Russia
Joint Stock Company "Scientific institute of medical polymers"	Tyre	Moscow	Russian Rouble	7,392,000	100.00%	Limited Liability Company Pirelli Tyre Russia
Joint Stock Company "R&D Training Center of New Technologies & Materials "ATOM"	Tyre	Moscow	Russian Rouble	312,411,000	100.00%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company Pirelli Tyre Services	Tyre	Moscow	Russian Rouble	54,685,259	95.00%	Pirelli Tyre (Suisse) SA
					5.00%	Pirelli Tyre S.p.A.
Limited Liability Company "AMTEL-Russian Tyres"	Tyre	Moscow	Russian Rouble	10,000	100.00%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company "Industrial Complex "Kirov Tyre"	Tyre	Kirov	Russian Rouble	348,423,221	100.00%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company Pirelli Tyre Russia	Tyre	Moscow	Russian Rouble	6,153,846	65.00%	E-VOLUTION Tyre B.V.

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Spain						
Euro Driver Car S.L.	Tyre	Valencia	Euro	960,000	58.44%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
					0.31%	Omnia Motor S.A. - Sociedad Unipersonal
Omnia Motor S.A. - Sociedad Unipersonal	Tyre	Valencia	Euro	1,502,530	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Pirelli Neumaticos S.A. - Sociedad Unipersonal	Tyre	Valencia	Euro	25,075,907	100.00%	Pirelli Tyre S.p.A.
Tyre & Fleet S.L. - Sociedad Unipersonal	Tyre	Valencia	Euro	20,000	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Sweden						
Dackia Aktiebolag	Tyre	Taby	Swed. Krona	31,000,000	100.00%	Pirelli Tyre S.p.A.
Inter Wheel Sweden Aktiebolag	Tyre	Karlstad	Swed. Krona	1,000,000	100.00%	Dackia Aktiebolag
Pirelli Tyre Nordic Aktiebolag	Tyre	Bromma	Swed. Krona	950,000	100.00%	Pirelli Tyre S.p.A.
Switzerland						
Pirelli Group Reinsurance Company SA	Reinsurance	Basel	Swiss Franc	8,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre (Suisse) SA	Tyre	Basel	Swiss Franc	1,000,000	100.00%	Pirelli Tyre S.p.A.
Turkey						
Pirelli Otomobil Lastikleri A.S.	Tyre	Istanbul	Turkey Lira	85,000,000	100.00%	Pirelli Tyre S.p.A.
Hungary						
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint	3,000,000	100.00%	Pirelli Tyre S.p.A.
North America						
Canada						
Pirelli Tire Inc.	Tyre	St-Laurent (Quebec)	Can. $	6,000,000	100.00%	Pirelli Tyre (Suisse) SA
U.S.A.						
Pirelli North America Inc.	Tyre	New York (New York)	US $	10	100.00%	Pirelli Tyre S.p.A.
Pirelli Tire LLC	Tyre	Rome (Georgia)	US $	1	100.00%	Pirelli North America Inc.
Prestige Stores LLC	Tyre	Wilmington (Delaware)	US $	10	100.00%	Pirelli Tire LLC
Central/South America						
Argentina						
Pirelli Neumaticos S.A.I.C.	Tyre	Buenos Aires	Arg. Peso	101,325,176	95.00%	Pirelli Tyre S.p.A.
					5.00%	Pirelli Pneus Ltda
TP Industrial Tyres S.A. (in liquidation)	Tyre	Buenos Aires	Arg. Peso	100,000	95.00%	Pirelli Tyre S.p.A.
					5.00%	Pirelli Pneus Ltda

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Brazil						
Comercial e Importadora de Pneus Ltda	Tyre	Sao Paulo	Bra. Real	101,427,384	100.00%	Pirelli Comercial de Pneus Brasil Ltda
CPA - Comercial e Importadora de Pneus Ltda	Tyre	Sao Paulo	Bra. Real	200,000	100.00%	Comercial e Importadora de Pneus Ltda
Ecosil - Industria Quimica do Brasil Ltda	Tyre	Meleiro	Bra. Real	9,699,055	97.88%	Pirelli Pneus Ltda
Pirelli Comercial de Pneus Brasil Ltda	Tyre	Sao Paulo	Bra. Real	509,328,303	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda
Pirelli Latam Participaçoes Ltda	Tyre	Sao Paulo	Bra. Real	247,519,052	100.00%	Pirelli Tyre S.p.A.
Pirelli Ltda	Financial	Santo Andrè	Bra. Real	14,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Pneus Ltda	Tyre	Santo Andrè	Bra. Real	1,132,178,494	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda
Comércio e Importação Multimarcas de Pneus Ltda (ex-Pirelli Properties Ltda)	Tyre	Sao Paulo	Bra. Real	3,691,500	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda
RF Centro de Testes de Produtos Automotivos Ltda	Tyre	Elias Fausto (Sao Paulo)	Bra. Real	6,812,000	100.00%	Pirelli Pneus Ltda
TLM - Total Logistic Management Serviços de Logistica Ltda	Tyre	Santo Andrè	Bra. Real	3,074,417	99.99%	Pirelli Pneus Ltda
					0.01%	Pirelli Ltda
Chile						
Pirelli Neumaticos Chile Ltda	Tyre	Santiago	Chile Peso/000	1,918,450,809	84.98%	Pirelli Comercial de Pneus Brasil Ltda
					15.00%	Pirelli Latam Participaçoes Ltda
					0.02%	Pirelli Ltda
Colombia						
Pirelli Tyre Colombia S.A.S.	Tyre	Santa Fe De Bogota	Col. Peso/000	222,522	85.00%	Pirelli Comercial de Pneus Brasil Ltda
					15.00%	Pirelli Latam Participaçoes Ltda
Mexico						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Silao	Mex. Peso	35,098,400	99.98%	Pirelli Tyre S.p.A.
					0.02%	Pirelli Ltda
Pirelli Neumaticos S.A. de C.V.	Tyre	Silao	Mex. Peso	3,249,016,500	99.40%	Pirelli Tyre S.p.A.
					0.60%	Pirelli Latam Participaçoes Ltda
Pirelli Servicios S.A. de C.V.	Tyre	Silao	Mex. Peso	50,000	99.00%	Pirelli Tyre S.p.A.
					1.00%	Pirelli North America Inc.
Africa						
Egypt						
Pirelli Egypt Tyre Trading S.A.E.	Tyre	Giza	Egy. Pound	84,250,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Egypt Consumer Tyre Distribution S.A.E.	Tyre	Giza	Egy. Pound	89,000,000	99.89%	Pirelli Egypt Tyre Trading S.A.E.
					0.06%	Pirelli Tyre S.p.A.
					0.06%	Pirelli Tyre (Suisse) SA
South Africa						
Pirelli Tyre (Pty) Ltd	Tyre	Centurion	S.A. Rand	1	100.00%	Pirelli Tyre (Suisse) SA

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Oceania						
Australia						
Pirelli Tyres Australia Pty Ltd	Tyre	Sydney	Aus. $	150,000	100.00%	Pirelli Tyre (Suisse) SA
New Zealand						
Pirelli Tyres (NZ) Ltd	Tyre	Auckland	N.Z. $	100	100.00%	Pirelli Tyres Australia Pty Ltd
Asia						
China						
Pirelli Tyre (Jiaozuo) Co., Ltd. (ex-Jiaozuo Aeolus Tyre Co., Ltd)	Tyre	Jiaozuo	Ch. Renminbi	350,000,000	80.00%	Pirelli Tyre S.p.A.
Pirelli Tyre Co., Ltd	Tyre	Yanzhou	Ch. Renminbi	1,721,150,000	90.00%	Pirelli China Tyre N.V.
Pirelli Tyre Trading (Shanghai) Co., Ltd	Tyre	Shangai	US $	700,000	100.00%	Pirelli China Tyre N.V.
Yanzhou HIXIH Ecotech Environment Co., Ltd	Sustainable mobility	Yanzhou	Ch. Renminbi	130,000,000	100.00%	Pirelli Tyre Co. Ltd
Korea						
Pirelli Korea Ltd	Tyre	Seoul	Korean Won	100,000,000	100.00%	Pirelli Asia Pte Ltd
Japan						
Pirelli Japan Kabushiki Kaisha	Tyre	Tokyo	Jap. Yen	2,200,000,000	100.00%	Pirelli Tyre S.p.A.
Singapore						
Pirelli Asia Pte Ltd	Tyre	Singapore	Sing. $	2	100.00%	Pirelli Tyre (Suisse) SA
Taiwan						
Pirelli Taiwan Co. Ltd	Tyre	New Taipei City	N.T. $	10,000,000	100.00%	Pirelli Tyre (Suisse) SA

Investments accounted for by the equity method

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Europe						
Germany						
Industriekraftwerk Breuberg GmbH	Cogeneration	Hoechst / Odenwald	Euro	1,533,876	26.00%	Pirelli Deutschland GmbH
Greece						
Eco Elastika S.A.	Tyre	Athens	Euro	60,000	20.00%	Elastika Pirelli C.S.A.
Italy						
Consorzio per la Ricerca di Materiali Avanzati (CORIMAV)	Research	Milan	Euro	103,500	100.00%	Pirelli & C. S.p.A.
Eurostazioni S.p.A.	Financial	Rome	Euro	160,000,000	32.71%	Pirelli & C. S.p.A.
Fenice S.r.l.	Financial	Milan	Euro	19,116,893	69.88%	Pirelli & C. S.p.A.
Focus Investments S.p.A.	Financial	Milan	Euro	183,333	25.00%	Pirelli & C. S.p.A.
Slovakia						
ELT Management Company Slovakia S.R.O.	Tyre	Bratislava	Euro	132,000.00	20.00%	Pirelli Slovakia S.R.O.
Romania						
S.C. Eco Anvelope S.A.	Tyre	Bucarest	Rom. Leu	160,000	20.00%	S.C. Pirelli Tyres Romania S.r.l.
Russia						
Joint Stock Company "Kirov Tyre Plant"	Tyre	Kirov	Russian Rouble	5,665,418.00	20.00%	Limited Liability Company Pirelli Tyre Russia
Spain						
Signus Ecovalor S.L.	Tyre	Madrid	Euro	200,000	20.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Asia						
Indonesia						
PT Evoluzione Tyres	Tyre	Subang	$ USA	68,000,000	60.00%	Pirelli Tyre S.p.A.

Other investments considered

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Belgium						
Euroqube S.A. (in liquidation)	Services	Brussels	Euro	84,861,116	17.79%	Pirelli & C. S.p.A.
France						
Aliapur S.A.	Tyre	Lion	Euro	262,500	14.17%	Pneus Pirelli S.A.S.
					0.11%	Pirelli Tyre S.p.A.
Italy						
Fin. Priv. S.r.l.	Financial	Milan	Euro	20,000	14.29%	Pirelli & C. S.p.A.
Poland						
Centrum Utylizacji Opon Organizacja Odzysku S.A.	Tyre	Warsaw	Pol. Zloty	1,008,000	14.29%	Pirelli Polska Sp. ZO.O.
United Kingdom						
Tlcom I Ltd Partnership	Financial	London	Euro	1,154	9.39%	Pirelli UK Ltd
Czech Republic						
ELT Management Company Czech Republic S.R.O.	Tyre	Brno	Czech crown	5,940,000.00	16.67%	Pirelli Tyre (Suisse) SA
Venezuela						
Pirelli de Venezuela C.A.	Tyre	Valencia	Ven. Bolivar/000	20,062,679	96.22%	Pirelli Tyre S.p.A.

(*) Subsidiary deconsolidated at 31.12.2015 with 96.22% of share capital in possession

CERTIFICATIONS

CERTIFICATION OF THE CONDENSED INTERIM FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-BIS OF LEGISLATIVE DECREE 58 OF FEBRUARY 24, 1998, AND PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF MAY 14, 1999, AS AMENDED

1. The undersigned Marco Tronchetti Provera, in his capacity as Executive Vice Chairman and Chief Executive Officer, and Francesco Tanzi, in his capacity as Corporate Financial Reporting Manager of Pirelli & C. S.p.A. hereby certify pursuant to, inter alia, Article 154-*bis*, clauses 3 and 4, of Legislative Decree 58 of February 24, 1998:

   - the adequacy in relation to the characteristics of the company and
   - the effective application

   of the administrative and accounting procedures for preparation of the condensed interim financial statements, during the period January 1, 2018 – June 30, 2018.

2. In this regard it should be noted that the adequacy of the administrative and accounting procedures for preparation of the condensed interim financial statements referred to the period January 1, 2018 – June 30, 2018, was determined on the basis of an assessment of the internal control system. This assessment was based on a specific process defined in accordance with the criteria laid down in the “Internal Control – Integrated Framework” guidelines issued by the “Committee of Sponsoring Organizations of the Treadway Commission” (COSO), which is a reference framework generally accepted at the international level.

3. We also certify that:

3.1 the condensed interim financial statements:

   a. were prepared in accordance with the applicable international accounting standards recognised in the European Union under the terms of Regulation (EC) 1606/2002 of the European Parliament and Council, of July 19, 2002;

   b. correspond to the information in the account ledgers and books;

   c. give a true and fair view of the assets, liabilities, income, expenses and financial position of the reporting entity and of the Group of companies included in the scope of consolidation.

3.2 The interim report on operations includes a reliable analysis of the significant events mentioned in the report that occurred during the first six months of the year and their impact on the condensed interim financial statements, together with a description of the principal risks and uncertainties faced in the remaining six months of the year.

The interim report on operations also contains a reliable analysis of the information provided on material transactions with related parties.

August 7, 2018

The Executive Vice Chairman and Chief Executive Officer	The Corporate Financial Reporting Manager
(Marco Tronchetti Provera)	(Francesco Tanzi)

PIRELLI & C. SPA

REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

REVIEW REPORT ON CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

To the shareholders of
Pirelli & C. SpA

Foreword

We have reviewed the accompanying condensed consolidated interim financial statements of Pirelli & C. SpA and its subsidiaries (Pirelli Group) as of and for the six-month period ended 30 June 2018 comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows and related notes. Pirelli & C. SpA directors are responsible for the preparation of the condensed consolidated interim financial statements in accordance with international accounting standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution 10867 of 31 July 1997. A review of condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed consolidated interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements of Pirelli Group as of and for the six-month period ended 30 June 2018 have not been prepared, in all material respects, in accordance with the international accounting standard applicable to interim financial reporting (IAS 34), as adopted by the European Union.

Milan, 7 August 2018

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

This report is an English translation of the original report, which was issued in Italian. This report has been prepared solely for the convenience of international readers.

PricewaterhouseCoopers SpA

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