INTERIM FINANCIAL REPORT
AT SEPTEMBER 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

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[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 was co-opted by the Board of Directors on August 7, 2018, replacing Ren Jianxin, who resigned on July 30, 2018. Chairman Ning Gaoning shall remain in office until the next 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, 2025.

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

MACROECONOMIC AND MARKET SCENARIO

Economic Trends

The global economy recorded solid growth during the third quarter of 2018, but had slowed compared to the previous quarter with an uncertain scenario, mainly due to the tensions on the trade front between the USA and China.

For the third quarter, European Union GDP grew by +0.3%, but slowed compared to the second quarter (+0.4%), with an inflation rate for the Eurozone which stood at 2.1% for September (0.9% excluding energy/food prices). The European Central Bank confirmed its intention to leave its benchmark interest rate unchanged until the summer of 2019, but reiterated its intention to end its Quantitative Easing program at the end of 2018.

Growth in the US continued (with third quarter GDP at +3.5%), supported by positive employment figures and by fiscal policies which had encouraged an increase in private consumption. This scenario was reflected in the rise in inflation (+2.3% for September) and in the confirmation by the Federal Reserve of the gradual tightening of its monetary policy, with its benchmark interest rate for the end of September at 2.25% compared to 1.5% at the beginning of the year.

Data for the third quarter, indicate that the Chinese economy grew by +6.5%, a lower rate than that of the second quarter (+6.7%), sustained by measures introduced by the Chinese government to counter the effects of US trade tariffs which now affect approximately USD 250 billion in Chinese exports to the US.

There was a weak performance by the Brazilian economy during the third quarter, as demonstrated by the current available economic indicators, following growth of +1.2% for the first quarter, and of +1.0% for the second quarter, as a result of the negative impact of the transport workers' strike in May, as well as the depreciation of its currency against the US Dollar.

For Russia, the GDP was expected to grow by +1.8% year-on-year during the third quarter based on available indicators, consistent with the performance during the second quarter of 2018, supported by the recovery in oil prices which more than offset the tightening of sanctions by the US.

Trend in Exchange Rates

For the third quarter, the Euro - US Dollar exchange rate stood at 1.16, down by -2.5% from the 1.19 average for the second quarter. For the first nine months of this year, the average quote for the Euro versus the US Dollar equalled 1.19, an appreciation of +7.2% compared to the corresponding period of 2017 (an average price of USD 1.11 for the first nine months of 2017).

The British Pound Sterling recorded an average price of Euro 0.892 for the third quarter, a slight depreciation of -2% compared to the previous quarter, and of -1% on an annual basis.

The Chinese Renminbi weakened against the US Dollar as of the start of the second quarter of 2018, due to the tightening of tariffs imposed by the US on Chinese imports. For the third quarter, the average price for the Renminbi equalled USD 6.80, a depreciation of -6% compared to the average of 6.38 for the second quarter, and of -2% on an annual basis.

There was high volatility for the main currencies of emerging countries which weakened during the third quarter against the US Dollar due, above all, to the increase in interest rates by the Federal Reserve.

The Russian Rouble recorded a depreciation of -5.5% compared to the previous quarter and of -10% 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 3.96 against the US Dollar for the third quarter of 2018, with a depreciation of -9% compared to the previous quarter, and of -20% compared to the third quarter of 2017.

The currency crises that hit Argentina and Turkey this year intensified during the third quarter. The Argentinian Peso depreciated by -29% compared to the second quarter and by -48% on an annual basis against the US Dollar, while the Turkish Lira depreciated by -22% against the US Dollar for the quarter and by -37% on an annual basis.

Trend in Raw Materials

There were increases in the price of energy resources and butadiene during the third quarter of 2018, while the price of natural rubber fell.

For the third quarter of 2018 the average price of Brent stood at USD 76 per barrel, which was stable compared to the previous quarter, but had increased by +46% on an annual basis. For the first nine months of this year, the average price of oil equalled USD 73 per barrel, an increase of +38% on an annual basis. This trend was influenced by an agreement between the main oil producing countries which limited the production of oil during the first half of 2018 (an agreement which ended at the end of June), and also by fears over US sanctions against Iran.

The average price of butadiene for the third quarter of 2018 stood at euro 1,142 per tonne, up by +10% compared to the previous quarter (euro 1,037 per tonne) and by +46.0% on an annual basis, supported also by the increase in oil prices. The average price for the first nine months of 2018 equalled USD 996 per tonne, a contraction of -18% compared to the corresponding period of 2017 (during which an imbalance between supply and demand had pushed up prices for the first part of 2017).

For the third quarter of 2018 the price of natural rubber averaged USD 1,328 per tonne, down by -5.0% from the previous quarter, being negatively affected by import-export tensions between the US and China, and by the slowdown of the Chinese economy. The average price for the first nine months of 2018 was USD 1,398 per tonne, down by -19% compared to the corresponding period of 2017 (of USD 1,722 per tonne, a price that was driven by a sharp increase in demand in Asia during the first months of 2017 sustained by incentives for car purchases).

Trend in Car Tyre Markets

The performance in tyre sales for the first nine months of 2018 indicated a +1.2% growth for the Car market, with opposing trends between the New Premium segment (tyres with ≥18" rim diameter) and the Standard segment (tyres with ≤17" rim diameter).

New Premium was the segment with the highest growth: up by +10.5% during the first nine months and by +11% for the third quarter of the year, driven by the good performances of APAC, Europe and North America which accounted for 94% of sales for this segment.

A contraction however was recorded for the Standard segment: down by -0.3% during the first nine months and by -0.8% for the third quarter of this year, mainly caused by the weakness of the market in South America (-3.4% for the first nine months; -7.7% for the third quarter).

In more detail:

- in Europe the Car tyre market recorded a growth of +1.2% during the first nine months, with the Replacement channel up by +1.5%, while Original Equipment's performance (+0.1% during the first nine months, -3.9% for the third quarter) was impacted by the introduction of the new CO2 emissions tests (WLTP - Worldwide Harmonised Light Vehicle Test Procedure). Performances in the Car market were different for the New Premium and Standard segments: high-end range tyre sales grew by +9.3% during the first nine months (+8.4% for the third quarter, +9.7% for the first half-year) compared to the Standard segment which was still at 2017 levels (0% during the first nine months, +1.7% for the third quarter, -0.9% for the first 6 months);

- NAFTA recorded a growth of +1.9% during the first nine months of 2018 (+4.9% for the third quarter, +0.3% for the first 6 months) with opposing dynamics on the two channels (the Original Equipment channel at -1.0% and Replacement at +2.7% for the first nine months of 2018). New Premium sales recorded a growth of +10.6% (+14.1% for the third quarter), while Standard sales fell by -1.4% during the first nine months, with an overall recovery for the third quarter (+1.6% vs. -2.9% for the first 6 months);

- The APAC market grew: up by +0.5% during the first nine months of 2018 despite the decline during the third quarter (-1.7% vs. +1.7% for the first 6 months) driven by the Standard segment (-3.0% vs. +0.3% for the first six months). There was sustained growth of the New Premium segment: up by +12.2% during the first nine months of 2018 (+9.5% for the third quarter) with sustained growth both on the Original Equipment channel (+12.8% during the first nine months, +8.5% for the third quarter) and on the Replacement channel (+10.9% during the first nine months, +11.4% for the third quarter);

- The LatAm market reflected the difficult macroeconomic scenario: an overall contraction of -3.0% for the Car market during the first nine months of 2018, -7.4% for the third quarter;

- Russia recorded a growth of +11.4% during the first nine months of 2018, sustained both by the Original Equipment channel (+16.3% for the first nine months) and by the Replacement channel (+10.6%).

SIGNIFICANT EVENTS OF THE FIRST NINE MONTHS OF 2018

On **January 11, 2018** Pirelli sold, through an operation reserved for qualified investors in Italy and institutional investors abroad, 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 effective yield at maturity equals 1.479%. The securities were listed on the Luxembourg Stock Exchange. Furthermore, during the first weeks of January, Pirelli initiated an operation to modify 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 the 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 vehicle.

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 – has allowed 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 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 to the 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 organisational model provides that all staff functions, and as well as the Regions, continue to report to the Executive Vice Chairman and CEO as regards institutional issues and overall coordination. In addition, the Operations department entrusted to General Manager, Andrea Casaluci, will also report to the Executive Vice Chairman and CEO. The Operations department assembles staff functions which previously already reported to Marco Tronchetti Provera, or which reported directly to Operations, such as the Technology area entrusted to the Executive Vice President of Technology, Maurizio Boiocchi, and the Digital function entrusted to Pier Paolo Tamma.

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 TUF (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 the new Board of Statutory Auditors for the 2018-2020 financial years by list vote, which is now composed of Francesco Fallacara (as Chairman), Antonella Carù, Fabio Artoni, Luca Nicodemi and Alberto Villani (as Statutory Auditors), Franca Brusco, Elenio Bidoggia and Giovanna Oddo (as Alternate Auditors). Their fees were set at euro 50,000 for 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), did express 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 Plan (*"LTI Plan"*), the latter intended for the entire management based on 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 amount 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.

On **July 26 2018**, Pirelli & C. S.p.A. finalised a *"Schuldschein"* loan for a total of euro 525 million. The loan, guaranteed by Pirelli Tyre S.p.A. and underwritten by leading market operators, consists of a euro 82.0 million tranche with a three-year maturity, a euro 423 million tranche with a five-year maturity and a euro 20 million tranche with a seven-year maturity. The operation has allowed for the repayment of the existing debt, thus further optimising the debt structure and debt cost.

On **August 7, 2018**, the Pirelli Board of Directors – with regard to the bond, the *"Pirelli & C. S.p.A. euro 600,000,000 1.375 per cent Guaranteed Notes due 25 January 2023"* (ISIN: XS1757843146) issued by Pirelli & C. S.p.A. as part of the euro 2.0 billion EMTN (Euro Medium Term Note) program listed on the Luxembourg Stock Exchange - resolved to proceed with the purchase of these bonds for a maximum total nominal amount of euro 150 million. As part of this resolution, on **October 30, 2018**, Pirelli conferred a mandate to Goldman Sachs International to proceed with the partial repurchase of the bond for a maximum nominal amount of euro 50 million. The repurchase - which ends on December 14, 2018, without prejudice to any early closure in the event that the maximum amount, as provided for, is reached - is part of the usual pro-active management of the Company's financial profile, and is aimed at the annulment of the securities purchased.

On **August 7, 2018**, the Pirelli Board of Directors, upon the proposal of the Executive Vice Chairman and CEO Marco Tronchetti Provera, proceeded to co-opt Ning Gaoning and to appointment him 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 TUF (Finance Consolidation Act) and the self-regulatory Code of Conduct - was recognised by the Board as 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.

On **August 13, 2018** Pirelli announced that it had signed an agreement with the Luna Rossa Challenge to create a partnership aimed at developing a multi-year project that will bring about Luna Rossa's participation in the next edition of the America's Cup, scheduled for New Zealand during the course of 2021, Pirelli and Prada will be the co-title sponsors for the vessel.

On **August 28, 2018** Pirelli joined the United Nations *"Road Safety Trust Fund"* and - with the aim of supporting the Fund by having a significant impact on global road safety - provided an initial contribution of USD 600,000.00 (2018-2019).

On **September 7, 2018** Pirelli announced that it had sold its Car tyre factory in Guacara, Venezuela, together with all the assets held in that country. The operation, which follows the de-consolidation of accounting on December 31, 2015, had no financial impact on the Group. The agreement, which provides for the continuity of employment, was reached with a consortium of South American entrepreneurs and the company Sommers International, as buyer.

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, 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, while for China completion is expected during the course of the current financial year.

* * *

The Interim Financial Report at September 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 - Revenues from Contracts with Customers: as a result of the application of this accounting standard, some amounts previously accounted for under costs and mainly related to variable considerations, payable to indirect customers and mainly linked to the achievement of sales targets, have been recorded as a reduction to 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 nine months of 2017 has not been subjected to restatement.

During the course of the third quarter of 2018, the inflation rate accumulated over the past three years in Argentina has exceeded 100%. This, together with other characteristics of the country's economy led the Group to adopt, the accounting standard IAS 29 - Financial Reporting in Hyperinflationary Economies - for the Argentine subsidiary Pirelli Neumaticos SAIC, as of July 1, 2018. As a result, the data for non-monetary assets and liabilities present in the financial statements has been re-evaluated to eliminate the distortionary effects due to the loss of purchasing power of the local currency. The inflation rate used for the purposes of implementing hyperinflation accounting corresponds to the consumer price index. The financial statements have been translated into Euro by applying the period-end exchange rates to the items of both the Statement of Financial Position and the Income Statement.

* * *

The results for the first nine months of 2018 were characterised by:

- Net sales which amounted to euro 3,925.2 million, with an organic growth of +4.4% characterised by the strengthening of the leadership position in the high-end products range in all regions (an organic growth of +11.5% for the High Value segment), and by the continuing reduction on the Standard segment (a -5.5% performance in revenues for this segment);

- EBIT adjusted which equalled euro 700.1 million, (+9.0% compared to the corresponding period of 2017) with a margin of 17.8% (+1.9% on an anual basis). This improvement was supported by internal levers (price/mix, efficiencies, costs rationalisation) which countered the volatility of the market (the fall in demand on the Standard segment, exchange rate volatility and the rise in the cost of raw materials);

- Net Income related to continuing operations (Consumer) which grew to euro 378.1 million, +90.1% compared to euro 198.9 million for the first nine months of 2017;

- a Net Financial Position which was negative to the amount of euro 4,038.3 million compared to euro 4,287.7 million at September 30, 2017 (an increase compared to euro 3,218.5 million at December 31, 2017 due to the seasonality of working capital).

The main actions underlying these results, as envisaged by the 2017-2020 Industrial Plan, can be summarised as follows:

- **strengthening of the High Value segment** which accounted for 64.5% of revenues (up by +6.4% compared to 58.1% for the first nine months of 2017). High Value volumes recorded a growth of +12.1%, with an improvement in the market share for the Car New Premium segment (Pirelli sales volumes were up by +16.5% for Car ≥18” compared to the +10.5% growth of the market). Of particular note was the growing demand for Specialties tyres with ≥18” 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 nine months approximately 45% of the 260 new High Value homologations were represented by Specialties);

- **reduction of exposure on the Standard segment** with a -11.2% contraction in volumes driven by the progressive exit from products with a lower rim diameter and lower profitability, in context of the general slowdown of the Standard market (-0.3%). The contraction was particularly pronounced for the Standard market in LatAm (-3.4%) given the difficult scenario in Brazil and Argentina. The combination of High Value and Standard segment performances resulted in an overall change in volumes of -1.8%;

- **improvement in the price/mix component**: +6.2% during the first nine months of 2018 due to effect of the progressive improvement of the mix, and the price increases put in place in emerging countries to offset the volatility of exchange rates;

- **acceleration of the efficiencies program during the third quarter** (euro 43 million for the first nine months, of which euro 24 million was for the third quarter), which more than offset costs inflation (euro -37 million for the first nine months of which euro -14 million was for the third quarter). These programs involved industrial and product activities: from the optimisation of the costs of raw materials, and product simplification, to productivity improvement, thanks to the increasing digitalisation of processes.

- **rapid implementation of costs recovery actions** (approximately euro 21 million mainly related to marketing budget costs, advertising costs, consultancy fees, and general and administrative expenses) in response to the worsening of market trends for the Standard segment in emerging countries, particularly in South America.

As regards the more specific programs, of note were:

- **the strengthening of the partnership** with Prestige and Premium car manufacturers, with more than 260 new High Value homologations during the first nine months of 2018, with a portfolio which now reached more than 2,350 high-end homologations increasingly oriented towards new technologies. During 2018, 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. These partnerships strengthen Pirelli’s positioning on the Replacement channel, and generate a loyalty rate of over 80%;

- **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. During the first nine months of 2018, High Value capacity reached a 59.0% share of production, with an increase in the High Value capacity of 2.6 million units, of which 42.0% was due to 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 volume share of these channels rose from 51.0% of volumes for 2017 to ~55.0% for the first nine months 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 channels. There was the continuation of 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 in the sustainment of start-up costs of approximately euro 32 million for the first nine months of 2018 (euro 39 million for the corresponding period of 2017);

- the aforementioned acceleration of the **efficiencies program** (1.1% of revenues for the first nine months of 2018).

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

(In millions of euro)	**09/30/2018**	**09/30/2017**	**12/31/2017**
Net sales	**3,925.2**	**4,038.5**	**5,352.3**
EBITDA adjusted without start-up costs	936.3	865.7	1,175.1
% of net sales	23.9%	21.4%	22.0%
EBITDA adjusted	**907.7**	**836.3**	**1,137.7**
% of net sales	23.1%	20.7%	21.3%
EBIT adjusted without start-up costs	732.1	681.2	926.6
% of net sales	18.7%	16.9%	17.3%
EBIT adjusted (°)	**700.1**	**642.2**	**876.4**
% of net sales	17.8%	15.9%	16.4%
EBIT	**591.4**	**541.1**	**673.6**
% of net sales	15.1%	13.4%	12.6%
Net income (loss) from equity investments	(7.8)	(18.6)	(6.9)
Financial income/(expenses)	(138.8)	(289.9)	(362.6)
Net income (loss) before tax	**444.8**	**232.6**	**304.1**
Tax expenses	(66.7)	(33.7)	(40.8)
Tax rate %	(15.0%)	(14.5%)	(13.4%)
Net income (loss) related to continuing operations (Consumer)	**378.1**	**198.9**	**263.3**
Eanings/(loss) per share related to continuing operations (in euro per share)	0.37	0.23	0.31
Net income (loss) related to continuing operations (Consumer) adjusted	403.5	257.5	386.8
Net income (loss) related to discontinued operations (Industrial)	(6.7)	(75.0)	(87.6)
Total net income (loss)	**371.4**	**123.9**	**175.7**
Net income attributable to the Parent Company	362.5	123.6	176.4
Fixed assets related to continuing operations	**8,880.6**	**9,147.4**	**9,121.0**
Inventories	1,048.9	969.3	940.7
Trade receivables	967.7	1,037.4	652.5
Trade payables	(1,005.0)	(1,066.9)	(1,673.6)
Operating working capital related to continuing operations	**1,011.6**	**939.8**	**(80.4)**
% of net sales (°°)	19.3%	17.5%	(1.5%)
Other receivables/other payables	98.7	147.0	(42.2)
Net working capital related to continuing operations	**1,110.3**	**1,086.8**	**(122.6)**
% of net sales (°°)	21.2%	20.2%	(2.3%)
Net invested capital held for sale	**11.4**	**(1.4)**	**60.7**
Net invested capital	**10,002.3**	**10,232.8**	**9,059.1**
Equity	**4,464.8**	**4,159.6**	**4,177.0**
Provisions	1,499.2	1,785.5	1,663.6
Net financial (liquidity)/debt position	**4,038.3**	**4,287.7**	**3,218.5**
Equity attributable to the Parent Company	4,383.6	4,104.0	4,116.7
Investments in property, plant and equipment and intangible assets	296.7	327.6	489.4
Research and development expenses	166.6	164.7	221.5
% of net sales	4.2%	4.1%	4.1%
Research and development expenses - High Value	152.4	147.0	199.9
% on sales High Value	6.0%	6.3%	6.5%
Employees (headcount at end of period)	31,902	31,106	30,189
Industrial sites (number)	19	19	19

(°) Adjustments refer to amortization of intangible assets identified during PPA amounting to 86.0 millions of euro (euro 80.9 millions in the first nine months of 2017 and euro 109.6 millions in 2017), non recurring and restructuring expenses amounting to euro 11.7 millions (euro 20.2 millions in the first nine months 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 11 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		3 Q		Cumulative at 09/30	
	2018	2017	2018	2017	2018	2017	2018	2017
Net sales	**1,310.3**	1,339.3	**1,320.0**	1,346.0	**1,294.9**	1,353.2	**3,925.2**	4,038.5
yoy	-2.2%		-1.9%		-4.3%		-2.8%	
*organic yoy **	5.7%		5.3%		2.5%		4.4%	
EBITDA adjusted without start-up costs	**298.0**	281.7	**310.3**	285.1	**328.0**	298.9	**936.3**	865.7
% of net sales	22.7%	21.0%	23.5%	21.2%	25.3%	22.1%	23.9%	21.4%
EBITDA adjusted	**288.1**	270.4	**299.8**	276.0	**319.8**	289.9	**907.7**	836.3
% of net sales	22.0%	20.2%	22.7%	20.5%	24.7%	21.4%	23.1%	20.7%
EBIT adjusted and without start-up costs	**229.4**	219.5	**243.9**	223.5	**258.8**	238.2	**732.1**	681.2
% of net sales	17.5%	16.4%	18.5%	16.6%	20.0%	17.6%	18.7%	16.9%
EBIT adjusted (°)	**218.4**	205.0	**231.7**	211.2	**250.0**	226.0	**700.1**	642.2
% of net sales	16.7%	15.3%	17.6%	15.7%	19.3%	16.7%	17.8%	15.9%
EBIT	**184.0**	168.7	**193.7**	149.5	**213.7**	222.9	**591.4**	541.1
% of net sales	14.0%	12.6%	14.7%	11.1%	16.5%	16.5%	15.1%	13.4%

* before exchange rate effect, high inflation accounting in Argentina and adoption effect of new accounting standard IFRS 15

Net sales amounted to euro 3,925.2 million and recorded an organic growth of +4.4% compared to the previous financial year. The change in revenues equalled -2.8% including both the combined effect of exchange rates and the application of hyperinflation accounting in Argentina (-6.6%), as well as the impact deriving from the application of the new accounting standard IFRS 15 (-0.6%).

High Value revenues for the first nine months of 2018 which amounted to euro 2,529.8 million, represented an organic growth of +11.5% (+7.9% including the negative exchange rate effect of -3.6%), and accounted for a 64.5% share of the total turnover (+6.4% compared to the corresponding period of 2017).

(In millions of euro)	**09/30/2018**	% of total	**09/30/2017**	% on of total	Variation y/y	Variation y/y organic
High Value	2,529.8	64.5%	2,344.8	58.1%	7.9%	11.5%
Standard	1,395.4	35.5%	1,693.7	41.9%	-17.6%	-5.5%
Total net sales	**3,925.2**	**100.0%**	**4,038.5**	**100.0%**	**-2.8%**	**4.4%**

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

	1 Q	**2 Q**	**3 Q**	**Cumulative at 09/30/2018**
Volume	-1.5%	-0.9%	-3.0%	-1.8%
Price/mix	7.2%	6.2%	5.5%	6.2%
Change on a like-for-like basis	**5.7%**	**5.3%**	**2.5%**	**4.4%**
Translation effect/High inflation Argentina	-7.3%	-6.6%	-6.1%	-6.6%
Adoption of new accounting standard IFRS 15	-0.6%	-0.6%	-0.7%	-0.6%
Total change	**-2.2%**	**-1.9%**	**-4.3%**	**-2.8%**

The performance for sales volumes for the first nine months of 2018 (-1.8%) reflected the differing trends between the High Value and Standard segments.

High Value volumes grew sharply: up by +12.1% during the first nine months of 2018 with an improvement in market share in all the main geographic regions. There was sustained growth for Car tyres with ≥18” rim diameters (+16.5% for the first nine months compared to the +10.5% growth of the market) thanks to:

- strong demand in Europe, Apac and North America;
- the growing demand for Pirelli Specialties with ≥18” rim diameters (*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” was attributable to the lower demand for ≤17” Specialties, in favour of those with higher rim diameters, and to the performance of the Premium motorcycle market (-6% for the first nine months of 2018, -7% in the third quarter).

Volume growth for the high-end products range during the third quarter was more contained (+10.1% for High Value volumes, +13.1% for Car tyres ≥18"), which was impacted by the contraction of the European Original Equipment market (-2.7% for the Original Equipment market in Europe), following the introduction of the new CO2 emissions tests (WLTP) as of September 1st, 2018. These tests determined a different seasonality for the Original Equipment channel, with the demand in Europe concentrated in the first 6 months.

There was an opposite trend on the Standard segment which recorded a contraction of -11.2% during the first nine months of 2018 and of -11.0% for the third quarter. This trend was impacted by:

- the fall in demand for Standard products in mature markets for the first quarter (Europe – 5.6% and NAFTA -5.8%);
- market contractions in emerging countries, particularly in LatAm (-3.4% for the first nine months and -7.7% for the third quarter);
- Pirelli's decision to accelerate the reduction in volumes of less profitable products.

Improvement of the price/mix: (+6.2% for the first nine months of 2018) supported by the growing share of the High Value segment, by the improvement of the mix for the Standard segment, and by the progressive increase in prices in emerging markets to counter exchange rate volatility. The price/mix improvement which was more moderate for the third quarter (+5.5%) mainly reflected the lack of implementation of price increases in Brazil, due to the unfavourable market (-8% for the Replacement channel in the first nine months of 2018, -17% in the third quarter).

The negative exchange rate effect was mainly due to the volatility of the currencies of emerging countries. (-6.6% for the first nine months, and -6.1% for the third quarter).

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

	at 30 september 2018				at 30 september 2017
	Euro\mln	*%*	*yoy*	*Organic Yoy**	*%*
Europe	1,714.6	43.7%	*1.0%*	*2.8%*	42.1%
NAFTA	753.0	19.2%	*-0.4%*	*6.3%*	18.7%
Asia\Pacific (APAC)	672.3	17.1%	*12.6%*	*16.1%*	14.8%
South America	499.4	12.7%	*-26.8%*	*-3.6%*	16.9%
Middle East\Africa\India (MEAI)	162.2	4.1%	*-12.8%*	*-3.1%*	4.6%
Russia and CIS	123.7	3.2%	*4.0%*	*15.3%*	2.9%
TOTAL	**3,925.2**	**100.0%**	***-2.8%***	***4.4%***	**100.0%**

* before exchange rate effect, high inflation accounting in Argentina and adoption effect of new accounting standard IFRS 15

Europe (43.7% of sales) closed the first nine months with a growth in revenues of +1.0%, with an organic growth of +2.8% net of both the devaluation of exchange rates (-0.4%) and the impact deriving from the new accounting standard IFRS 15 (-1.4%), which was almost entirely attributable to the region. The strengthening of the High Value segment continued with organic growth for the first nine months at +8.8%, and with the third quarter at +4.1%, due to the contraction of the Original Equipment market (introduction of the WLTP at the beginning of September) as previously described.

The Standard segment recorded a negative performance with an organic contraction in revenues of -8.7%, due to:

- a general decline in volumes for the Standard market during the first quarter (-5.6%);
- the accelerated reduction of exposure to less profitable products and a decrease in the sales of 17” rims on the Original Equipment channel in favour of higher rim diameters.

Profitability (Ebit margin adjusted) in the high-teens range had increased compared to the previous financial year (mid-teens), mostly due to the continued improvement of the mix and to costs efficiencies.

NAFTA (19.2% of sales) recorded an organic growth in revenues of +6.3% (-0.4% including the negative exchange rate effect of -6.7%), driven by the High Value segment (an organic growth of +8.3%) 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) improved and was again at twenties level, thanks to the increased share of the high-end range and to the progressive strengthening of the US Dollar.

Apac (17.1% of sales) was the region with the highest growth and profitability (an EBIT margin adjusted in the twenties range), which was an improvement compared to the previous financial year. Total revenues grew by +12.6% (an organic growth of +16.1% excluding the negative exchange rate effect of -3.5%), driven by the High Value segment (an organic growth in revenues of +25.0%), 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 counts approximately 4,000 points of sale.

Sales on the Standard segment contracted with an organic change of -7.1%, with a fall in sales for ≤17“ rim diameters;

South America (12.7% of sales) recorded an organic change in revenues of -3.6% (-26.8% including the exchange rate effect and the application of high inflation accounting in Argentina), due to a drop in volumes of -11.1%, as a result of:

- market weakness (-3.4% for the total market for the first nine months, -5.9% for the Replacement channel, a contraction of -7.7% for the market for the third quarter, and a contraction of -10.7% for the Replacement channel);
- 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 High Value Pirelli products and the progressive growth of the mix recorded by the Brazilian factories;

The price/mix component improved during the first nine months but with a more contained growth for the third quarter due to the lack of implementation price increases in Brazil because of weak market demand.

Profitability (Ebit margin adjusted) was in the mid-single-digits range, a decrease compared to the first nine months of 2017 (low-teens range). This trend was impacted by:

- the aforementioned contraction in volumes;
- the impact of the application, as of the third quarter of 2018, of high inflation accounting in Argentina;
- the rising cost of raw materials caused by unfavourable exchange rates.

These impacts were partly offset by the improvement in the mix, by higher efficiencies and costs structure actions (actions on purchases, advertising and marketing budgets, consultancy, travel expenses and other general expenses) for approximately euro 5 million in response to the difficult external environment.

MEAI (4.1% of sales) recorded a negative organic change in revenues of -3.1% (negative at -12.8% including the exchange rate effect) due to the reduction in volumes mainly on the Standard segment of lower and less profitable rim diameters in an unfavourable market for the third quarter (-0.5%). Profitability (Ebit margin adjusted) in the mid-teens range had recorded a slight decrease compared to 2017, impacted by the devaluation of exchange rates particularly in Turkey.

In **Russia** (3.2% of sales) the strategy of focusing on the more profitable segments plus the recovery of the market impacted favourably on the results of the first nine months, with an organic growth in revenues of +15.3% (a growth of +4.0% including the negative exchange rate effect of –11.3%) with further improvement in profitability (an EBIT margin adjusted in the high-teens range, compared to the low-teens range for the corresponding period of 2017).

EBIT adjusted without start-up costs - amounted to euro 732.1 million, representing a growth of +7.5% and euro 50.9 million in absolute values compared to the previous financial year (euro

681.2 million). The EBIT margin adjusted without start-up costs stood at 18.7%, a growth of +1.8% compared to the previous financial year. Start-up costs which equalled euro 32 million (euro 39 million for the previous financial year) were relative to new businesses (Velo and Connesso), to the conversion of Aeolus brand production into Pirelli brand production in the manufacturing plant in Jiaozuo for the Car sector, and to activities for the digital transformation of the Company.

EBIT adjusted equalled euro 700.1 million, accounting for a growth of +9.0% and euro 57.9 million in absolute values compared to the previous financial year (euro 642.2 million), with a margin of 17.8%, an improvement of +1.9% 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, efficiencies and the aforementioned actions on costs, (approximately euro 21 million for the third quarter, included in the item *"Amortisation, depreciation and other costs")* which more than offset:

- the rise in the costs of raw materials;
- costs inflation (particularly in emerging markets);
- higher amortisation, depreciation and other costs;
- the negative exchange rate effect;
- the contraction of volumes on the Standard segment.

(In millions of euro)	**1 Q**	**2 Q**	**3 Q**	**Cumulative at 09/30**
2017 EBIT Adjusted	**205.0**	**211.2**	**226.0**	**642.2**
- Internal levers:				
Volumes	(8.0)	(4.5)	(16.5)	(29.0)
Price/mix	62.7	50.1	47.0	159.8
Amortisation, depreciation and other costs	(21.4)	(15.9)	4.8	(32.5)
Start-up costs	3.5	0.1	3.4	7.0
Efficiencies	9.0	10.0	23.6	42.6
- External levers:				
Cost of production factors (commodities)	(13.8)	2.3	(12.7)	(24.2)
Cost of production factors (labour/energy/others)	(11.4)	(11.9)	(14.1)	(37.4)
Foreign currency translation	(7.2)	(9.7)	(11.5)	(28.4)
Total change	**13.4**	**20.5**	**24.0**	**57.9**
2018 EBIT adjusted	**218.4**	**231.7**	**250.0**	**700.1**

The **EBIT** which amounted to euro 591.4 million (euro 541.1 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 86 million (euro 80.9 million for the first nine months of 2017), and non-recurring and restructuring expenses to the amount of euro 11.7 million (euro 20.2 million for the first nine months 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 11.0 million. It should be noted that non-recurring and restructuring expenses relative to the first nine months of 2017 (euro 20.2 million) included provisions and costs linked to the IPO process, while for the third quarter of 2017 this figure had been positive at euro 25.5 million due to the release of provisions linked to the extraordinary incentive plan (the *"Special Award"*).

Income from equity investments was negative to the amount of euro -7.8 million (negative at euro -18.6 million for the first nine months of 2017) and mainly refers to the pro-rata share of the negative result of the Indonesian Joint Venture PT Evoluzione Tyres (euro -11.6 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 for the period until the date of disposal (January 11, 2018). The negative result for the first nine months of 2017 had included the loss attributable to the PT Evoluzione Tyres Joint Venture (euro -7.3 million), and the impairment of the investments in Pirelli de Venezuela C.A. (euro -7.6 million euro), and in Fenice S.r.l. (euro -1.3 million).

The **net income (loss) related to continuing operations (Consumer)** amounted to euro 378.1 million, compared to earnings of euro 198.9 million for the first nine months of 2017. This result was due to the aforementioned improvement in the operating net cash flow and lower **net financial expenses** of euro 151.1 million (euro 138.8 million for the first nine months of 2018 compared to euro 289.9 million for the first nine months of 2017). This result reflected:

- the balance – positive at euro 3.0 million - between the benefits deriving from the repricing of the Group's main bank credit facility in January 2018, and 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%, and with original maturity in November 2019) carried out through the exercise of the so-called Make-Whole option;
- the favourable comparison between the not-yet-amortised wash down of fees included for the first nine months of 2017 of euro 61.2 million, and for the first nine months of 2018 of euro 3.6 million, respectively relative to the old bank loan which was repaid in advance in June 2017, and to the bond referred to in the previous point;
- lower interest by euro 62.8 million, due mainly to the lower cost of the main bank credit facility signed in June 2017, compared to the old bank loan, as well as the reduction of debt thanks to the share capital increase by Marco Polo for approximately euro 1.2 billion which took place in June 2017;
- the reduction of interest rates in Brazil.

The cost of debt on an annual basis (last 12 months) stood at 3.51%, (3.05% net of repricing impacts), compared to 5.52% for the corresponding period of the previous financial year and 5.36% at December 31, 2017.

Tax expenses in the first nine months of 2018 amounted to 66.7 million euro against a pretax profit of 444.8 million euro, with a tax rate at 15%, in line with the tax rate expected for 2018 which can be estimated in the 15% to 18% range. Compared with the expected tax rate of 29% which was communicated with the results to June 30, 2018, this estimate principally takes into account the benefit deriving from the application of Patent Box tax breaks, following from the preliminary signing of the agreement on October 15, 2018 with the Italian taxation office, worth 54 million euro for the 3-year period 2015-2017 as well as the benefit for 2018. The CEO proposed to the Board of Directors to use the resources deriving from the Patent Box for further cost reduction actions, in line with those of 2018, which will be implemented in 2019 to continue to support the double-digit reduction of exposure to the Standard segment and the High Value strategy.

The average consolidated tax rate for the 2018-2020 period is expected to range between 26.0% and 28.0%, in line with the consolidated average tax rate for the 2017-2020 Industrial Plan period, as presented during the IPO, and which at that time was estimated at less than 30%.

The **net income (loss) related to continuing operations (Consumer) adjusted** amounted to euro 403.5 million compared to euro 257.5 million for the corresponding period of the previous financial year.

The net income (loss) related to discontinued operations which included the financial data for the first nine months of 2018 of some residual Industrial activities in China and Argentina, was negative to the total amount of euro 6.7 million. It should be noted that during June 2018, the separation of the residual Industrial activities in Argentina was completed, while for China completion is expected before the end of the current financial year.

The **total net income** was positive to the amount of euro 371.4 million compared to the positive amount of euro 123.9 million for the corresponding period of the previous financial year.

The **net income attributable to the Parent Company** amounted to euro 362.5 million compared to the positive result of euro 123.6 million for the first nine months of 2017.

Equity went from euro 4,177.0 million at December 31, 2017 to euro 4,464.8 million at September 30, 2018.

Equity attributable to the Parent Company at September 30, 2018 equalled euro 4,383.6million compared to euro 4,116.7 million at December 31, 2017.

This 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	(115.2)	1.3	(113.9)
Net income (loss)	362.5	8.9	371.4
Actuarial gains/(losses) on employee benefits	56.9	-	56.9
Dividends paid	-	(8.4)	(8.4)
Transacions with minorities	(36.3)	19.0	(17.3)
High inflation accounting Argentina	16.7	-	16.7
Other	(16.7)	0.1	(16.6)
Total changes	**266.9**	**20.9**	**287.8**
Equity at 09/30/2018	**4,383.6**	**81.2**	**4,464.8**

The **net financial (liquidity)/debt position** was negative to the amount of euro 4,038.3 million compared to euro 3,218.5 million at December 31, 2017. It was composed as follows:

(In millions of euro)	09/30/2018	12/31/2017
Current borrowings from banks and other financial institutions	824.3	559.2
Current derivative financial instruments	21.8	11.2
Non-Current borrowings from banks and other financial institutions	3,953.6	3,897.1
Non-Current derivative financial instruments	5.8	55.0
Total gross debt	**4,805.5**	**4,522.5**
Cash and cash equivalents	(549.3)	(1,118.5)
Securities held for trading	-	(33.0)
Other financial assets at fair value through Income Statement	(20.3)	-
Current financial receivables and other assets**	(28.1)	(36.5)
Current derivative financial instruments	(74.4)	(21.4)
Net financial debt *	**4,133.4**	**3,313.1**
Non-Current derivative financial instruments	(9.3)	-
Non-current financial receivables and other assets**	(85.8)	(94.6)
Total net financial (liquidity)/debt position	**4,038.3**	**3,218.5**

* 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 of "financial receivables and other assets" is reported net of the relative impairment amounting to euro 3 million.

The **structure of the gross financial debt**, which amounted to euro 4,805.5 million, was as follows:

(In millions of euro)	09/30/2018	Maturity date					
		2018	2019	2020	2021	2022	2023 and beyond
Use of unsecured financing ("Facilities")	2,620.6	-	-	935.4	-	1,685.2	-
Bond EURIBOR +0,70% - 2018/2020	199.6	-	-	199.6	-	-	-
Bond 1,375% - 2018/2023	592.7	-	-	-	-	-	592.7
Schuldschein	523.2	-	-	-	81.7	-	441.5
EIB loans	10.0	-	10.0	-	-	-	-
ISP short term borrowing	200.0	-	200.0	-	-	-	-
Other loans	659.4	342.7	294.9	7.8	2.6	8.5	2.9
Total gross debt	**4,805.5**	**342.7**	**504.9**	**1,142.8**	**84.3**	**1,693.7**	**1,037.1**
		7.1%	*10.5%*	*23.8%*	*1.8%*	*35.2%*	*21.6%*

At September 30, 2018, the Group had a liquidity margin equal to euro 1,269.6 million composed of euro 700.0 million in the form of non-utilised committed credit facilities, and of euro 549.3 million in cash, in addition to financial assets at fair value recognised in the Income Statement to the amount of euro 20.3 million.

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

(In millions of euro)	2018 1 Q	2018 2 Q	2018 3 Q	2018 Cumulative at 09/30	2017 Cumulative at 09/30
EBIT adjusted	218.4	231.7	250.0	700.1	642.2
Amortisation and depreciation (excluding PPA amortization)	69.7	68.1	69.8	207.6	194.1
Investments in property, plant and equipment and intangible	(85.3)	(93.9)	(117.5)	(296.7)	(327.6)
Change in working capital/other	(928.8)	(68.9)	(247.4)	(1,245.1)	(900.1)
Operating net cash flow	**(726.0)**	**137.0**	**(45.1)**	**(634.1)**	**(391.4)**
Financial income/(expenses)	(55.2)	(62.8)	(20.8)	(138.8)	(289.9)
Taxes paid	(31.1)	(36.2)	(33.8)	(101.1)	(116.9)
Financial (investments) / disinvestments	155.0	0.2	0.0	155.2	(2.5)
Acquisition of non-controlling interests	(18.5)	-	-	(18.5)	(15.4)
Cash Out for non-recurring and restructuring expenses	(38.2)	(11.9)	(4.6)	(54.7)	(23.3)
Other dividends paid	-	-	(8.4)	(8.4)	(12.9)
Liquidation Drahtcord Saar	-	-	-	-	(5.5)
Differences from foreign currency translation/other	(11.7)	6.4	(18.7)	(24.0)	(11.1)
Net cash flow before extraordinary transactions	**(725.7)**	**32.7**	**(131.4)**	**(824.4)**	**(868.9)**
Industrial reorganization	5.3	(10.3)	9.6	4.6	304.6
Share capital increase subscribed by Marco Polo	-	-	-	0.0	1,189.4
Net cash flow	**(720.4)**	**22.4**	**(121.8)**	**(819.8)**	**625.1**

The **operating net cash flow** in the first nine months of 2018 was negative -634.1 million euro (-391.4 million euro the seasonal negative figure in 2017).

The operating cash flow was impacted by:

- investments of 296.7 million euro (327.6 million euro in the first nine months of 2017) mainly destined to the increase of High Value capacity in Europe and the Nafta area, the strategic conversion of Standard capacity into High Value in Brazil and the constant improvement of the mix and quality in all factories;
- the variation in working capital (-1,245.1 million euro of absorption in the first nine months of 2018).

The performance of working capital in the first nine months discounts:

- an increase of inventories of finished products as a result, on the one hand, of the slowdown of the Replacement market in Latam and actions to increase the sales in the US from Brazilian sources and, on the other, the improvement of the level of service in High Value*;*
- the reduction of commercial debts which continued in the third quarter;
- the growth of commercial credits, linked to the seasonality of the winter business, the receipts of which arrive in the fourth quarter.

As usual, an inversion of the working capital trend is expected in the last quarter of the year due to cash generation deriving from the receipt of commercial credits, and the simultaneous winter season sell-out, the containment of inventories thanks to the reduction of Standard production capacity, and the increase of commercial debts, also due to the usual accentuation of investments in the last quarter of the year.

Net cash flow before extraordinary transactions was euro -824.4 million. Excluding the collection relative to the sale of the investment in Mediobanca (euro 152.8 million), the net cash flow would result as negative to the amount of euro -977.2 million compared to the negative amount of euro -868.9 million recorded for the first nine months of 2017, mostly due to the aforementioned performance of working capital.

Total net cash flow was negative to the amount of euro -819.8 million (positive to the amount of euro 625.1 million for 2017), and included the positive effect to the amount of euro 4.6 million deriving from the Industrial reorganisation, relative to the disposal in part of residual Industrial assets in China, and to the change in working capital relative to discontinued operations. This impact had been positive for the first nine months of 2017 to the amount of euro 304.6 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 Industrial reorganisation. During the corresponding period of 2017, positive cash flows were mainly associated with the capital increase carried out by Marco Polo for the amount of euro 1,189.4 million.

OUTLOOK FOR 2018

	2017	**2018**
Revenues	5,352.3 mln	~5.2 bln (y/y)
Weight of High Value on revenues	*57,5%*	*~64%*
Adjusted ebit before start-up costs	926.6 mln	>1.0 bln
Weight of High Value on Adjusted Ebit	*~83%*	*>83%*
Start-up costs	*50 mln*	*~40 mln*
Adjusted Ebit	876.4 mln	~1.0 bln
Net financial position / Adjusted Ebitda before start-up costs	2.7X	~2.35X
CapEx	489 mln	~460 mln

The forecast data for 2018 confirm the operating profitability indicated on August 7, 2018 thanks to the focus on High Value and the cost reduction plan to address the faster reduction of exposure to the Standard segment, in particular in South America.

For 2018, on the basis of the results of the first nine months, Pirelli forecasts:

- Revenues of around 5.2 billion euro compared with the prior ~5.4 billion euro mainly as a consequence of the decline in South America;
- The growth of High Value to 64% of group revenues (≥60% the previous indication)
- High Value volumes increasing by about +13% (≥13% excluding the slower growth of the segment in South America);
- Reduction of the exposure to the Standard segment with a fall in volumes of -12% (previous indication -9%) in consideration of the greater weakness of the market in South America;
- Total volumes down by 2% compared with 2017 (prior indication “flat”) as a consequence of South America
- Price/mix at around +6.5% (+6.5% /+7.5% the previous indication, revisited because of unimplemented price increases in Brazil in the third quarter which would have permitted a price/mix improvement of ≥7%);
- Forex impact -7%/-6.5% from the previous indication of -6%/-5% as a consequence of exchange rate volatility in emerging countries;
- Profitability confirmed with Adjusted Ebit before start-up costs at above 1 billion euro. The effect deriving from greater forex volatility, lower Standard volumes and the performance of the business in South America is offset by:
    - greater net efficiencies (~+20 million euro the delta between efficiencies and input costs; the prior indication was 0);
    - cost rationalization actions of around 50 million euro (previous indication 20 million euro) predominantly in South America;
    - lower impact of raw materials (-50 million euro, -60 million euro the prior indication).
- Weight of the High Value segment in Adjusted Ebit before start-up costs at above 83%;

- Start-up costs confirmed at about 40 million euro;
- Adjusted Ebit confirmed at about 1 billion euro;
- Ratio between net financial position and Adjusted Ebitda before start-up costs expected to be about 2.35X, 2.3X excluding the impact of South America);
- CapEx confirmed at around 460 million euro.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE QUARTER

On **October 9, 2018** the closing was finalized for the acquisition by Pirelli Tyre SpA of a 49% stake in the Joint Venture which holds, through the company Jining Shenzhou Tyre Co., a new Consumer tyre production plant in China. The investment – as already made public on **August 1, 2018** when the preliminary agreement was announced and which does not alter the targets of the Industrial Plan – was around 65 million euro. Pirelli will have the right, exercisable in the period from January 1, 2021 and December 31, 2025 to increase this stake up to 70%.

On **October 15, 2018** Pirelli signed a preliminary agreement with the Italian Tax Office for access to the tax breaks of the Patent Box, with reference to the fiscal years 2015-2019. The estimated tax benefit for the 3-year period 2015-2017 is about 54 million euro, to which the expected benefit for 2018 will be added. The CEO proposed to the Board of Directors to use the resources deriving from the Patent Box for further cost reduction actions, in line with those of 2018, which will be implemented in 2019 to continue to support the double-digit reduction of exposure to the Standard segment and the High Value strategy. The quantification of the patent box benefit relative to 2019 will be done, instead, when the results for the relative period are being prepared.

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, for the first nine months 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, for the first nine months of 2018, the expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
- **EBIT adjusted without start-up costs;** is equal to the EBIT adjusted but excludes the contribution to the operating income (start-up costs) of the Cyber and Velo Activities, the costs for the conversion of Aeolus brand Car products, and the costs sustained for the digital transformation of the Company;
- **Net income (loss) related to continuing operations (Consumer) adjusted:** is calculated by excluding the following items from the net income (loss) from continuing operations:
    - o the amortisation of intangible assets related to assets recognised as a consequence of Business Combinations, operational costs due to non-recurring and restructuring expenses and, for the first nine months of 2018, the expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;
    - o non-recurring costs/income recognised under financial income and expenses;
    - o 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, by financial receivables, by other financial assets at fair value through income statement, as well as financial derivative instruments included under current and non-current assets.

OTHER INFORMATION

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

ROLE OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for the strategic guidance and supervision of the overall business activities, 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 ordinary registered shares without indication of their nominal value.

On August 8, 2018 the total and non-proportional demerger of the parent company Marco Polo International Italy S.p.A. (*"**Marco Polo**"*) took place, as provided for in the agreements signed in July 2017 between the shareholders - even indirectly - of Marco Polo, within the framework of the IPO process (*"**Demerger**"*). Prior to the demerger Marco Polo held 63.11% of Pirelli.

As a result of the demerger, the investment held by Marco Polo in Pirelli was assigned as follows:

- approximately 45.5% to Marco Polo International Italy S.r.l. (a newly established company indirectly controlled by the China National Chemical Corporation);
- approximately 11.4% to Camfin S.p.A. (a company indirectly controlled by Mr. Marco Tronchetti Provera);
- approximately 6.2% to LTI Italy S.r.l. (a newly established company wholly owned by Long-Term Investments Luxembourg S.A.).

As a result of the demerger, the majority shareholder Marco Polo International Italy S.r.l. controls the Company - pursuant to Art. 93 of Legislative Decree 58/1998 - with a 45.52% share of the capital and does not exercise management and coordination activities.

Updated extracts are available on the Company’s website of the agreements between some of the shareholders, including the indirect shareholders of the Company, which contain the provisions of the Shareholders' Agreements relative to, amongst other things, the governance of Pirelli.

RELATED-PARTY TRANSACTIONS

Related party transactions, including intra-group transactions, do not qualify as either unusual or exceptional, but are part of the ordinary course of business for the companies of the Group. Such transactions, when not concluded under standard conditions or dictated by specific regulatory conditions, are in any case governed by conditions consistent with those of the market and carried out in compliance with the provisions of the Procedure for Related Party Transactions which the Company has adopted.

The effects of the related party transactions contained in the Income Statement and the Statement of Financial Position, on the consolidated financial data were as follows:

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

STATEMENT OF FINANCIAL POSITION		
(in millions of euro)	**09/30/2018**	**12/31/2017**
Other non current receivables	12.4	12.0
Trade receivables	2.3	1.8
Other current receivables	27.2	14.8
Trade payables	16.9	24.0
Other current payables	0.2	0.4

INCOME STATEMENT		
(in millions of euro)	**09/30/2018**	**09/30/2017**
Revenues from sales and services	4.6	-
Other income	0.5	0.9
Other costs	30.7	25.8
Financial income	0.9	0.6
Financial expenses	-	0.1

Transactions - Statement of Financial Position

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

The item **trade receivables** includes receivables for services rendered to PT Evoluzione Tyres to the amount of euro 1.9 million and to the Joint Stock Company *"Kirov Tyre Plant"* to the amount of euro 0.4 million.

The item **other current receivables** mainly refers to receivables for advances from Pirelli Tyre S.p.A. to PT Evoluzione Tyres to the amount of euro 13.3 million for the supply of motorcycle products and the sale of materials and moulds to the Joint Stock Company *"Kirov Tyre Plant"* to the amount of euro 6.7 million, and to the loan granted by Pirelli International Plc to PT Evoluzione Tyres for euro 6.0 million.

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

Transactions - Income statement

The item **revenues from sales and services** mainly refers to royalties charged to PT Evoluzione Tyres to the amount of euro 0.9 million, and sales of materials and services to the Joint Stock Company *"Kirov Tyre Plant"* for the amount of euro 3.7 million.

The item **other costs** mainly refers to acquisition costs for the purchase of energy and machine hire from Industriekraftwerk Breuberg GmbH to the amount of euro 16.3 million, and costs for the acquisition of products from PT Evoluzione Tyres to the amount of euro 14.2 million.

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

TRANSACTIONS WITH OTHER RELATED PARTIES

The transactions detailed below mainly refer to business relations with the Aeolus Tyre Co. Ltd. and to transactions with the Prometeon Group, both of which are subject to the control of the direct parent company or indirect parent companies.

STATEMENT OF FINANCIAL POSITION		
(in millions of euro)	**09/30/2018**	**12/31/2017**
Trade receivables	55.4	61.0
Other current receivables	22.7	21.7
Current tax receivables	-	0.1
Trade payables	116.5	174.0
Other current payables	22.0	16.1
Current tax payables	0.0	9.9

INCOME STATEMENT		
(in millions of euro)	**09/30/2018**	**09/30/2017**
Revenues from sales and services	2.7	12.1
Other income	88.0	176.7
Raw materials and consumables used	10.0	36.4
Other costs	177.2	302.4
Financial income	1.9	27.2
Financial expenses	0.9	34.2
Other income from discontinued operations	7.4	-
Other costs from discontinued operations	16.6	-

With reference to transactions with the Prometeon Group, comparative income amounts refer to first the nine months of 2017 even though the Prometeon Group became a related party as of 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.).

Transactions - Statement of Financial Position

The item **trade receivables** mainly refers to receivables for royalties from the Aeolus Tyre Co. Ltd. to the amount of euro 15.1 million (these receivables were recorded net of the related provision for bad debts calculated according to Group policy)and trade receivables to the amount of euro 40.3 million from companies of the Prometeon Group.

The item **other current receivables** mainly refers to receivables from companies of the Prometeon Group to the amount of euro 20.1 million.

The item **trade payables** almost exclusively refers to payables to companies of the Prometeon Group to the amount of euro 114.9 million.

The item **other current payables** mainly refers to other current payables to companies of the Prometeon Group to the amount of euro 21.4 million.

Transactions - Income statement

The item **revenues from sales and services** mainly refers the sale of goods and services rendered by Pirelli Pneus Ltda to Pirelli de Venezuela C.A. for the amount of euro 2.4 million.

The item **other operating income** at September 30, 2018 includes recognised royalties from Aeolus Tyre Co. Ltd, in respect of the license agreement stipulated in 2016 to the amount of euro 11.3 million. The item also includes income from companies of the Prometeon Group mainly relative to:

- the sale of raw materials by Pirelli Pneus Ltda for the amount of euro 14.3 million;
- royalties recorded for the trademark license agreement to the amount of euro 13.5 million;
- the sale of finished and semi-finished products for the amount of euro 9.6 million of which euro 5.6 million was carried out by Pirelli Tyres (Suisse) SA, and sales by other Group companies to the amount of euro 4.0 million;
- the Long Term Service Agreement to the amount of euro 9.4 million, of which euro 4.3 million to Pirelli Sistemi Informativi S.r.l., euro 1.0 million to Pirelli Pneus Ltda, and euro 4.1 million to other Group companies;
- logistic services for a total amount of euro 7.1 million of which euro 5.9 million carried out by the Brazilian company Total Logistic Management Serviços del Logistica Ltda;
- the licence agreement for know-how charged by Pirelli Tyre S.p.A. to the amount of euro 7.5 million
- other for a total amount of euro 10.4 million.

The decrease recorded compared to the corresponding period of the previous financial year was mainly attributable to the fact that raw materials are no longer supplied to the Prometeon Group by the British subsidiary Pirelli International Plc. (euro 87,871 thousand for the first half-year of 2017).

The item raw and consumable materials used mainly refers to costs payable to companies of the Prometeon Group for the purchase of direct materials/consumables/compounds for the total amount of euro 10 million of which euro 8.0 million carried out by the Turkish company Pirelli Otomobil Lastikleri A.S.

The item **other costs** includes contributions to the Hangar Bicocca Foundation and the Pirelli Foundation to the amount of euro 0.8 million and costs payable to companies of the Prometeon Group mainly for:

- the purchase of truck products for a total amount of euro 89.2 million of which euro 79.0 million was carried out by the Brazilian company Comercial e Importadora de Pneus Ltda. for the Brazilian sales network, of which euro 3.7 million carried out by the German company Driver Reifen und KFZ-Technik GmbH, and purchases by other companies of the Pirelli Group to the amount of euro 6.4 million;
- the purchase of Car/Motorcycle and semi-finished products for a total amount of euro 60.2 million of which euro 56.3 million carried out by the Turkish company Pirelli Otomobil Lastikleri A.S. in respect of the Off-Take contract, and euro 3.8 million on the part of Pirelli Pneus Ltda for the purchase of inner tubes for tyres;
- Costs to the amount of euro 9.5 million incurred by Pirelli Pneus Ltda for the transformation of raw materials following Toll manufacturing contract activities;
- other to the amount of euro 11.2 million;

The item **other income from discontinued operations** refers to the sale of industrial products on the part of the Chinese subsidiary Pirelli Tyre Co. for the amount of euro 2.6 million, to the recharging of the costs of the TP Trading Beijing Co. Ltd. to the amount of euro 0.5 million, and to the amount of euro 4.3 million by the subsidiary Pirelli Neumaticos S.A.I.C. to the Prometeon Group.

The item **other costs from discontinued operations** mainly refers to costs for the purchase of industrial products from the Prometeon Group.

For further information on the main related party transactions, reference should be made to the Annual Report 2017 - Consolidated Financial Statements - Note 42 *"Related Party Transactions".*

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 nine months 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, November 14, 2018

FINANCIAL STATEMENTS

FORM AND CONTENT

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

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

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

- the following new standards or amendments to existing standards, which became applicable as of January 1, 2018:
    - IFRS 15 - Revenues from Contracts with Customers: as a result of the application of this accounting standard, some amounts previously accounted for under costs and mainly related to variable considerations payable to indirect customers, and mainly linked to the achievement of sales targets, have been recorded as a reduction to 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 which was January 1, 2018. The comparative data for the first nine months of 2017 has not been subjected to restatement.
    - IFRS 9 – Financial Instruments
        - Classification and measurement: the equity instruments which at December 31, 2017 were classified as financial assets available for sale, in substantial continuity with the accounting treatment adopted in accordance with IAS 39, were designated as financial assets at their fair value and recognised under other items of the Comprehensive Income Statement, with the sole exception of the investment in Mediobanca S.p.A, which was disposed of during the first days of January 2018, for which the changes in fair value have been recognised in the Income Statement. It is to be noted that the fair value adjustment reserve for the financial assets available for sale at December 31, 2017 (positive to the amount of euro 19,410 thousand) was reclassified to a new reserve under equity for the investments designated as financial assets at their fair value recognised under other items of the Comprehensive Income Statement, while investments, whose changes at fair value were recognised in the Income Statement, have been reclassified to retained earnings. These reserves will not be reversed to the Income Statement if the investment is disposed of;
        - Impairment of financial instruments: the Group's equity, at the date of the transition, which was January 1, 2018, had decreased by euro 1,023 thousand, due to the new model of impairment based on expected losses, applied to some financial receivables. The comparative data for the first nine months of 2017 has not been subjected to restatement.

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

- Amendments to IFRS 2 - Share-based Payment Transactions: there were no impacts on the Group's Financial Statements arising from the application of these amendments;

- IFRIC 22 - Foreign Currency Transactions and Advance Consideration: there were no impacts on the Group's Financial Statements arising from the application of this interpretation;

- Amendments to IAS 40: Transfers of Investment Property: these changes were not applicable to the Group's Financial Statements;

- Improvements to the IFRS - 2014-2016 cycle (issued by the IASB in December 2016): there were no impacts on the Group's Financial Statements arising from the application of these amendments.

- Income taxes have been recognised on the basis of the best estimate of the weighted average tax rate expected for the entire financial year, in accordance with the indications provided by IAS 34 for the preparation of interim financial statements;

- Application of IFRS 2 - Share-based Payment Transactions relative to the accounting of the monetary Long Term Incentives Plan for the 2018-2020 period (the *"LTI Plan"*) intended for the management of the Group. This incentive plan is of a monetary nature, and does not provide for the assignment of shares or options on shares, or other securities, but is exclusively a cash incentive, in part linked to the performance of Pirelli & C. ordinary shares.

  - Application of IAS 29 - Financial Reporting in Hyperinflationary Economies - the result of which, the data for non-monetary assets and liabilities contained in the Financial Statements has been re-evaluated to eliminate the distortionary effects due to the loss of purchasing power of the local currency. The inflation rate used to implement inflation accounting corresponds to the consumer price index. The financial statements of companies operating in high-inflation countries have been translated into Euro by applying the period-end exchange rates to the items of both the Statement of Financial Position and the Income Statement.

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

	09/30/2018	12/31/2017
Property, plant and equipment	3,001,439	2,980,294
Intangible assets	5,803,249	5,893,704
Investments in associates and J.V.	8,444	17,480
Other financial assets	-	229,519
Other financial assets at fair value through other comprehensive income	67,505	-
Other financial assets at fair value through income statement	-	-
Deferred tax assets	72,074	111,553
Other receivables	192,023	204,051
Tax receivables	14,828	27,318
Derivative financial instruments	9,333	878
Non-current assets	**9,168,895**	**9,464,797**
Inventories	1,048,921	940,668
Trade receivables	967,745	652,487
Other receivables	424,363	400,538
Securities held for trading	-	33,027
Other financial assets at fair value through income statement	20,306	-
Cash and cash equivalents	549,345	1,118,437
Tax receivables	58,159	35,461
Derivative financial instruments	81,593	27,770
Current assets	**3,150,432**	**3,208,388**
Assets held for sale	**11,434**	**60,729**
Total Assets	**12,330,761**	**12,733,914**
Equity attributable to owners of the Group:	**4,383,586**	**4,116,758**
- Share capital	1,904,375	1,904,375
- Reserves	2,116,669	2,035,991
- Net income (loss) for the period	362,542	176,392
Equity attributable to non-controlling interests:	**81,214**	**60,251**
- Reserves	72,378	60,936
- Net income (loss) for the period	8,836	(685)
Total Equity	**4,464,800**	**4,177,009**
Borrowings from banks and other financial institutions	3,953,564	3,897,089
Other payables	72,836	74,435
Provisions for liabilities and charges	130,378	127,124
Provisions for deferred tax liabilities	1,132,006	1,216,635
Employee benefit obligations	195,168	274,037
Tax payables	2,060	2,399
Derivative financial instruments	6,118	54,963
Non-current liabilities	**5,492,130**	**5,646,682**
Borrowings from banks and other financial institutions	824,343	559,168
Trade payables	1,004,992	1,673,642
Other payables	379,499	565,254
Provisions for liabilities and charges	38,455	45,833
Employee benefit obligations	3,159	-
Tax payables	92,376	48,416
Derivative financial instruments	31,007	17,910
Current liabilities	**2,373,831**	**2,910,223**
Liabilities held for sale	**-**	**-**
Total Liabilities and Equity	**12,330,761**	**12,733,914**

CONSOLIDATED INCOME STATEMENT (In thousands of euro)

	1/1 - 09/30/2018	1/1 - 09/30/2017
Revenues from sales and services	**3,925,172**	**4,038,531**
Other income	324,512	473,753
Changes in inventories of unfinished, semi-finished and finished products	120,617	98,164
Raw materials and consumables used (net of change in inventories)	(1,355,170)	(1,395,014)
Personnel expenses	(776,344)	(767,495)
Amortisation, depreciation and impairment	(293,573)	(275,226)
Other costs	(1,342,080)	(1,633,782)
Net impairment loss on financial assets	(14,431)	
Increase in fixed assets for internal work	2,710	2,202
Operating income (loss)	**591,413**	**541,133**
Net income (loss) from equity investments	(7,826)	(18,591)
- share of net income (loss) of associates and j.v.	*(11,900)*	*(8,656)*
- gains on equity investments	*4,007*	*188*
- losses on equity investments	*(1,605)*	*(10,260)*
- dividends	*1,672*	*137*
Financial income	110,858	153,718
Financial expenses	(249,657)	(443,666)
Net income (loss) before tax	**444,788**	**232,594**
Tax	(66,718)	(33,701)
Net income (loss) from continuing operations	**378,070**	**198,893**
Net income (loss) from discontinued operations	(6,692)	(75,030)
Total net income (loss)	**371,378**	**123,863**
Attributable to:		
Owners of the parent company	362,542	123,579
Non-controlling interests	8,836	284
Total earnings/(loss) per share (in euro per share)	**0.362**	**0.145**
Earnings/(loss) per share related to continuing operations (in euro per share)	0.369	0.233
Earnings/(loss) per share related to discontinued operations (in euro per share)	(0.007)	(0.088)

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

		1/1 - 09/30/2018	1/1 - 09/30/2017
A	**Net income (loss) for the period**	**371,378**	**123,863**
Other components of comprehensive income:			
	B - Items that may not be reclassified to income statement:		
	- Net actuarial gains (losses) on employee benefits	56,898	(32,225)
	- Tax effect	(12,722)	1,220
	- Fair value adjustment of other financial assets at fair value through other comprehensive income	(9,760)	-
	Total B	**34,416**	**(31,005)**
	C - Items reclassified / that may be reclassified to income statement:		
	Exchange differences from translation of foreign financial statements		
	- Gains / (losses) for the period	(110,766)	(111,419)
	- (Gains) / losses reclassified to income statement	-	80,208
	Fair value adjustment of other financial assets available for sale:		
	- Gains / (losses) for the period	-	36,338
	Fair value adjustment of derivatives designated as cash flow hedges:		
	- Gains / (losses) for the period	84,696	(38,101)
	- (Gains) / losses reclassified to income statement	(87,722)	15,884
	- Tax effect	571	2,664
	Cost of hedging		
	- Gains / (losses) for the period	16,234	-
	- (Gains) / losses reclassified to income statement	(5,070)	-
	- Tax effect	(2,320)	-
	Share of other comprehensive income related to associates and JVs net of tax	(3,150)	3,478
	Total C	**(107,527)**	**(10,948)**
D	**Total other comprehensive income (B+C)**	**(73,111)**	**(41,954)**
A+D	**Total comprehensive income (loss) for the period**	**298,268**	**81,910**
	Attributable to:		
	- Owners of the parent company	288,160	81,736
	- Non-controlling interests	10,108	174
	Attributable to owners of the parent company:		
	- Continuing operations	294,852	156,766
	- Discontinued operations	(6,692)	(75,030)
	Total attributable to owners of the parent company	**288,160**	**81,736**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 09/30/2018

(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	-	(115,188)	40,805	-	(74,383)	1,272	(73,111)
Net income (loss) for the period	-	-	-	362,542	362,542	8,836	371,378
Total conprehensive income (loss)	**-**	**(115,188)**	**40,805**	**362,542**	**288,159**	**10,108**	**298,267**
Dividend paid	-	-	-	-	-	(8,366)	(8,366)
Transactions with non-controlling interests	-	(619)	-	(35,726)	(36,345)	19,033	(17,312)
High inflation Argentina	-	-	-	16,709	16,709	-	16,709
Other	-	-	(106)	(566)	(672)	188	(484)
Total at 09/30/2018	**1,904,375**	**(336,431)**	**(40,120)**	**2,855,762**	**4,383,586**	**81,214**	**4,464,800**

(In thousands of euro)	**Breakdown of IAS reserves ***						
	Reserve for fair value adjustment of available-for-sale financial assets	Reserve for fair value adjustment of financial assets at fair value through other comprehensive income	Reserve for cost of hedging	Reserve for cash flow hedge	Reserve for actuarial gains/losses	Tax effect	**Total IAS reserves**
Total at 12/31/2017	**19,410**	**-**	**-**	**(13,454)**	**(59,110)**	**(17,111)**	**(70,265)**
Adoption of new accounting standard IFRS 9	(19,410)	8,856	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	-	(9,760)	11,164	(3,026)	56,898	(14,471)	40,805
Other changes	-	(110)	-	-	2	2	(106)
Balance at 09/30/2018	**-**	**(1,014)**	**12,164**	**(17,480)**	**(2,210)**	**(31,580)**	**(40,120)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 09/30/2017

(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**	**(204,778)**	**(61,629)**	**2,058,211**	**3,134,085**	**140,773**	**3,274,858**
Other components of comprehensive income	-	(31,101)	(10,743)	-	(41,844)	(110)	(41,954)
Net income (loss) for the period	-	-	-	123,579	123,579	284	123,863
Total conprehensive income (loss)	**-**	**(31,101)**	**(10,743)**	**123,579**	**81,735**	**174**	**81,909**
Share capital increase	558,994	-	-	630,381	1,189,375	-	1,189,375
Annulment of treasury shares	3,100	-	-	(3,100)	-	-	-
Dividends paid	-	-	-	-	-	(7,446)	(7,446)
Disposal of 38% Pirelli Industrial to Cinda fund	-	70,307	(5,085)	(63,704)	1,518	264,500	266,018
Assignment of Pirelli Industrial to Marco Polo	-	-	(6,958)	(282,480)	(289,438)	(326,679)	(616,117)
Acquisition of non-controlling interests (Brazil)	-	-	-	(14,054)	(14,054)	(9,944)	(23,999)
Liquidation of equity investments	-	-	-	-	-	(5,540)	(5,540)
Other	-	-	(147)	917	770	(261)	509
Total at 09/30/2017	**1,904,375**	**(165,572)**	**(84,562)**	**2,449,749**	**4,103,991**	**55,576**	**4,159,567**

(in thousands of euro)	Breakdown of IAS reserves *				
	Reserve for fair value adjustment of available-for-sale financial assets	Reserve for cash flow hedge	Reserve for actuarial gains/losses	Tax effect	**Total IAS reserves**
Balance at 12/31/2016	**(19,282)**	**1,038**	**(44,023)**	**638**	**(61,629)**
Other components of comprehensive income	39,816	(22,217)	(32,225)	3,883	(10,743)
Assignment of Pirelli Industrial	-	-	(602)	(11,441)	(12,043)
Other	(318)	-	171	-	(147)
Balance at 09/30/2017	**20,216**	**(21,179)**	**(76,679)**	**(6,920)**	**(84,562)**

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of euro)

		1/1 - 09/30/2018	1/1 - 09/30/2017
	Net income (loss) before taxes	444,788	232,594
	Reversals of amortisation, depreciation, impairment losses and restatement of property, plant and equipment and intangible assets	293,573	275,226
	Reversal of Financial expenses	249,657	443,666
	Reversal of Financial income	(110,858)	(153,718)
	Reversal of Dividends	(1,672)	(137)
	Reversal of gains/(losses) on equity investments	(2,402)	10,072
	Reversal of share of net income from associates and joint ventures	11,900	8,656
	Taxes paid	(101,118)	(33,701)
	Change in Inventories	(153,292)	(126,146)
	Change in Trade receivables	(355,897)	(299,084)
	Change in Trade payables	(483,893)	(187,358)
	Change in Other receivables/Other payables	(159,693)	(198,107)
	Change in Provisions for employee benefit obligations and Other provisions	(92,964)	(97,651)
	Other changes	3,878	14,188
A	**Net cash flows provided by / (used in) operating activities**	**(457,994)**	**(111,501)**
	Investments in property, plant and equipment	(341,618)	(324,071)
	Disposal of property, plant and equipment/intangible assets	10,195	5,099
	Investments in intangible assets	(6,076)	(3,536)
	Disposal of intangible assets	-	(15,462)
	Acquisition of minorities	(18,492)	-
	Dividends/reserves received from associates	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	1,672	137
B	**Net cash flows provided by / (used in) investing activities**	**(199,037)**	**(340,292)**
	Increase in equity	4,500	1,189,375
	Change in Financial payables	393,366	(1,665,284)
	Change in Financial receivables/Other current financial assets at fair value through income statement - Assets held for trading	(86,814)	223,844
	Financial income / (expenses)	(148,162)	(289,948)
	Dividends paid	(8,366)	(12,742)
C	**Net cash flows provided by / (used in) financing activities**	**154,524**	**(554,755)**
D	**Net cash flows provided by (used in) discontinued operations**	**15,108**	**(74,597)**
E	**Total cash flows provided / (used) during the period (A+B+C+D)**	**(487,399)**	**(1,081,145)**
F	**Cash and cash equivalents at the beginning of the period**	**1,109,640**	**1,523,928**
G	**Exchange differences from translation of cash and cash equivalents**	(72,896)	(50,427)
H	**Cash and cash equivalents at the end of the period (E+F+G)**	**549,345**	**392,356**

EXCHANGE RATES

(local currency vs euro)	Period-end exchanges rates		Change in %	Average exchange rates nine months		Change in %
	09/30/2018	**12/31/2017**		**2018**	**2017**	
Swedish Krona	**10.3090**	9.8438	4.73%	**10.2396**	9.5833	6.85%
Australian Dollar	**1.6048**	1.5346	4.57%	**1.5762**	1.4539	8.41%
Canadian Dollar	**1.5064**	1.5039	0.17%	**1.5372**	1.4546	5.68%
Singaporean Dollar	**1.5839**	1.6024	(1.15%)	**1.6001**	1.5470	3.43%
U.S. Dollar	**1.1576**	1.1993	(3.48%)	**1.1942**	1.1140	7.20%
Taiwan Dollar	**35.3450**	35.6588	(0.88%)	**35.7318**	34.0186	5.04%
Swiss Franc	**1.1316**	1.1702	(3.30%)	**1.1612**	1.0951	6.04%
Egyptian Pound	**20.7860**	21.3245	(2.53%)	**21.2895**	20.0222	6.33%
Turkish Lira (new)	**6.9505**	4.5155	53.93%	**5.4499**	3.9963	36.37%
New Romanian Leu	**4.6637**	4.6597	0.09%	**4.6513**	4.5520	2.18%
Argentinian Peso	**47.7510**	22.3658	113.50%	**47.7510**	18.1093	163.68%
Mexican Peso	**22.0873**	23.6250	(6.51%)	**22.6612**	21.0606	7.60%
South African Rand	**16.4447**	14.8054	11.07%	**15.3943**	14.7055	4.68%
Brazilian Real	**4.6545**	3.9693	17.26%	**4.2949**	3.5407	21.30%
Chinese Renminbi	**7.9634**	7.8365	1.62%	**7.7874**	7.5735	2.82%
Russian Ruble	**76.2294**	68.8668	10.69%	**73.3165**	64.9094	12.95%
British Pound	**0.8873**	0.8872	0.01%	**0.8841**	0.8732	1.25%
Japanese Yen	**131.2300**	135.0100	(2.80%)	**130.8922**	124.6813	4.98%

NET FINANCIAL POSITION

(In thousands of euro)	**09/30/2018**	**12/31/2017**
Current borrowings from banks and other financial institutions	824,343	559,168
Current derivative financial instruments (liabilities)	21,818	11,248
Non-current borrowings from banks and other financial institutions	3,953,564	3,897,089
Non current derivative financial instruments (liabilities)	5,736	54,963
Total gross debt	**4,805,461**	**4,522,468**
Cash and cash equivalents	(549,345)	(1,118,437)
Securities held for trading	-	(33,027)
Other financial assets at fair value through income statement	(20,306)	-
Current financial receivables and other assets**	(28,044)	(36,511)
Current derivative financial instruments (assets)	(74,383)	(21,413)
Net financial debt *	**4,133,383**	**3,313,080**
Non-current derivative financial instruments (assets)	(9,333)	-
Non-current financial receivables and other assets**	(85,755)	(94,585)
Total net financial (liquidity)/debt position	**4,038,295**	**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 of "financial receivables and other assets" is reported net of the relative impairment amounting to euro 2,966 thousand.

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

The Corporate Financial Reporting Manager, Francesco Tanzi declares, pursuant to Article 154-bis, paragraph 2 of the TUF (Finance Consolidation Act), that the accounting information contained in these Interim Financial Report at September 30, 2018 is compliant with the documented results, books and accounting records.

Milan, November 14, 2018

Francesco Tanzi