INTERIM FINANCIAL REPORT

AT SEPTEMBER 30, 2019

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

Milan Company Register 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
	Luca Nicodemi
	Alberto Villani

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[1] Appointment: August 1, 2017, effective 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) and was confirmed as Director and Chairman by the Shareholders' Meeting held on May 15, 2019.

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

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
	Ning Gaoning
	Bai Xinping
	Giovanni Tronchetti Provera

Remuneration Committee

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

Strategies Committee

Chairman	Marco Tronchetti Provera
	Yang Xinqiang
	Bai Xinping
	Giorgio Luca Bruno
Independent Director	Domenico De Sole
	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 overview

The macroeconomic scenario for the first nine months of 2019 saw a slowdown in global growth, weighed down by the prolonged uncertainties linked to geopolitical factors, by the growing threat of protectionism and the vulnerability of emerging markets. More recent data indicates weaker growth during the third quarter of 2019 in the United States, the European Union, China and Brazil. Growth of the Russian economy is instead expected, where improvement was seen during the third quarter thanks to the acceleration of public investments. The continued deceleration of the global economy facilitated a first draft agreement between the US and China (reached during the first half of October), aimed at reducing tensions and reaching a broader agreement on international trade in the short to medium term.

Economic growth, percentage change in GDP

	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3
EU 28	2.5	2.3	1.8	1.5	1.6	1.4	1.2
US	2.9	3.2	3.1	2.5	2.7	2.3	1.9
China	6.8	6.7	6.5	6.4	6.4	6.2	6.0
Brazil	1.2	0.9	1.3	1.1	0.5	1.0	0.9
Russia	1.9	2.0	2.2	2.8	0.6	0.8	1.5

Note: Percentage change of the corresponding period of the previous year. Data are current up to Q3 for China and up to Q2 for other countries.
Source: Q3 estimates by IHS Markit, forecasts for October 2019.

Exchange rates

The euro/US dollar exchange rate for the first nine months of 2019 stood at 1.12, down by -5.9% compared to the same period of 2018. This change reflects the strengthening of the US dollar against the euro and the main currencies of the emerging countries during the third quarter, supported by the expectation of lower European interest rates, the strength of the US economy and, above all, by greater aversion to risk in a climate of trade tensions which has led investors to favour the US dollar as a safe haven currency.

The Chinese yuan rose from an average of 6.52 for the first nine months of 2018 to 6.85 for the same period of 2019 (with a depreciation of -4.9% against the US dollar). The Brazilian real depreciated by -7.2% against the US dollar during the first nine months of 2019 year-on-year, while during the same period Russia's currency depreciated by -5.5% against the dollar.

Key exchange rates	Third quarter		First nine months	
	2019	**2018**	**2019**	**2018**
US$ per euro	1.11	1.16	1.12	1.19
Chinese yuan per US$	6.99	6.80	6.85	6.52
Brazilian real per US$	3.97	3.96	3.89	3.61
Russian rouble per US$	64.62	65.53	64.99	61.39

Note: Exchange rates are averages for the period. Source: national central banks.
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Raw materials prices

The price of the main raw materials decreased during the first nine months of 2019 compared to the same period of 2018, affected by the slowdown in global demand. The average price of Brent stood at US$ 64.7 per barrel, down by -10.9% compared to the same period of 2018. Brent prices also weakened on a quarterly basis (US$ 62.0 per barrel for the third quarter compared to US$ 68.3 for the second quarter) despite the temporary interruption of production in Saudi Arabia after a terrorist attack in September.

The price trend for Butadiene followed that of oil with an average of euro 852 per tonne for the first nine months of 2019, down by -14.5% compared to the same period of 2018.

The trend in natural rubber prices was instead more stable, with a +1.5% increase for the first nine months of 2019.

Raw material prices	Third quarter			First nine months		
	2019	**2018**	% change	**2019**	**2018**	% change
Brent ($ / barrel)	62.0	75.9	-18.3%	64.7	72.7	-10.9%
Butadiene (€ / tonne)	790	1142	-30.8%	852	996	-14.5%
Natural rubber TSR20 ($ / tonne)	1345	1328	1.3%	1419	1398	1.5%

Note: Data are averages for the period. Source: IHS Markit, Reuters.

Trend in Car Tyre Markets

Tyre sales for the first nine months of 2019 recorded a fall of -1.4% due to macroeconomic uncertainties and a slowdown in demand for Original Equipment, in context of a tyre market which declined by -6.3%. During the same period vehicle production, in fact, recorded a decline of -5.9% which was particularly accentuated in China at -11.5% and Europe at -4.5%. This trend saw improvement during the third quarter: -0.4% for the overall tyre market (-1.9% for the first half-year), with Original Equipment down by -3.9% (-7.3% for the first half-year) in the face of vehicle production which was down by -3.2%, flat in Europe and still weak in China (-5.3%).

New Premium (tyres with a rim diameter ≥18 inches) was the segment with the highest growth: +5.7% at global level for the first nine months, with +7.7% for the third quarter thanks to the good performance by the Replacement channel (+11.0% for the third quarter, +10.4% for the first nine months) and to the partial recovery of the Original Equipment market (+3.1% for the third quarter, -0.2% for the first nine months) mainly in EMEA (+4.4% for the third quarter, -0.7% for the first nine months), APAC (+3.5% for the third quarter, -0.4% for the first nine months) and North America (+1.8% for the third quarter, -0.1% for the first nine months).

The Standard segment (tyres with a rim diameter ≤17 inches) declined: -2.6% for the first nine months of 2019 (-1.8% for the third quarter) with Original Equipment down by -8.1% (-6.0% for the third quarter), particularly in EMEA (-10.4%), APAC (-8.9%) and North America (-4.7%) with the Replacement channel at -0.7% (-0.4% for the third quarter), and negative results in Russia (-6.1%), South America (-5.3%) and EMEA (-2.7%).

Δ % YoY	**1Q19**	**2Q19**	**1H19**	**3Q19**	**9M19**
TOTAL CAR TYRE MARKET					
Total	**-1.5%**	**-2.2%**	**-1.9%**	**-0.4%**	**-1.4%**
• *Original Equipment*	*-6.1%*	*-8.5%*	*-7.3%*	*-3.9%*	*-6.3%*
• *Replacement*	*+0.5%*	*+0.5%*	*+0.5%*	*+0.9%*	*+0.6%*
NEW PREMIUM MARKET ≥18"					
Total	**+5.5%**	**+3.8%**	**+4.7%**	**+7.7%**	**+5.7%**
• *Original Equipment*	*-0.9%*	*-2.7%*	*-1.8%*	*+3.1%*	*-0.2%*
• *Replacement*	*+11.1%*	*+9.2%*	*+10.1%*	*+11.0%*	*+10.4%*
STANDARD MARKET ≤17"					
Total	**-2.8%**	**-3.3%**	**-3.1%**	**-1.8%**	**-2.6%**
• *Original Equipment*	*-7.7%*	*-10.3%*	*-9.0%*	*-6.0%*	*-8.1%*
• *Replacement*	*-0.9%*	*-0.7%*	*-0.8%*	*-0.4%*	*-0.7%*

Source: Pirelli estimates

SIGNIFICANT EVENTS OF THE FIRST NINE MONTHS OF 2019

On **April 8, 2019**, a judgement which became final (*res judicata*) was passed by the *Regional Federal Court of the 1st Region* (TRF-1 with registered office in Brasilia, Federal District) which recognised the right of exclusion, for the Brazilian subsidiary Pirelli Pneus Ltda, of the ICMS tax (Imposto Sobre Operações Relativas à Circulação or state Value Added Tax for the circulation of goods and the provision of interstate and inter-municipal transport and communication services) from the base calculation of PIS and COFINS social security contributions for the 2003-2014 period. Following this ruling, as was disclosed to the market on **April 1, 2019**, during the second quarter a positive impact on the net income of approximately euro 102 million was recognised in the Income Statement.

On **May 13, 2019** Pirelli announced the reorganisation of its production facilities in Brazil in order to improve its competitiveness in the country, through the creation of a technology hub for High Value Car, Motorsport and Motorcycle tyres at Campinas, to where the production of Motorcycle tyres currently produced at Gravataì will be transferred. An investment plan of euro 120 million is planned for the 2019-2021 period for the modernisation and conversion of production facilities from Standard to High Value, plus the continuous improvement of the mix and product quality of the Campinas (Sào Paolo) and Feira de Santana (Bahia) manufacturing plants. The resources for this reorganisation derive mainly from the signing of the Patent Box tax agreement, which took place in October 2018, and which as was expected at the time were destined for the further focusing on High Value and to the more rapid reduction of the Standard segment. The optimisation of the Campinas plant will allow for the recruitment of approximately 300 people by 2022, and during the period of the transfer of production from Gravataì to Campinas, with the objective of finding an agreement with the unions, all mitigation measures will be undertaken to reduce the social impacts on the Gravataì plant, which employed approximately 900 people on the announcement date.

On **May 15, 2019** the Pirelli & C. S.p.A. Shareholders' Meeting - convened as an ordinary session - approved the 2018 Financial Statements, as well as the distribution of a dividend of euro 0.177 per ordinary share, equal to a dividend amount of euro 177 million. The Shareholders' Meeting also confirmed Ning Gaoning - already co-opted by the Board on August 7, 2018 - for the position of Director and Chairman of the Board of Directors. The appointment of Ning Gaoning, who does not possess the requisites to qualify as independent, and who qualified as a non-executive Director, will expire together with the current Board of Directors at the time of the approval of the Financial Statements at December 31, 2019. The Shareholders’ Meeting also expressed its favourable opinion on the Remuneration Policy.

On **September 13, 2019** Pirelli announced that the 2020-2022 Industrial Plan will be presented to the financial community on December 11, 2019 in Milan.

GROUP PERFORMANCE AND RESULTS

In this document, in addition to the financial measures 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.

Reference should be made to the paragraph *"Alternative Performance Indicators"* for a more analytical description of these indicators.

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This Interim Financial Report at September 30, 2019 has been prepared by applying the new accounting standard IFRS 16 – Leases, which came into force as of January 1, 2019 (transition date).

Following the application of this standard, at the transition date, the Group accounted for the following impacts in relation to lease contracts previously classified as operating:

- a financial liability of euro 494.3 million, equal to the present value of residual future payments at the transition date, discounted using the incremental borrowing rate applicable at the transition date for each contract. Financial liabilities at September 30, 2019 amounted to euro 477.9 million;

- a right of use included under assets of euro 491.7 million, equal to the value of the financial liability at the transition date, net of any accruals and deferrals, relative to the lease and recognised in the Statement of Financial Position at the transition date. The right of use at September 30, 2019 amounted to euro 463.8 million.

As of January 1, 2019 lease instalments previously included in the EBITDA have been recognised as a reduction of lease obligations (for the capital portion), and under financial expenses (for the interest portion). At the same time, the amortisation of the rights of use of lease assets which had initially been recognised under assets in the Statement of Financial Position in respect of lease obligations, were recognised in the EBIT.

The Income Statement, Statement of Financial Position and Financial Statement figures at September 30, 2019 include the impacts deriving from the application of the new standard, while the comparative data for 2018 have not been restated. With the transition, the Group did in fact adopt the modified retrospective method, and has recognised the cumulated effects deriving from the first application at January 1, 2019.

* * *

During the first nine months of 2019, the tyre sector was affected by the previously mentioned slowdown in market demand for the Original Equipment channel, where the decline in vehicle production (-5.9% for the first nine months) which lasted longer than expected (-3.2% for the third quarter, compared to the expected stabilisation) led to a drop in tyre sales of -6.3% (-3.9% for the third quarter). In order to guarantee an adequate level of saturation in the manufacturing plants and contain the formation of inventories, many operators in the sector redirected production originally planned for the Original Equipment channel to the Replacement market, with the consequent impact on prices. These reductions mainly affected the Standard segment and High Value products with a lower technological content.

Given this context, Pirelli continued its strategy of, focusing on High Value which is less exposed to competitive pressure, of consolidating its leadership position and of strengthening its presence on the *Specialties* ≥18" market whose products are characterised by a high technological content.

For the Standard segment, where demand remained weak (-2.6% for the first nine months of 2019, -1.8% for the third quarter), the Company continued with the reduction of exposure to less profitable products, at the same time intensifying measures to normalise the level of inventories, which had increased by the end of 2018 due to the crisis in the Brazilian economy. By the end of September 2019, Pirelli had reached inventory levels which were consistent with the year-end target of a 20.5%-21% share of revenues, compared to the 21.7% at the end of 2018.

Pirelli's results for the first nine months of 2019 were characterised by:

- revenues of euro 4,036.4 million, a growth of +2.8% (+2.3% excluding the exchange rate effect), marked by the strengthening of the high-end products range (a +7.5% growth in High Value revenue which accounted for 67.4% of total sales), and by the continuation of the reduction of the Standard segment (-5.7% in volumes);

- EBIT adjusted which equalled euro 685.0 million (euro 700.1 million for the first nine months of 2018) with a margin equal to 17.0% (17.8% for the first nine months of 2018) also due to higher under-utilisation costs for Standard segment capacity linked to lower production for the purposes of reducing inventories for this segment;

- the net income related to continuing operations stood at euro 385.7 million, a growth of +2.0% compared to euro 378.1 million for the first nine months of 2018;

- a Net Financial Position which was negative at euro 4,480.2 million. Excluding lease obligations of euro 477.9 million which were recorded following the introduction of IFRS 16, the net financial position equalled euro 4,002.3 million (euro 3,180.1 million at December 31, 2018), impacted by the usual seasonality of working capital and the payment of dividends amounting to euro 177 million. During the first nine months of 2019, net cash flow before dividends, extraordinary transactions and investments improved (euro -611.5 million compared to euro -961.1 million at September 30, 2018) with cash absorption lower by euro 349.6 million. During the third quarter, the generation of net cash flow was positive to the amount of euro 11.6 million, a marked improvement compared to the third quarter of 2018 (negative at euro 131.4 million) thanks to the management of working capital.

The main actions underlying these results can be summarised as follows:

- **strengthening of the High Value** which represented 67.4% of revenues (up by +2.9 percentage points compared to 64.5% for the first nine months of 2018). High Value volumes recorded a growth of +6%, with sustained growth during the third quarter (+10.2%) both for the Original Equipment channel, also following the expansion of the customer portfolio, and for the Replacement channel;

- **reduction of exposure to the Standard** with a -12.2% decline in volumes (-8.8% for the third quarter) driven by the progressive exit from products with lower rim diameters and lower profitability, given the general slowdown of the Standard segment;

  The combination of High Value and Standard performances resulted in an overall change in volumes of -3.1% for the first nine months, +0.6% for the third quarter;

- **improvement of the price/mix component**: +5.4% for the first nine months of 2019 due to the increasing share of high-end range products and the continued improvement of the product and channel mixes. The third quarter figure (+3.5%) reflects, the rebalancing of sales between the Original Equipment and Replacement channels compared to the previous quarters, (a negative performance for Original Equipment sales for the first half-year, but positive for the third quarter), also less contribution from the migration of Standard products towards High Value products, and the previously mentioned pressure on the Standard segment and High Value products with a lower technological content ("*non-Specialty");*

- **the implementation of the efficiency program** (euro 56.1 million for the first nine months of 2019, equal to 1.4% of revenues) which offset rising costs inflation (euro -54.9 million for the first nine months of 2019). These programs involved product and industrial activities ranging from the optimisation of raw materials costs and the simplification of products to improved productivity, thanks to the increasing digitalisation of processes;

- **continued cost recovery:** (euro 40 million during the first nine months, euro 10 million during the third quarter, mainly for marketing and advertising costs, consultancy fees and general and administrative expenses) in response to slowing market demand and the pressure on prices. Some of the cost-cutting initiatives initially planned for 2019 will be replaced by medium-term cost reduction actions which will contribute to the reduction of the break-even point, allowing for greater flexibility when dealing with volatile macro-economic and market scenarios;

- **effective reduction of inventories:** (-22% in Standard volumes) through the reduction of Standard production. Thanks to these actions, by the end of September 2019 inventories had reached 20.8% of the revenues of the last twelve months (22.3% at June 30, 2019), consistent with the year-end target of 20.5%-21% (21.7% at the end of 2018), with a favourable impact on cash generation for the quarter.

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

(in millions of euro)		**1/1 - 09/30/2019**	**1/1 - 09/30/2018**
Net sales		**4,036.4**	**3,925.2**
EBITDA adjusted without start-up costs (°)		**1,007.6**	**936.3**
% of net sales		25.0%	23.9%
EBITDA adjusted (°°)		**978.5**	**907.7**
% of net sales		24.2%	23.1%
EBITDA (°°°)		**977.4**	**885.0**
% of net sales		24.2%	22.5%
EBIT adjusted without start-up costs (°)		**714.4**	**732.1**
% of net sales		17.7%	18.7%
EBIT adjusted		**685.0**	**700.1**
% of net sales		17.0%	17.8%
Adjustments:	- amortisation of intangible assets included in PPA	(86.0)	(86.0)
	- non-recurring, restructuring expenses and other	(72.9)	(22.7)
	- income from Brazilian tax credits	71.8	-
EBIT		**597.9**	**591.4**
% of net sales		14.8%	15.1%
Net income/(loss) from equity investments		1.4	(7.8)
Financial income/(expenses) (°°°)		(75.2)	(138.8)
- of which financial income from Brazilian tax credits		*100.6*	-
Net income/(loss) before tax		**524.1**	**444.8**
Tax expenses		(138.4)	(66.7)
Tax rate %		26.4%	15.0%
Net income/(loss) related to continuing operations		**385.7**	**378.1**
Eanings/(loss) per share related to continuing operations (in euro per share)		0.37	0.37
Net income/(loss) related to continuing operations adjusted		380.3	403.5
Net income/(loss) related to discontinued operations		-	(6.7)
Total net income/(loss)		**385.7**	**371.4**
Net income attributable to owners of the Parent Company		372.7	362.5

(°) Start-up costs refers to contribution to EBITDA and EBIT (amounting to euro 29.1 million (euro 28.6 million in the first nine months of 2018) and euro 29.4 million (euro 32.0 million in the first nine months of 2018) respectively of the Cyber and Velo activities and costs sustained for the digital transformation of the Group.

(°°) Adjustments refers to non recurring and restructuring expenses amounting to euro 67.8 million (euro 11.7 million in the first nine months of 2018), income from Brazilian tax credits amounting to euro 71.8 million and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018 amounting to euro 5.1 million (euro 11.0 million in the first nine months of 2018)

(°°°) The item includes for 2019, the impacts deriving from the application of the new accounting standard IFRS 16 - Leases to the amount of euro 77.8 million on EBITDA and euro -18 million on financial expenses.

(in millions of euro)	**09/30/2019**	**12/31/2018**	**09/30/2018**
Fixed assets related to continuing operations without IFRS 16	8,972.9	9,017.8	8,880.6
Right of use IFRS 16	463.8	n/a	n/a
Fixed assets related to continuing operations	**9,436.7**	**9,017.8**	**8,880.6**
Inventories	1,103.5	1,128.5	1,048.9
Trade receivables	976.2	628.0	967.7
Trade payables	(1,146.7)	(1,604.7)	(1,005.0)
Operating working capital related to continuing operations	**933.0**	**151.8**	**1,011.6**
% of net sales (*)	17.3%	2.9%	19,3%
Other receivables/other payables	298.6	34.3	98.7
Net working capital related to continuing operations	**1,231.6**	**186.1**	**1,110.3**
% of net sales (*)	22.9%	3.6%	21.2%
Net invested capital held for sale	0.8	10.7	11.4
Net invested capital	**10,669.1**	**9,214.6**	**10,002.3**
Equity	**4,742.4**	**4,550.9**	**4,464.8**
Provisions	1,446.5	1,483.6	1,499.2
Net financial (liquidity)/debt position without IFRS 16	**4,002.3**	**3,180.1**	**4,038.3**
Lease obligations IFRS 16	477.9	n/a	n/a
Total Net financial (liquidity)/debt position	**4,480.2**	**3,180.1**	**4,038.3**
Equity attributable to owners of the Parent Company	4,650.4	4,468.1	4,383.6
Investments in property, plant and equipment and intangible assets without IFRS16	242.3	463.4	296.7
Investments in property, plant and equipment and intangible assets IFRS16	25.7	n/a	n/a
Research and development expenses	173.2	219.0	166.6
% of net sales	4.3%	4.2%	4.2%
Research and development expenses - High Value	160.0	202.9	152.4
% on sales High Value	5.9%	6.1%	6.0%
Employees (headcount at end of period)	31,724	31,489	31,902
Industrial sites (number)	19	19	19

(°) during interim periods net sales are annualised

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	
		2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Net sales		**1,313.8**	1,310.3	**1,341.0**	1,320.0	**1,381.6**	1,294.9	**4,036.4**	3,925.2
	yoy	0.3%		1.6%		6.7%		2.8%	
	*organic yoy **	1.2%		1.6%		4.1%		2.3%	
EBITDA adjusted without start-up costs		**327.0**	298.0	**330.5**	310.3	**350.1**	328.0	**1,007.6**	936.3
	% of net sales	24.9%	22.7%	24.6%	23.5%	25.3%	25.3%	25.0%	23.9%
EBITDA adjusted		**315.6**	288.1	**320.5**	299.8	**342.4**	319.8	**978.5**	907.7
	% of net sales	24.0%	22.0%	23.9%	22.7%	24.8%	24.7%	24.2%	23.1%
EBITDA		**308.2**	282.4	**369.7**	290.4	**299.5**	312.2	**977.4**	885.0
	% of net sales	23.5%	21.6%	27.6%	22.0%	21.7%	24.1%	24.2%	22.5%
EBIT adjusted and without start-up costs		**230.7**	229.4	**231.7**	243.9	**252.0**	258.8	**714.4**	732.1
	% of net sales	17.6%	17.5%	17.3%	18.5%	18.2%	20.0%	17.7%	18.7%
EBIT adjusted		**219.2**	218.4	**221.3**	231.7	**244.5**	250.0	**685.0**	700.1
	% of net sales	16.7%	16.7%	16.5%	17.6%	17.7%	19.3%	17.0%	17.8%
Adjustments: - amortisation of intangible assets included in PPA		(28.7)	(28.7)	(28.6)	(28.6)	(28.7)	(28.7)	(86.0)	(86.0)
- non-recurring, restructuring expenses and other		(7.4)	(5.7)	(22.6)	(9.4)	(42.9)	(7.6)	(72.9)	(22.7)
- income from Brazilian tax credits		-	-	71.8	-				
EBIT		**183.1**	184.0	**241.9**	193.7	**172.9**	213.7	**597.9**	591.4
	% of net sales	13.9%	14.0%	18.0%	14.7%	12.5%	16.5%	14.8%	15.1%

* before exchange rate effect and high inflation accounting in Argentina

Net sales amounted to euro 4,036.4 million and recorded an organic growth of +2.3% compared to the previous financial year, or +2.8% including the combined impact of the exchange rate effect plus the adoption of hyper-inflation accounting in Argentina (totalling +0.5%). There was a net improvement in revenue growth during the third quarter: +4.1% in organic terms, +6.7% in total growth.

High Value revenues for the first nine months of 2019 amounted to euro 2,719.9 million, a growth of +7.5% (+5.7% excluding the positive impact of the exchange rate effect of +1.8%) which accounted for 67.4% of turnover (+2.9 percentage points compared to the first nine months of 2018).

(in millions of euro)	**1/1 - 09/30/2019**	% of total	**1/1 - 09/30/2018**	% of total	Change YoY	Organic change YoY
High Value	2,719.9	67.4%	2,529.8	64.5%	7.5%	5.7%
Standard	1,316.5	32.6%	1,395.4	35.5%	-5.7%	-4.0%
Total net sales	**4,036.4**	**100.0%**	**3,925.2**	**100.0%**	**2.8%**	**2.3%**

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

	2019			
	1Q	**2Q**	**3Q**	**Cumulative at 09/30**
Volume	-6.5%	-3.5%	0.6%	-3.1%
of which:				
- High Value	*4.5%*	*3.4%*	*10.2%*	*6.0%*
- Standard	*-16.6%*	*-11.0%*	*-8.8%*	*-12.2%*
Price/mix	7.7%	5.1%	3.5%	5.4%
Change on a like-for-like basis	**1.2%**	**1.6%**	**4.1%**	**2.3%**
Translation effect/High inflation Argentina	-0.9%	-	2.6%	0.5%
Total change	**0.3%**	**1.6%**	**6.7%**	**2.8%**

The performance for sales volumes (-3.1% for the first nine months of 2019, +0.6% for the third quarter) reflected the different trend between High Value and Standard.

High Value volumes grew by +6%, with a net improvement for the third quarter (+10.2%) compared to the preceding quarters (+4.5% and +3.4% respectively for the first and second quarter). Volume growth for Car tyres ≥18" was more sustained: +7.8% for the first nine months compared to the +5.7% of the market, with +12.7% for the third quarter only compared to the +7.7% of the market, with an improvement in market share in the main geographic regions. Particularly for the third quarter, Pirelli recorded double-digit growth not only for the Replacement channel (+12.1%), thanks to the pull-through effect and to the success of the ≥18" *Specialties*, but also for the Original Equipment channel (+13.6%) which decisively outperformed the market (+3.1 %) due to:

- new supplies in Europe of High Value high technological content products which are compliant with the new regulations for the reduction of CO_2 emissions;
- new contracts in North America and APAC.

The delta between the growth performance of High Value and that of Car tyres ≥18" was attributable to the slowdown in demand for *Specialties* ≤17" particularly on the Original Equipment channel, consistent with the fall in Car tyre production.

There was an opposite performance by the Standard segment which recorded a decline of -12.2% compared to the first nine months of 2018, (-8.8% for the third quarter). This trend was impacted by:

- on the one hand, by the fall in the demand for Standard products in all markets (-2.6% in global performance for the Car Standard segment, -4.9% for LatAm, -4.7% for Russia and Nordics, and -4.2% for EMEA);
- on the other, by Pirelli's decision to continue the reduction in volumes of lower profitability products.

The price/mix improvement (+5.4% for the first nine months) was supported by the growing turnover share of High Value and by the improvement of the mix for the Standard segment. Price/mix performance which was more contained for the third quarter (+3.5%) was affected by:

- the rebalancing of sales between the Original Equipment and Replacement channels compared to previous quarters;
- a decreased reduction in Standard volumes compared to the first half-year (-8.8% compared to -13.9% for the first half-year);
- the increase in the competitive pressure on prices, which was more contained for High Value thanks also to its high exposure to the *Specialties*.

There was a positive exchange rate effect (+0.5% for the first nine months, +2.6% for the third quarter) following the appreciation of the US dollar and less volatility in the currencies of emerging countries against the euro.

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

	1/1 - 09/30/2019				**09/30/2018 ****
	Euro\mln	*%*	*yoy*	*Organic*	*%*
EMEA	1,758.8	43.5%	*-2.4%*	*-2.0%*	45.9%
North America	842.9	20.9%	*11.9%*	*5.7%*	19.2%
APAC	729.2	18.1%	*6.8%*	*5.2%*	17.4%
South America	508.1	12.6%	*1.7%*	*7.2%*	12.7%
Russia and Nordics	197.4	4.9%	*4.6%*	*5.4%*	4.8%
Total	**4,036.4**	**100.0%**	***2.8%***	***2.3%***	**100.0%**

* before exchange rate effect and high inflation accounting in Argentina
**data for 2018 have been restated according to the new regional aggregation

EMEA (43.5% of sales) closed the first nine months with a change in organic revenues of -2.0% (-2.4% including the negative exchange rate effect of -0.4 percentage points), impacted by the strong drop in sales for the Standard segment (organic change of -12.3%), consistent with the Company's strategy to reduce exposure to this segment.

The High Value segment recorded an organic revenue growth of +2.3%, which was an improvement compared to the first half-year (an organic growth of +0.6%) thanks to a recovery in sales for the Original Equipment channel and to the solid performance of the Replacement channel.

Profitability was in the mid-teens range, and had declined compared to the first nine months of 2018, due to the impact of the previously mentioned decline in Standard sales volumes and for Original Equipment products with lower technological content.

North America (20.9% of sales) recorded an organic revenue growth of +5.7% (+11.9% including the positive exchange rate effect of +6.2 percentage points) driven by High Value products (an organic growth of +8.7%), where Pirelli recorded an increase in market share for the Original

Equipment channel thanks to new contracts, and for the Replacement channel thanks to the success of *Specialties* tyres ≥18'' and *All Season* products.

Profitability (EBIT margin adjusted) reached the twenties level, which was an improvement compared to the previous year, thanks to, the high-end range's increasing share of turnover, to costs efficiency efforts, and to the progressive strengthening of the US dollar.

APAC (18.1% of sales) which recorded an organic revenue growth of +5.2% (+6.8% including the positive exchange rate effect of 1.6 percentage points) was the geographic region with the highest growth and profitability (an EBIT margin adjusted in the twenties range), consistent with the same period of the previous year. The performance of High Value revenues (a +5.5% organic growth) was affected by the slowdown in Original Equipment sales due to the fall in Premium vehicle production (-4.5% in China). Sales improved significantly instead for the Replacement channel, which saw an increase in market share for Car ≥18" tyres, thanks to the pull-through effect and to an ever wider commercial presence which counts over 4,500 points of sale.

Sales for the Standard segment grew with an organic change of +4.3% (+6.0% including the exchange rate effect which was positive at +1.7 percentage points), thanks to the recovery in the Replacement market for ≥17" rim diameter tyres.

South America (12.6% of sales) recorded an organic revenue growth of +7.2% (+1.7% including the exchange rate effect plus the adoption of inflation accounting in Argentina totalling -5.5 percentage points), with a drop in volumes of -9.8% as a result of:

- market weakness (-4.7% for the total car market, -5.1% for the Replacement channel and -3.0% for the Original Equipment market);
- the continued focus on mix, with the reduction of sales of less profitable Standard segment products with lower rim diameters;
- the allocation of a portion of production for export to North America in view of the growing demand for High Value Pirelli products, and the continued growth of the mix recorded by the Brazilian factories.

High Value revenues rose sharply (+37.0% excluding the exchange rate effect) with Pirelli gaining over 5 percentage points which further strengthened its market leadership position.

The price/mix saw a marked improvement (+17% for the first nine months of 2019 compared to the corresponding period of 2018), thanks to the price increases implemented in Brazil during the fourth quarter of 2018, and to the strong improvement in the product mix.

Profitability (EBIT margin adjusted) in the high single-digits range had improved compared to the first nine months of 2018, due to the improvement and conversion of the mix. Efficiency measures helped in reducing the impact of costs arising from the under-utilisation of factories. In order to optimise inventory levels, during the third quarter the Company reduced production in local factories.

Russia and Nordics (4.9% of sales) recorded an organic change in revenues of +5.4% (+4.6% including the negative exchange rate effect of -0.8 percentage points). The strategy of focusing on the more profitable segments and on market recovery impacted favourably on the results of the first nine months, with an organic growth in High Value revenues of +33.9% (a +33.0% growth including the negative exchange rate effect of -0.9 percentage points), and an organic reduction in Standard revenues of -2.9% (-3.7% including the exchange rate effect).

Profitability at Mid-teens level, had declined compared to the first nine months of 2018 due to higher under-utilisation costs for the Standard segment. In order to optimise Standard inventory levels in Europe, which is Russia's main target market, local production was reduced during the third quarter.

EBITDA adjusted without start-up costs at September 30, 2019 was equal to euro 1,007.6 million, a growth of +7.6% compared to euro 936.3 million for the corresponding period of 2018. It includes a benefit of euro 77.8 million deriving from the application - as of January 1, 2019 - of the new accounting standard IFRS 16 which established a new method of accounting for lease contracts.

EBIT adjusted without start-up costs equalled euro 714.4 million (euro 732.1 million for the first nine months of 2018). The EBIT margin adjusted without start-up costs stood at 17.7% (18.7% for the first nine months of 2018), also due to higher under-utilisation costs for Standard capacity linked to lower production for the purposes of normalising the level of inventories.

EBIT adjusted equalled euro 685.0 million (euro 700.1 million for the first nine months of 2018) with a margin equal to 17.0% (17.8% for the same period of 2018). Internal levers (price/mix, efficiencies and the costs reduction program) contributed in containing the impacts of the external scenario (an increase in the cost of production factors, weakness in market demand and the pressure on prices).

In more detail:

- improvement in the price/mix (euro 120.6 million) offset the rise in the price of raw materials (euro -67.6 million) and the previously mentioned fall in volumes (euro -53.9 million);

- industrial efficiencies (euro 56.1 million, 1.4% of revenues) which offset costs inflation (euro -54.9 million);

- the cost reduction plan equal to euro 40 million (included under the item *"Amortisation, Depreciation and Other costs"* and aimed mainly at the general and administrative expenses, consultancy fees, and marketing and advertising costs for the Standard segment) contributed in offsetting the aforementioned growing pressure on prices, and in covering higher costs associated with the development of High Value and costs arising from the under-utilisation of the Standard capacity (approximately euro 10 million included under the item *“Amortisation, Depreciation and Other costs”*) following lower production levels to normalise the level of inventories for this segment;

- substantially stable start-up costs (a benefit of euro +3 million on the EBIT, which went from euro -32 million euro for the first nine months of 2018 to euro -29 million for September 2019) were mainly attributable to the digital transformation of the Group.

(in millions of euro)	**1 Q**	**2 Q**	**3 Q**	**Cumulative at 09/30**
2018 EBIT Adjusted	**218.4**	**231.7**	**250.0**	**700.1**
- Internal levers:				
Volumes	(37.7)	(19.2)	3.0	(53.9)
Price/mix	62.7	37.9	18.0	120.6
Amortisation, depreciation and other costs	3.4	5.3	(23.5)	(16.8)
Efficiencies	16.4	19.7	20.0	56.1
- External levers:				
Cost of production factors (commodities)	(27.0)	(31.5)	(9.1)	(67.6)
Cost of production factors (labour/energy/others)	(14.9)	(20.0)	(20.0)	(54.9)
Difference from foreign currency translation	(2.1)	(2.6)	6.1	1.4
Total change	**0.8**	**(10.4)**	**(5.5)**	**(15.1)**
2019 EBIT adjusted	**219.2**	**221.3**	**244.5**	**685.0**

EBIT which amounted to euro 597.9 million (compared to euro 591.4 million for the first nine months of 2018) included:

- the amortisation of intangible assets identified during the Purchase Price Allocation (PPA) of euro 86.0 million (consistent with the first nine months of 2018);

- non-recurring and restructuring expenses to the amount of euro 67.8 million (euro 11.7 million for the first nine months of 2018), of which approximately euro 61.3 million was for the impairment of property, plant and equipment and other costs for restructuring mainly in Brazil and Italy, and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018 to the amount of euro 5.1 million (euro 11 million for the first nine months of 2018);

- income of euro 71.8 million due to the recognition of tax credits in Brazil, net of the associated legal expenses.

Income from equity investments was positive to the amount of euro 1.4 million (negative at euro 7.8 million for the first nine months of 2018 which mainly included the pro-rata share of the loss attributable to the Indonesian joint venture PT Evoluzione Tyres of euro -11.6 million, which was partially offset by the positive result of euro 3.7 million deriving from the fair value valuation of the investment in Mediobanca S.p.A. during the period up until its disposal).

Net financial expenses amounted to euro 75.2 million (euro 138.8 million for the first nine months of 2019) which mainly reflected:

- net financial expenses of euro 157.8 million, an increase euro 19.0 million compared to the first nine months of 2018, mainly due to the effects of the adoption of hyper-inflation accounting in Argentina;
- the positive effect to the amount of euro 100.6 million deriving from the recognition of tax credits in Brazil;
- the negative impact of euro 18 million in lease expenses deriving from the application of the new accounting standard IFRS 16 - Leases.

The cost of debt year-on-year (last 12 months) which refers to expenses relative to the net financial debt of the Group without IFRS 16 stood at 2.99%, consistent with the figures recorded at December 31, 2018 (2.95%). The reduced exposure of the net financial debt to high interest rate currencies made it possible to offset the negative effects due, on the one hand, to the exit from the perimeter of net positive accounting effects (repricing of the debt and the make-whole option for the early repayment of the bond issue) during the first quarter of 2018, and on the other hand, due to the increase in interest rates in Romania.

Tax expenses for the first nine months of 2019 amounted to euro 138.4 million against a net income before tax of euro 524.1 million, with a tax rate which at 26.4% was consistent with the expected tax rate for the 2019 financial year. During the first nine months of 2018 the tax rate equalled 15% in that it included the benefit derived from the application of the Patent Box subsidised tax regime agreement signed on October 15, 2018 with the Italian Tax Office.

Net income related to continuing operations amounted to euro 385.7 million compared to the positive result of euro 378.1 million for the corresponding period of 2018. This result also benefitted from tax credits in Brazil of euro 102 million.

Net income related to continuing operations adjusted amounted to euro 380.3 million, compared to euro 403.5 million for the same period of 2018.

The following table shows the calculation for net income related to continuing operations adjusted:

(in millions of euro)	**Cumulative at 09/30**	
	2019	**2018**
Net income/(loss) related to continuing operations	**385.7**	**378.1**
Amortisation of intangible assets included in PPA	86.0	86.0
Non-recurring and restructuring expenses	67.8	11.7
Income from Brazilian tax credits	(71.8)	-
Retention plan	5.1	11.0
Financial income from Brazilian tax credits	(100.6)	-
Other net financial income	-	0.3
Tax	8.1	(83.6)
Net income/(loss) related to continuing operations adjusted	**380.3**	**403.5**

Net income related to discontinued operations for the first nine months of 2018 included the financial data of some of the residual Industrial activities in China and Argentina, whose separation was for the most part completed at the end of 2018.

Net income attributable to the owners of the Parent Company amounted to euro 372.7 million compared to the positive result of euro 362.5 million for the corresponding period of 2018.

Equity went from euro 4,550.9 million at December 31, 2018 to euro 4,742.4 million at September 30, 2019.

Equity attributable to the owners of the Parent Company at September 30, 2019 amounted to euro 4,650.4 million compared to euro 4,468.1 million at December 31, 2018.

The change is shown in the table below:

(in millions of euro)	**Group**	**Non-controlling interests**	**Total**
Equity at 12/31/2018	**4,468.1**	**82.8**	**4,550.9**
Translation differences	(11.1)	4.7	(6.3)
Net income/(loss)	372.7	13.0	385.7
Actuarial gains/(losses) on employee benefits	(11.8)	-	(11.8)
Dividends approved/paid	(177.0)	(8.9)	(185.9)
High inflation accounting Argentina	21.8	-	21.8
Other	(12.3)	0.4	(12.0)
Total changes	**182.3**	**9.2**	**191.5**
Equity at 09/30/2019	**4,650.4**	**92.0**	**4,742.4**

The **Net Financial Position** was negative to the amount of euro 4,480.2 million (euro 4,002.3 million excluding lease obligations pursuant to IFRS 16 of euro 477.9 million), compared to euro 3,180.1 million at December 31, 2018. It was composed as follows:

(in millions of euro)	09/30/2019	12/31/2018
Current borrowings from banks and other financial institutions without IFRS 16	1,377.0	800.1
Current derivative financial instruments	31.7	53.5
Non-Current borrowings from banks and other financial institutions without IFRS 16	3,693.3	3,929.1
Non-Current derivative financial instruments	14.1	13.8
Lease obligations IFRS 16	477.9	-
Total gross debt	**5,594.0**	**4,796.5**
Cash and cash equivalents	(781.2)	(1,326.9)
Other financial assets at fair value through Income Statement	(14.7)	(27.2)
Current financial receivables and other assets**	(40.5)	(27.4)
Current derivative financial instruments	(68.1)	(91.2)
Net financial debt *	**4,689.5**	**3,323.8**
Non-Current derivative financial instruments	(93.7)	(20.1)
Non-current financial receivables and other assets**	(115.6)	(123.6)
Total net financial (liquidity)/debt position	**4,480.2**	**3,180.1**
Lease obligations IFRS 16	(477.9)	-
Net financial (liquidity)/debt position without IFRS 16	**4,002.3**	**3,180.1**

* Pursuant to Consob Notice of July 28, 2006 and in compliance with ESMA/2013/319 Recommendations.

** The amount for "financial receivables and other assets" is reported net of the relative provision for impairment amounting to euro 8.6 million as at September 30, 2019 and euro 6.1 million as at December 31, 2018.

The **structure of gross debt** which amounted to euro 5,594.0 million, was as follows:

(in millions of euro)	09/30/2019	Maturity date					
		within 1 year	between 1 and 2	between 2 and 3	between 3 and 4	between 4 and 5	more than 5 years
Use of unsecured financing ("Facilities")	2,150.9	259.7	-	1,891.2	-	-	-
Bond EURIBOR +0,70% - 2018/2020	199.9	199.9	-	-	-	-	-
Bond 1,375% - 2018/2023	547.4	-	-	-	547.4	-	-
Schuldschein	523.5	-	81.8	-	421.8	-	19.9
Bilateral long term borrowings	722.2	-	-	-	124.5	597.7	-
ISP short term borrowing	200.0	200.0	-	-	-	-	-
Other loans	772.2	749.3	2.6	16.9	3.4	-	-
Lease obligations IFRS 16	477.9	77.2	66.4	55.4	47.6	40.5	190.8
Total gross debt	**5,594.0**	**1,486.1**	**150.8**	**1,963.5**	**1,144.7**	**638.2**	**210.7**
		26.5%	*2.7%*	*35.1%*	*20.5%*	*11.4%*	*3.8%*

At September 30, 2019 the Group had a liquidity margin equal to euro 1,395.9 million composed of euro 600.0 million in the form of non-utilised committed credit facilities, and euro 781.2 million in cash and cash equivalents, in addition to financial assets at fair value through the Income Statement to the amount of euro 14.7 million.

The following table shows the reconciliation between the net financial position at December 31, 2018, not including the effects deriving from the application of IFRS 16, and the net financial position at September 30, 2019, which includes these effects:

(in millions of euro)	
Net financial (liquidity)/debt position 12/31/2018	**3,180.1**
Net cash flow without IFRS 16	822.2
Net financial (liquidity)/debt position 09/30/2019 without IFRS 16	**4,002.3**
Lease obligations IFRS 16 at transition date (01/01/2019)	494.3
Change in NFP from lease obligations IFRS 16	(16.4)
Net financial (liquidity)/debt position 09/30/2019	**4,480.2**

The item **Net cash flow** for the period, in terms of change in the net financial position, was negative to the amount of euro 805.8 million, (negative at euro 822.2 million without IFRS 16) and can be summarised as follows:

(in millions of euro)	1Q		2Q		3Q		cumulative at 09/30	
	2019	2018	2019	2018	2019	2018	2019	2018
EBIT adjusted	219.2	218.4	221.3	231.7	244.5	250.0	685.0	700.1
Amortisation and depreciation (excluding PPA amortisation)	96.5	69.7	99.1	68.1	98.0	69.8	293.6	207.6
Investments in property, plant and equipment and intangible assets without IFRS16	(78.0)	(85.3)	(89.7)	(93.9)	(74.6)	(117.5)	(242.3)	(296.7)
Investments in property, plant and equipment IFRS16	(3.2)	n.a.	(14.0)	n.a.	(8.5)	n.a.	(25.7)	n.a.
Change in working capital/other	(836.0)	(928.8)	10.1	(68.9)	(136.8)	(247.4)	(962.7)	(1,245.1)
Operating net cash flow	**(601.5)**	**(726.0)**	**226.8**	**137.0**	**122.6**	**(45.1)**	**(252.1)**	**(634.1)**
Financial income/(expenses)	(48.1)	(55.2)	38.1	(62.8)	(65.2)	(20.8)	(75.2)	(138.8)
Reversal of financial income from tax credits in Brazil	-	-	(99.8)	-	(0.8)	-	(100.6)	-
Taxes paid	(30.1)	(31.1)	(45.9)	(36.2)	(37.4)	(33.8)	(113.4)	(101.1)
Cash Out for non-recurring and restructuring expenses/other	(16.0)	(38.2)	(17.9)	(11.9)	(7.4)	(4.6)	(41.3)	(54.7)
Other dividends paid	-	-	(8.9)	-	-	(8.4)	(8.9)	(8.4)
Differences from foreign currency translation/other	-	(11.7)	(19.8)	6.4	(0.2)	(18.7)	(20.0)	(24.0)
Net cash flow before dividends, extraordinary transactions and investments	**(695.7)**	**(862.2)**	**72.6**	**32.5**	**11.6**	**(131.4)**	**(611.5)**	**(961.1)**
Industrial reorganisation	-	5.3	-	(10.3)	-	9.6	-	4.6
Disposals/(Acquisition) of investments	(17.2)	136.5	(0.2)	0.2	-	-	(17.4)	136.7
Net cash flow before dividends paid by Parent Company	**(712.9)**	**(720.4)**	**72.4**	**22.4**	**11.6**	**(121.8)**	**(628.9)**	**(819.8)**
Dividends paid by Parent Company	-	-	(176.9)	-	-	-	(176.9)	-
Net cash flow (*)	**(712.9)**	**(720.4)**	**(104.5)**	**22.4**	**11.6**	**(121.8)**	**(805.8)**	**(819.8)**
Net cash flow without IFRS 16	(732.9)	-	(109.0)	-	19.7	-	(822.2)	-

* The 2019 item refers to the change in Net Financial Position calculated by including lease obligations starting at 01.01.2019 for leasing recorded due to the application of the new standard IFRS 16 - Leases

Net cash flow before dividends, extraordinary transactions and investments, which was negative to the amount of euro 611.5 million, had improved by euro 349.6 million compared to the figure for the same period of the previous year (negative to the amount of euro 961.1 million), thanks mainly to an improvement in the management of operating cash flow.

More specifically, **operating net cash flow** for the first nine months of 2019 was negative to the amount of euro 252.1 million, but had improved by euro 382.0 million compared to the same period of 2018 (negative at euro 634.1 million), and reflected:

- investments without IFRS 16 to the amount of euro 242.3 million (euro 296.7 million for the first nine months of 2018); investments of euro 268.0 million including euro 25.7 million deriving from the application of the new standard IFRS 16. These investments were primarily aimed at increasing High Value production capacity in Europe and North America, at the strategic conversion of Standard capacity into High Value in Brazil, and at the continued improvement of the quality and mix in all manufacturing plants;

- cash absorption linked to the usual seasonality of working capital and other items which amounted to euro 962.7 million. This absorption resulted lower than the figures for the first nine months of 2018 (negative at euro 1,245.1 million), thanks also to the recovery actions for working capital announced at the time of the publication of the 2018 Financial Statements and continued with during the third quarter, recording a continued improvement compared to the same period of 2018 of euro 282.4 million of which euro 110.6 million was recorded during the third quarter.

During the first nine months of 2019 the performance of working capital and other items, in fact benefitted from:

- the continued improvement of payment conditions with suppliers,
- the recovery of trade receivables through the realignment of payment terms with the main dealers in Brazil, which had temporarily been extended to the end of 2018, due to the difficult market conditions, and
- the plan to normalise inventory levels, which had increased at the end of 2018 due to the Brazilian economic crisis.

Inventories in particular recorded a reduction in volume of -9% at the end of September compared to the end of the previous year (a -4% reduction had already occurred during the first half-year), with:

- a decline of -22% in Standard products, consistent with the recovery plan announced at the beginning of the year; and,
- a slight in increase of +1.5% in High Value products, also in order to ensure a better level of service to the end customer.

Due to the actions implemented, the level of value stocks at the end of September, which also benefited from actions to reduce inventories of raw materials, reached a percentage of incidence on sales (the last twelve months) equal to 20.8%, consistent with the year-end target of a 20.5%-21% share of revenues compared to 21.7% at the end of 2018.

Net cash flow before dividends paid by the Parent Company was negative to the amount of euro 628.9 million (negative at euro 819.8 million for the first nine months of 2018) and also included the impact of extraordinary transactions, and on investments (euro -17.4 million), mainly attributable to the recapitalisation of the Indonesian joint venture PT Evoluzione Tyres. During the same period of 2018, the impact of operations on investments and on extraordinary transactions had resulted positive to the amount of euro 141.3 million (mainly attributable to the disposal of the investment in Mediobanca).

Total net cash flow which included the distribution of dividends by the Parent Company amounting to euro 176.9 million, was negative at euro 805.8 million (negative at euro 819.8 million for the corresponding period of 2018).

OUTLOOK

Euro million	**2018**	**2019**
Revenues	5,194.5	≥5,300
Weight of High Value on revenues	*~64%*	*~67%*
Volumes	-3.1%	-2%
Volumes High Value	*+11%*	*≥+7.5%*
Volumes Standard	*-14%*	*~ -11%*
Price/Mix	+6.8%	+4.5%
Exchange rates	-5.9%	~ *flat*
Ebit margin adjusted	18.4%	>17% ÷ 17.5%
Start-up costs	*48*	*~40*
CapEx	463	~380
Net cash flow before dividends	38	~ 330 ÷ 350
Net financial position/Ebitda Adjusted without start-up costs	2.49X	~ 2.42x/2.36x +0.17x incl. IFRS16

Revenues are expected to total at least 5.3 billion euro, an increase of around 2.5% (previous indication between 1.5% and 2.5%) compared with 2018, underpinned by the strengthening of High Value (weight on revenues confirmed at ~67%).

Total **volumes** expected to decline by 2% (previous indication between -2.5% and -2%). **High Value volumes** are forecast to grow by ≥+7.5% (previous indication between 7.5% and 8%), greater than the market's growth and supported by the good performance of the Replacement Channel and growth of the Original Equipment channel in the second half thanks to the homologation portfolio and the contribution of new contracts in North America and Apac. Standard volumes are forecast to decline by about 11%, compared with the previous indication of -11.5% to -12%, due to a lower reduction in volumes mainly in South America.

The **price/mix** expected to improve by approximately 4.5% (previous indication between 4.5% and 5%) due to:

- the continuation of greater price competition into the third quarter of the year in Standard products and High Value products of lower technological content;
- the different product mix (more contained decline in Standard) and channels (greater weight of Original Equipment channel in second half).

Exchanges rates are seen remaining substantially stable (previous indication ~ -0.5%).

The **Adjusted Ebit margin** expected at between >17% and 17.5% (previous guidance between 18% and 19%), considering:

- greater costs of under saturation of Standard capacity, linked to lower production to reduce inventory,
- deterioration of the inflationary context, and

- the inclusion of some cost reduction initiatives, initially foreseen for 2019, in a medium term cost recovery plan which will contribute to the lowering of the break-even point already beginning from 2020 to improve competitiveness in a volatile macro-economic context.

The weight on High Value on Adjusted Ebit before start-up costs expected at ~85% (in line with previous guidance and compared with around 83% in 2018).

Investments confirmed at approximately 380 million euro.

The net cash flow before dividends is estimated at between approximately 330 million and 350 million euro (previous indication 350 million - 380 million euro).

The ratio between the Net Financial Position and Adjusted Ebitda before start-up costs is forecast at 2.42x/2.36x (+0.17x including the impact of the adoption of the new IFRS16 accounting principle), compared with the previous indication of 2.33x-2.20x. At the end of 2018, this indicator stood at 2.49x.

***

Guidelines of 2020-2022 Industrial Plan which will be presented in first quarter 2020

In a more challenging and continuously evolving context of reference, Pirelli confirms its strategic focus on High Value, at the same time bringing significant reinforcement to the competitiveness of the Business Model.
The New Plan’s targets are greater cash generation and maintaining technological leadership, also through the achievement of ever more challenging targets in terms of Sustainability.

High Value will continue to be the market segment with the greatest growth prospects – with a high single digit average annual increase forecast between 2020 and 2022 – and with the highest technological barriers to entry. In detail, Original Equipment is expected to grow but at a lower rate than the past, given the continuing weakness in car production, while the Replacement channel confirms its resilience thanks to the constant growth of the world Car pool, above all in the Premium and Prestige segments.

The reinforcement of the Business Model will be based on four pillars:

- Significant reduction of base costs and the breakeven point, already beginning from 2020
- Consolidation of technology and innovation leadership, reinforcing the products’ distinctive positioning, with solutions of excellence for future mobility and with a commitment to increase our products’ environmental efficiency is all phases of its lifecycle (renewable raw materials, energy consumption savings, ultra-low rolling resistance).
- Selective approach to High Value growth
- Containment of investments, in particular those aimed at increasing production capacity

Considering that the context of reference is becoming more challenging compared with the forecasts of recent months, Pirelli believes it opportune to significantly strengthen the plan to reduce break-even already beginning from 2020. Therefore, the presentation of the 2020-2022 Industrial Plan – originally planned for 11 December 2019 – will take place in the first quarter of 2020. The date of the presentation of the Industrial Plan will be announced with the publication of the 2020 financial calendar scheduled for December 2019.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE QUARTER

Please note that there were no significant events subsequent the end of the quarter.

ALTERNATIVE PERFORMANCE INDICATORS

This document, in addition to the financial measures 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 the Group's 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 EBIT but which excludes the depreciation and amortisation of property, plant and equipment and intangible assets. The EBITDA is used to measure the ability to generate earnings, excluding the impact of investments;

- **EBITDA *adjusted*:** is an alternative measure to the EBITDA which excludes non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil, and 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 excludes the contribution to the EBITDA (start-up costs) of the *Cyber* and *Velo* Activities and costs sustained for the digital transformation of the Group. At December 31, 2018 this measure also included the costs for the conversion of Aeolus brand car products;

- **EBITDA adjusted without start-up costs without IFRS 16:** is equal to the EBITDA adjusted without start-up costs but excludes the impact deriving from the application of the new accounting standard IFRS 16 – Leases;

- **EBITDA margin:** this is calculated by dividing the EBITDA by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency, excluding the impacts arising from investments;

- **EBITDA margin adjusted:** this is calculated by dividing the EBITDA adjusted by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency, excluding the impacts arising from investments, operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;

- **EBITDA margin adjusted without start-up costs:** this is calculated by dividing the EBITDA adjusted without start-up costs by revenues from sales and services (net sales). This is an alternative measure to the EBITDA margin adjusted which excludes start-up costs;

- **EBIT:** is an intermediate measure which is derived from the net income/(loss) but which excludes the net income/(loss) from discontinued operations, taxes, financial income, financial expenses and net income/(loss) from equity investments. The EBIT is used to measure the ability to generate earnings, including the impact arising from investments;

- **EBIT adjusted:** is an alternative measure to the EBIT which excludes the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil and 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 EBIT (start-up costs) of the *Cyber* and *Velo* Activities and costs sustained for the digital transformation of the Group. At December 31, 2018 this measure also included costs for the conversion of Aeolus brand car products;

- **EBIT margin:** this is calculated by dividing the EBIT by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency;

- **EBIT margin adjusted:** this is calculated by dividing the EBIT adjusted by revenues from sales and services (net sales). This measure is used to evaluate operating efficiency excluding the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil, and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;

- **EBIT margin adjusted without start-up costs:** this is calculated by dividing the EBIT adjusted without start-up costs by revenues from sales and services (net sales);

- **Net income/(loss) related to continuing operations adjusted:** this is calculated by excluding the following items from the net income/(loss) related to continuing operations;

    - the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, operating costs attributable to non-recurring and restructuring expenses, the benefit derived from tax credits in Brazil and expenses relative to the retention plan approved by the Board of Directors on February 26, 2018;

    - non-recurring costs/income recognised under financial income and financial expenses;

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

- **Fixed assets related to continuing operations:** this measure is constituted of the sum of the financial statement items, *"Property, plant and equipment", "Intangible assets", "Investments in Associates and Joint Ventures", "Other financial assets at fair value through other Comprehensive Income”* and *"Other financial assets at fair value through the Income Statement"*. Fixed assets related to continuing operations represents non-current assets included in the net invested capital;

- **Fixed assets related to continuing operations without IFRS 16:** this measure is calculated by excluding the rights of use detected following the application of the new standard IFRS 16 - Leases, from fixed assets related to continuing operations;

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

- **Net working capital related to continuing operations:** this measure is constituted by the operating working capital, and other receivables and payables, and the derivative financial instruments not included in the net financial (liquidity)/debt position. This measure represents short-term assets and liabilities included in the net invested capital, and is used to measure short-term financial stability;

- **Net invested capital assets held for sale:** this measure is constituted by the difference between *"Assets held for sale"* and *"Liabilities held for sale";*

- **Net invested capital:** this measure is constituted by the sum of (i) fixed assets related to continuing operations, (ii) net working capital related to continuing operations, and (iii) net invested capital assets held for sale. Net invested capital is used to represent the investment of financial resources;

- **Average net invested capital:** this measure consists of the average between the net invested capital at the beginning and end of the period, excluding *“Investments in Associates and Joint Ventures”*, *“Other financial assets at fair value through other Comprehensive Income”, “Other non-current financial assets at fair value through the Income Statement”* and the intangible assets relative to assets recognised as a consequence of Business Combinations. This measure is used to calculate the ROI;

- **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"*. The item provisions represents the total amount of liabilities due to obligations of a probable but not certain nature;

- **ROI:** this is calculated as the ratio between the EBIT adjusted and the average net invested capital. The ROI is used as to measure the profitability of invested capital;

- **Net financial debt:** this is calculated pursuant to the CONSOB Communication dated July 28, 2006, and in compliance with ESMA/2013/319 Recommendations. Net financial debt represents, borrowings from banks and other financial institutions net of cash and cash equivalents, other financial assets at fair value through the Income Statement, current financial receivables (included in the financial statements under *"Other receivables")* and, current derivative financial instruments included in the net financial (liquidity)/debt position (included in the financial statements under current assets as *"Derivative financial instruments"*);

- **Net financial (liquidity)/debt position:** this measure represents the net financial debt less the *"Non-current financial receivables"* (included in the financial statements under *"Other receivables"*) and non-current derivative financial instruments included in the net financial (liquidity)/debt position (included in the financial statements under non-current assets as *"Derivative financial instruments*"). Total net financial (liquidity)/debt position is an alternative measure to net financial debt which includes non-current financial assets;

- **Net financial (liquidity)/debt position without IFRS 16:** this measure is calculated by excluding lease obligations detected following the application of the new standard IFRS 16 – Leases from the net financial (liquidity)/debt position;

- **Net financial (liquidity)/debt position without IFRS 16 / EBITDA adjusted without start-up costs without IFRS 16:** this is calculated as the ratio between the net financial (liquidity)/debt position without IFRS 16 and the EBITDA adjusted without start-up costs without IFRS 16. It is used to measure the sustainability of debt;

- **CapEx (Capital Expenditures) or Investments in property, plant & equipment and intangible assets without IFRS 16:** this is calculated as the sum of investments (increases) in intangible assets, and investments (increases) in property, plant and equipment excluding any increases relative to the rights of use;

- **CapEx (Capital Expenditures) or Investments in property, plant & equipment IFRS 16:** this is calculated as the increases relative to the rights of use detected during the application of the new standard IFRS 16 – Leases;

- **Impact of depreciation on investments:** is calculated by dividing the investments (increases) in property, plant and equipment with the depreciation for the period. The ratio of investments to depreciation is used to measure the ability to maintain or restore amounts for property, plant and equipment.

OTHER INFORMATION

ROLE OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for the strategic guidance and supervision of the overall business activity of the Company, with the power to direct its administration as a whole, and with the competence to take the most important decisions from a financial/strategic point of view, or which have a structural impact on operations, or are functional decisions, as regards the exercise of the control and direction of Pirelli.

The Chairman is also endowed with the legal representation of the Company including in the Company's legal proceedings, as well as all other powers attributed to the Chairman pursuant to the Articles of Association.

The Executive Deputy Chairman and Chief Executive Officer are exclusively delegated the powers for the ordinary management of the Company and the Group as well as the power to propose to the Board of Directors the Business Plan and the Budget as well as any resolution concerning any strategic industrial partnerships or joint ventures to which Pirelli is a party.

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 these financial statements amounted to euro 1,904,374,935.66 and was represented by 1,000,000,000 registered ordinary shares without indication of their nominal value.

The shareholder Marco Polo International Italy S.r.l. - pursuant to Article 93 of Legislative Decree 58/1998 - controls the Company with a 45.52% share of the capital and does not exercise management and coordination activities on the same.

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

For further details on the governance and ownership structure of the Company reference should be made to the *Report on Corporate Governance and Ownership Structure* contained in the *2008 Annual Report* group of documents and their update contained in the *Half-Year Financial Report at June 30, 2019*, as well as other additional information published in the *Governance and Investor Relations* section of the Company's website (www.pirelli.com).

WAIVER OF THE PUBLICATION OF INFORMATION DOCUMENTS

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

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 data of the Group were as follows:

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

STATEMENT OF FINANCIAL POSITION (in millions of euro)	**09/30/2019**	**12/31/2018**
Other non current receivables	5.6	12.6
of which financial	*5.6*	*12.6*
Trade receivables	10.1	3.6
Other current receivables	53.8	32.2
of which financial	*26.5*	*6.2*
Borrowings from banks and other financial institutions non-current	15.8	-
Borrowings from banks and other financial institutions current	1.6	-
Trade payables	30.9	23.1
Other current payables	0.0	0.1

INCOME STATEMENT (in millions of euro)	**1/1 - 09/30/2019**	**1/1 - 09/30/2018**
Revenues from sales and services	13.6	4.6
Other income	0.7	0.5
Raw materials and consumables (net of change in inventory)	0.3	-
Other costs	50.5	30.7
Financial income	0.6	0.9
Financial expenses	0.5	-

Transactions – Statement of Financial Position

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

The item **trade receivables** includes, amongst others, receivables for services rendered by the companies of the Group to PT Evoluzione Tyres to the amount of euro 3.3 million and to the Chinese joint venture Jining Shenzhou Tyre Co., to the amount of euro 6.5 million.

The item **other current receivables** mainly refers to:

- receivables for advances paid by Pirelli Tyre S.p.A. to PT Evoluzione Tyres to the amount of euro 2.1 million for the supply of motorcycle products;
- receivables for the sale of materials and moulds to the Joint Stock Company "Kirov Tyre Plant" to the amount of euro 8.8 million, and from Jining Shenzhou Tyres Co., to the amount of euro 7.7 million;
- receivables for royalties for the Pirelli Tyre Co., Ltd from Jining Shenzhou Tyre Co., amounting to euro 4.4 million;
- receivables from PT Evoluzione Tyres for the recovery of costs sustained by Pirelli Tyre S.p.A. to the amount of euro 2.4 million;
- a loan granted by Pirelli Tyre Co., Ltd to Jining Shenzhou Tyre Co., for euro 26.3 million.

The item **non-current borrowings from banks and other financial institutions** refers to payables for machine hire by the company Pirelli Deutschland GMBH from the company Industriekraftwerk Breuberg Gmbh.

The item **current borrowings from banks and other financial institutions** refers to the short-term portion of the previously mentioned debt.

The item **trade payables** mainly refers to payables for the purchase of energy from Industriekraftwerk Breuberg GmbH and trade payables towards the Jining Shenzhou Tyre Co., Ltd.

Transactions - Income statement

The item **revenues from sales and services** mainly refers to sales of materials and services to the Jining Shenzhou Tyre Co., Ltd. to the amount of euro 7.5 million and to the Joint Stock Company *"Kirov Tyre Plant"* to the amount of euro 2.8 million.

This 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 16.5 million, and costs for the acquisition of products from PT Evoluzione Tyres to the amount of euro 21.8 million, and to the amount of euro 11.9 million from the Jining Shenzhou Tyre Co., Ltd.

The item **financial income** refers to interest on the loan granted to the two joint ventures.

The item **financial expenses** refers to interest relative to the machine hire between the German company Pirelli Deutschland GMBH and Industriekraftwerk Breuberg GmbH.

OTHER RELATED-PARTY TRANSACTIONS

The transactions detailed below refer mainly to transactions 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 of Pirelli & C. S.p.A.

STATEMENT OF FINANCIAL POSITION		
(in millions of euro)	**09/30/2019**	**12/31/2018**
Trade receivables	11.2	12.0
Other current receivables	12.3	23.2
Borrowings from banks and other financial institutions non-current	1.4	-
Borrowings from banks and other financial institutions current	0.3	-
Trade payables	111.1	168.5
Other current payables	10.7	7.4

INCOME STATEMENT		
(in millions of euro)	**1/1 - 09/30/2019**	**1/1 - 09/30/2018**
Revenues from sales and services	0.3	2.7
Other income	52.8	88.0
Raw materials and consumables (net of change in inventory)	3.1	10.0
Other costs	139.9	177.2
Financial income	0.1	1.9
Financial expenses	0.3	0.9
Other income from discontinued operations	-	7.4
Other costs from discontinued operations	-	16.6

Transactions – Statement of Financial Position

The item **trade receivables** refers to receivables 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 10.7 million.

The item **non-current borrowings from banks and other financial institutions** refers to payables of the company Pirelli Otomobil Lastikleri A.S. for machine hire from the Prometeon company Turkey Endüstriyel ve Ticari Lastikler A.S.

The item **current borrowings from banks and other financial institutions** refers to the short-term portion of the aforementioned debt.

The item **trade payables** almost exclusively refers to payables to companies of the Prometeon Group to the amount of euro 106.4 million.

The item **other current payables** mainly refers to other current payables to companies of the Prometeon Group to the amount of euro 10.2 million.

Transactions - Income statement

The decrease in the item **revenues from sales and services** is attributable to the termination of the sales relationship between Pirelli Pneus Ltda to Pirelli de Venezuela C.A., which occurred up until September 7, 2018, the date on which the disposal of the Venezuelan company was completed.

The item **other operating income** includes royalties recognised from Aeolus Tyre Co., Ltd. in respect of the license agreement stipulated in 2016 for euro 7 million per year, which was subjected to the renegotiation of some of the terms and conditions in February 2019. The item also includes income received from companies of the Prometeon Group mainly for:

- royalties recorded in respect of the trademark license agreement to the amount of euro 8.4 million;
- the sale of raw materials, finished and semi-finished products for the total amount of euro 12.3 million of which euro 8.3 million was carried out by Pirelli Pneus Ltda;
- the Long-Term Service Agreement to the amount of euro 6.8 million of which euro 3.3 million was earned by Pirelli Sistemi Informativi S.r.l., and euro 0.9 million by Pirelli Pneus Ltda;
- logistic services for a total amount of euro 1.8 million of which euro 0.7 million was 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.

The decrease in other financial income compared to the same period of the previous financial year was mainly attributable to the renegotiation of the license agreement with the Aeolus Tyre Co., Ltd. and to the fact that raw materials are no longer supplied to the Prometeon Group by the British subsidiary Pirelli International Plc.

The item **raw and consumable materials used** refers to costs payable to companies of the Prometeon Group for the purchase of direct materials/consumables/compounds, of which euro 1.6 million was carried out by the Turkish company Pirelli Otomobil Latikleri A.S. The decrease for this item compared to the same period of the previous year was mainly attributable to the reorganisation of the purchasing process.

The item **other costs** includes contributions to the Hangar Bicocca Foundation and the Pirelli Foundation to the amount of euro 0.6 million and costs payable to companies of the Prometeon Group mainly for:

- the purchase of truck products for a total amount of euro 76.8 million of which euro 64 million was carried out by the Brazilian company Comercial e Importadora de Pneus Ltda for the Brazilian sales network, and euro 4.3 million carried out by the German company Driver Reifen und KFZ-Technik GmbH;

- the purchase of Car/Motorcycle and semi-finished products for a total amount of euro 43.2 million of which euro 39.4 million was carried out by the Turkish company Pirelli Otomobil Latikleri A.S. in respect of the Off-Take contract, and euro 2.9 million on the part of Pirelli Pneus Ltda for the purchase of inner tubes for tyres;

- costs to the amount of euro 7.9 million incurred by Pirelli Pneus Ltda for services for the transformation of raw materials as a result of activities pertinent to the Toll manufacturing contract.

The item **financial expenses** refers to interest relative to the machine hire between Pirelli Otomobil Lastikleri A.S. and the Prometeon Group.

EXCEPTIONAL AND/OR UNUSUAL OPERATIONS

Pursuant to CONSOB Notice No. 6064293 of July 28, 2006, it is specified that during the course of the third quarter of 2019, that no exceptional and/or unusual transactions as defined in the aforesaid Notice were carried out by the Company.

The Board of Directors

Milan, October 29, 2019

FINANCIAL STATEMENTS

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

	09/30/2019	12/31/2018
Property, plant and equipment	3,593,242	3,092,927
Intangible assets	5,697,923	5,783,338
Investments in associates and J.V.	85,055	72,705
Other financial assets at fair value through other comprehensive income	60,510	68,781
Deferred tax assets	67,950	74,118
Other receivables	338,467	225,707
Tax receivables	15,648	16,169
Derivative financial instruments	93,658	20,134
Non-current assets	**9,952,453**	**9,353,879**
Inventories	1,103,544	1,128,466
Trade receivables	976,177	627,968
Other receivables	515,645	416,651
Other financial assets at fair value through income statement	14,725	27,196
Cash and cash equivalents	781,231	1,326,900
Tax receivables	69,304	41,393
Derivative financial instruments	72,834	98,567
Current assets	**3,533,460**	**3,667,141**
Assets held for sale	**800**	**10,677**
Total Assets	**13,486,713**	**13,031,697**
Equity attributable to the owners of the Parent Company:	**4,650,402**	**4,468,121**
Share capital	1,904,375	1,904,375
Reserves	2,373,361	2,132,140
Net income (loss)	372,666	431,606
Equity attributable to non-controlling interests:	**92,000**	**82,806**
Reserves	78,957	72,040
Net income (loss)	13,043	10,766
Total Equity	**4,742,402**	**4,550,927**
Borrowings from banks and other financial institutions	4,093,973	3,929,079
Other payables	86,062	83,287
Provisions for liabilities and charges	143,019	138,327
Provisions for deferred tax liabilities	1,061,010	1,081,605
Employee benefit obligations	212,319	224,312
Tax payables	2,048	2,091
Derivative financial instruments	14,094	16,039
Non-current liabilities	**5,612,525**	**5,474,740**
Borrowings from banks and other financial institutions	1,454,179	800,145
Trade payables	1,146,676	1,604,677
Other payables	375,280	436,752
Provisions for liabilities and charges	27,649	33,876
Employee benefit obligations	2,551	5,475
Tax payables	85,304	65,503
Derivative financial instruments	40,147	59,602
Current liabilities	**3,131,786**	**3,006,030**
Total Liabilities and Equity	**13,486,713**	**13,031,697**

CONSOLIDATED INCOME STATEMENT (In thousands of euro)

	01/01 - 09/30/2019	01/01 - 09/30/2018
Revenues from sales and services	**4,036,384**	**3,925,172**
Other income	360,611	324,512
Changes in inventories of unfinished, semi-finished and finished products	1,762	120,617
Raw materials and consumables used (net of change in inventories)	(1,330,099)	(1,355,170)
Personnel expenses	(792,791)	(776,344)
Amortisation, depreciation and impairment	(394,501)	(293,573)
Other costs	(1,274,385)	(1,342,080)
Net impairment loss on financial assets	(12,475)	(14,431)
Increase in fixed assets for internal works	3,353	2,710
Operating income (loss)	**597,859**	**591,413**
Net income (loss) from equity investments	1,370	(7,826)
- share of net income (loss) of associates and j.v.	*(4,869)*	*(11,900)*
- gains on equity investments	*1,683*	*4,007*
- losses on equity investments	-	*(1,605)*
- dividends	*4,556*	*1,672*
Financial income	179,623	110,858
Financial expenses	(254,789)	(249,657)
Net income (loss) before tax	**524,063**	**444,788**
Tax	(138,354)	(66,718)
Net income (loss) from continuing operations	**385,709**	**378,070**
Net income (loss) from discontinued operations	-	(6,692)
Total net income (loss)	**385,709**	**371,378**
Attributable to:		
Owners of the parent company	372,666	362,542
Non-controlling interests	13,043	8,836
Total earnings/(loss) per share (in euro per share)	**0.373**	**0.362**
Earnings/(loss) per share related to continuing operations (in euro per share)	0.373	0.369
Earnings/(loss) per share related to discontinued operations (in euro per share)	-	(0.007)

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

		1/1 - 09/30/2019	1/1 - 09/30/2018
A	**Net income (loss) for the period**	**385,709**	**371,378**
Other components of comprehensive income:			
	B - Items that will not be reclassified to income statement:		
	- Net actuarial gains (losses) on employee benefits	(11,813)	56,898
	- Tax effect	(279)	(12,722)
	- Fair value adjustment of financial assets at fair value through other comprehensive income	1,068	(9,760)
	Total B	**(11,024)**	**34,416**
	C - Items reclassified / that will be reclassified to income statement:		
	Exchange differences from translation of foreign financial statements		
	- Gains / (losses) for the period	(3,068)	(110,766)
	- (Gains) / losses reclassified to income statement	(1,567)	-
	Fair value adjustment of derivatives designated as cash flow hedges:		
	- Gains / (losses) for the period	109,850	84,696
	- (Gains) / losses reclassified to income statement	(123,847)	(87,722)
	- Tax effect	4,810	571
	Cost of hedging		
	- Gains / (losses) for the period	(1,211)	16,234
	- (Gains) / losses reclassified to income statement	(4,502)	(5,070)
	- Tax effect	1,001	(2,320)
	Share of other comprehensive income related to associates and JVs net of tax	(1,700)	(3,150)
	Total C	**(20,234)**	**(107,527)**
D	**Total other comprehensive income (B+C)**	**(31,258)**	**(73,111)**
A+D	**Total comprehensive income (loss) for the period**	**354,451**	**298,268**
	Attributable to:		
	- Owners of the parent company	336,677	288,160
	- Non-controlling interests	17,775	10,108
	Attributable to owners of the parent company:		
	- Continuing operations	336,677	294,852
	- Discontinued operations	-	(6,692)
	Total attributable to owners of the parent company	**336,677**	**288,160**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 09/30/2019

(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 12/31/2018	**1,904,375**	**(303,557)**	**(66,714)**	**2,934,017**	**4,468,121**	**82,806**	**4,550,927**
Other components of comprehensive income	-	(11,067)	(24,923)	-	(35,990)	4,732	(31,258)
Net income (loss)	-	-	-	372,666	372,666	13,043	385,709
Total comprehensive income (loss)	**-**	**(11,067)**	**(24,923)**	**372,666**	**336,676**	**17,775**	**354,451**
Dividends approved	-	-	-	(177,000)	(177,000)	(8,949)	(185,949)
Effects High inflation accouning in Argentina	-	-	-	21,838	21,838	-	21,838
Other	-	-	57	710	767	368	1,135
Total at 09/30/2019	**1,904,375**	**(314,624)**	**(91,580)**	**3,152,231**	**4,650,402**	**92,000**	**4,742,402**

(In thousands of euro)	Breakdown of IAS reserves *					
	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 12/31/2018	**107**	**14,258**	**(25,705)**	**(30,381)**	**(24,993)**	**(66,714)**
Other components of comprehensive income	1,068	(5,713)	(13,997)	(11,813)	5,532	(24,923)
Other changes	31	-	-	26	-	57
Total at 09/30/2019	**1,206**	**8,545**	**(39,702)**	**(42,168)**	**(19,461)**	**(91,580)**

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

(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 12/31/2017	**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)
Effects High inflation accounting in 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 CASH FLOWS (in thousands of euro)

		01/01 - 09/30/2019	01/01 - 09/30/2018
	Net income (loss) before taxes	524,063	444,788
	Reversals of amortisation, depreciation, impairment losses and restatement of property, plant and equipment and intangible assets	394,501	293,573
	Reversal of Financial expenses	254,789	249,657
	Reversal of Financial income	(179,623)	(110,858)
	Reversal of Dividends	(4,556)	(1,672)
	Reversal of gains/(losses) on equity investments	(1,683)	(2,402)
	Reversal of share of net income from associates and joint ventures	4,869	11,900
	Taxes paid	(113,379)	(101,118)
	Reversal of income on tax credits Brazil	(71,773)	-
	Change in Inventories	23,445	(153,292)
	Change in Trade receivables	(357,007)	(355,897)
	Change in Trade payables	(455,104)	(483,893)
	Change in Other receivables/Other payables	(81,212)	(159,693)
	Change in Provisions for employee benefit obligations and Other provisions	(44,749)	(92,964)
	Other changes	15,800	3,878
A	**Net cash flows provided by / (used in) operating activities**	**(91,619)**	**(457,994)**
	Investments in property, plant and equipment	(235,201)	(290,632)
	Change in payables for investments in property, plant and equipment	(52,078)	(50,986)
	Disposal of property, plant and equipment/intangible assets	3,905	10,195
	Investments in intangible assets	(7,136)	(6,076)
	Disposals (Acquisition) of investments in subsidiaries	10,700	-
	Acquisition of minorities	-	(18,492)
	Repayment of share capital and reserves from associates	-	2,474
	Disposals (Acquisition) of investments in associates and JV	(8,925)	-
	Quota reimbursement of other non current financial assets at fair value through other comprehensive income	9,430	-
	Disposals (Acquisition) of other non current financial assets at fair value through income statement	-	152,808
	Dividends received	4,556	1,672
B	**Net cash flows provided by / (used in) investing activities**	**(274,749)**	**(199,037)**
	Increase in equity	-	4,500
	Change in Financial payables	253,476	393,366
	Change in Financial receivables/Other current financial assets at fair value through income statement	(15,804)	(86,814)
	Financial income / (expenses)	(135,709)	(148,162)
	Dividends paid	(185,750)	(8,366)
	Cash outflow for lease obligations	(76,952)	-
C	**Net cash flows provided by / (used in) financing activities**	**(160,739)**	**154,524**
D	**Net cash flows provided by (used in) discontinued operations**	**-**	**15,108**
E	**Total cash flows provided / (used) during the period (A+B+C+D)**	**(527,107)**	**(487,399)**
F	**Cash and cash equivalents at the beginning of the financial year**	**1,303,852**	**1,109,640**
G	**Exchange rate differences from translation of cash and cash equivalents**	(11,691)	(72,896)
H	**Cash and cash equivalents at the end of the period (E+F+G) (°)**	**765,055**	**549,345**
(°)	**of which:**		
	cash and cash equivalents	781,231	564,379
	bank overdrafts	(16,176)	(15,034)

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 evaluation 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 their relative interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as approved by the European Commission, and in force at the time of approval of this report.

The accounting standards adopted were the same used for the preparation of the Financial Statements at December 31, 2018 to which, reference should be made for more details, with the exception of:

- the new standards or amendments to existing standards, which became applicable as of January 1, 2019:

  IFRS 16 - Leases: following the application of the standard, at the transition date (January 1, 2019), the Group accounted for the lease contracts previously classified as operating.

  - a financial liability, equal to the present value of future residual payments at the transition date, discounted using the incremental borrowing rate applicable at the transition date for each contract;

  - a right of use equal to the value of the financial liability at the transition date, net of any accruals and deferrals relative to the lease, and recognised in the Statement of Financial Position at the transition date.

  The comparable financial figures for the first quarter of 2018 were not subjected to restatement.

  IFRIC 23 – Uncertainty over Income Tax Treatments: there were no impacts on the Group's Financial Statements arising from the application of this interpretation;

  Amendments to IFRS 9 - Financial Instruments: prepayment features with negative compensation and changes in financial liabilities: there were no impacts on the Group's Financial Statements arising from the application of these amendments;

  Amendments to IAS 28 - Investments in Associates and Joint Ventures: Long-term interests in Associates and Joint Ventures: there were no impacts on the Group's Financial Statements arising from the application of this amendment;

  Improvements to the IFRS 2015-2017 cycle (issued by the IASB in December 2017): there were no impacts on the Group's Financial Statements;

  Amendments to IAS 19 — Employee Benefits: there were no impacts on the Group's Financial Statements arising from the application of these amendments.

- Income taxes are recognised on the basis of the best estimate of the weighted average tax rate expected for the entire financial year, consistent with the indications provided by IAS 34 for the preparation of the interim Financial Statements.

EXCHANGE RATES

(local currency vs euro)	**Period-end exchanges rates**		**Change in %**	**Average exchange rates nine months**		**Change in %**
	09/30/2019	**12/31/2018**		**2019**	**2018**	
Swedish Krona	**10.6708**	10.3090	3.51%	**10.5653**	10.2396	3.18%
Australian Dollar	**1.6126**	1.6048	0.49%	**1.6077**	1.5762	2.00%
Canadian Dollar	**1.4426**	1.5064	(4.24%)	**1.4935**	1.5372	(2.84%)
Singaporean Dollar	**1.5060**	1.5839	(4.92%)	**1.5332**	1.6001	(4.18%)
U.S. Dollar	**1.0889**	1.1576	(5.93%)	**1.1236**	1.1942	(5.91%)
Taiwan Dollar	**33.8005**	35.3450	(4.37%)	**34.8867**	35.7318	(2.37%)
Swiss Franc	**1.0847**	1.1316	(4.14%)	**1.1179**	1.1612	(3.73%)
Egyptian Pound	**17.7894**	20.7860	(14.42%)	**19.2149**	21.2895	(9.74%)
Turkish Lira (new)	**6.1836**	6.9505	(11.03%)	**6.3327**	5.4499	16.20%
New Romanian Leu	**4.7511**	4.6637	1.87%	**4.7381**	4.6513	1.87%
Argentinian Peso	**62.7098**	47.7510	31.33%	**62.7098**	47.7510	31.33%
Mexican Peso	**21.3820**	22.0873	(3.19%)	**21.6332**	22.6612	(4.54%)
South African Rand	**16.5576**	16.4447	0.69%	**16.1320**	15.3943	4.79%
Brazilian Real	**4.5425**	4.6545	(2.41%)	**4.3687**	4.2949	1.72%
Chinese Renminbi	**7.7017**	7.9634	(3.29%)	**7.7014**	7.7874	(1.10%)
Russian Ruble	**70.3161**	76.2294	(7.76%)	**73.0274**	73.3165	(0.39%)
British Pound	**0.8857**	0.8873	(0.18%)	**0.8835**	0.8841	(0.07%)
Japanese Yen	**117.5900**	131.2300	(10.39%)	**122.5696**	130.8922	(6.36%)

NET FINANCIAL (LIQUIDITY)/DEBT POSITION

(In thousands of euro)	**09/30/2019**	**12/31/2018**
Current borrowings from banks and other financial institutions without IFRS 16	1,376,997	800,145
Current derivative financial instruments (liabilities)	31,716	53,510
Non-current borrowings from banks and other financial institutions without IFRS 16	3,693,300	3,929,079
Non current derivative financial instruments (liabilities)	14,094	13,738
Lease obligations IFRS 16	477,855	-
Total gross debt	**5,593,962**	**4,796,472**
Cash and cash equivalents	(781,231)	(1,326,900)
Other financial assets at fair value through income statement	(14,725)	(27,196)
Current financial receivables and other assets**	(40,499)	(27,320)
Current derivative financial instruments (assets)	(68,061)	(91,245)
Net financial debt *	**4,689,446**	**3,323,811**
Non-current derivative financial instruments (assets)	(93,658)	(20,134)
Non-current financial receivables and other assets**	(115,633)	(123,547)
Total net financial (liquidity)/debt position	**4,480,155**	**3,180,130**
Lease obligations IFRS 16	(477,855)	**-**
Net financial (liquidity)/debt position without IFRS 16	**4,002,300**	**3,180,130**

* Pursuant to Consob Notice of July 28, 2006 and in compliance with ESMA/2013/319 Recommendations

** The amount for "financial receivables and other assets" is reported net of the relative provision for impairment amounting to euro 8,561 thousand as at September 30, 2019 and euro 6.085 thousand as at Dcember 31, 2018.

DECLARATION OF THE CORPORATE FINANCIAL REPORTING MANAGER PURSUANT TO THE PROVISIONS OF ART. 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 Finance Consolidation Act, that the accounting information contained in the Interim Financial Report at September 30, 2019, is compliant with the documented results, books and accounting records.

Milan, October 29, 2019

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(Francesco Tanzi)