Interim Financial Report

at September 30, 2016

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

Milan Office

Viale Piero e Alberto Pirelli n. 25

Share Capital Euro 1,345,380,534.66

Register of Companies of Milan No. 00860340157

REA (Economic Administrative Index) No. 1055

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

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SUMMARY

Directors' Report on Operations

Financial Statements

Board of Directors [1]

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

Secretary of the Board Alberto Bastanzio

Board of Auditors [2]

Chairman	Francesco Fallacara
Statutory Auditors	Fabrizio Acerbis
	Fabio Artoni
	Giovanni Bandera
	David Reali
Alternate Auditors	Fabio Facchini
	Giovanna Oddo

Independent Auditing Firm	Ernst & Young S.p.A.

General Managers[3]	Maurizio Boiocchi (Technology)
	Gregorio Borgo (Operations)
	Luigi Staccoli (Digital)

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1. Appointment: March 15, 2016. Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2018.
2. Appointment: March 14, 2016. Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2017, (David Reali, Giovanni Bandera and Fabrizio Acerbis appointed by the Shareholders' Meeting on March 15, 2016).
3. As of January 1, 2017 General Management for Operations will be superceded. Gregorio Borgo shall remain with the company until December 31, 2016 to support the Executive Vice Chairman and CEO, Marco Tronchetti Provera in the implementation of the new organisational model.

MACROECONOMIC AND MARKET SCENARIO

The modest global economic growth for the third quarter of 2016 was characterised by substantial stability in advanced countries and a persistent framework weakness for emerging countries, particularly those exporting raw materials. Uncertainties remained regarding the impact of the referendum on the exit of the United Kingdom from the EU.

There was an improvement in performance for the USA following disappointing growth for the first quarter. In Europe, the economic indicators confirmed continued growth for the third quarter, equal to +0.4% for the European Union, and +0.3% for the Eurozone, consistent with the growth recorded for the previous quarter.

Growth continued in China, where third quarter GDP growth was +6.7%, which was consistent with the trend recorded for the first six months of the year. Finally, although the economic indicators confirmed recession conditions, in Brazil and Russia, there were evident signs of improvement linked to the recovery in oil and commodity prices

On the exchange rate front, the Euro recorded 1.12 against the dollar for the third quarter, consistent with the average for the first six months of the year. The Pound Sterling fell to Euro 0.85 (the average for the third quarter), impacted by the devaluation of approximately 10% at the end of June following the unexpected pro-exit result of the referendum. The Yen instead strengthened by a further 5.5% for the third quarter against the US Dollar, partly due to the rise in long term interest rates and to a climate of investor risk aversion. For some emerging countries, their currencies appreciated against the US Dollar in the third quarter, particularly in Brasil (+8%) and Russia (+2%) following the progressive slide in rate hikes by the Federal Reserve, and the strengthening of commodity prices. Despite these trends, the average price for the first nine months of 2016 for the Brazilian Real and the Russian Rouble remained lower respectively at -11% and -13% compared to the same period of 2015. The Chinese currency however depreciated by -2% against the US Dollar for the third quarter.

The price of oil, which had recorded a growth for the first six months of the year, remained stable at around USD 47.00 per barrel (Brent) for the entire third quarter, with an average price for the first nine months of 2016 of USD 43.00 per barrel; which was lower by -24% compared to the same period of 2015. However in the first weeks of October, price volatility resumed following the OPEC statement they were planning to reduce oil production in the fourth quarter.

The gradual recovery of butadiene prices continued for the third quarter with the average price rising from Euro 618.00 per ton for the second quarter to Euro 670.00 per ton for the third quarter. The price of natural rubber was subject to the same trend as that of oil, with a rise in prices in the second quarter followed by substantial stability for the third quarter. The average price of USD 1.426.00 per ton for the third quarter of 2016 was lower by -20% compared to the third quarter of 2015.

Tyre sales figures for the first nine months of 2016 confirmed the recovery of the business sector in Europe, as well as a positive trend for the car segment in China, but difficult macroeconomic conditions in LatAm countries and Russia.

In Europe, the car Replacement market grew by +1% for the first nine months of 2016, compared to the same period in 2015, with a double-digit growth rate for the Premium segment, while the car Original Equipment segment grew by +4%, truck Replacement by +1%, and truck Original Equipment by +4%. The Chinese Original Equipment market benefited from a tax reduction on automobile purchases (car Original Equipment +16%), and from a recovery in the production of commercial vehicles in recent months (+19% truck Original Equipment) following the sharp declines for the segment in 2015.

The car Replacement market which had been penalised in 2015 as a result of the introduction of customs duties for Chinese importers (as of January 2015), recorded an increase of +1% including imports, but fell by -2% for domestic production alone. The Premium segment less impacted by the effects of importation and grew at a rate of +7% for the first eight months while the Original Equipment channel also recorded a growth rate of +2.5%. Sales in Russia remained depressed (car Replacement -15%, car Original Equipment -18%) and in Latin America (car Replacement -5%, car Original Equipment -19%, truck Replacement -4%, truck Original Equipment -28%) as a result of the difficult macroeconomic scenario in these countries.

SIGNIFICANT EVENTS OF THE FIRST NINE MONTHS OF 2016

On **February 9, 2016,** Pirelli and the Lombardy Region signed a competitiveness agreement for a regional grant of euro 1.9 million for the R & D project "Total Safety System" to be conducted at the Bicocca, Milan research centre. The project, which has a duration of 24 months and a total cost of euro 5.35 million, fits in with activities related to the development of a new generation of tyres based on the concept of "total safety". The project allows Pirelli to study new product mixes oriented towards higher value-added segments, and to achieve positive results in terms of the social and environmental aspects of safety on the roads, by reducing the fuel consumption of vehicles and increasing tyre mileage.

On **February 15, 2016,** Ren Jianxin, Yang Xingqiang, Bai Xinping, Ze'ev Goldberg, Tao Haisu, Wang Dan and Zhang Junfang, who had been previously co-opted by the Board of Directors, were reappointed as Directors by the Ordinary Shareholders' Meeting of Pirelli & C. S.p.A. On the same date, the Board of Directors approved Ren Jianxin as Chairman. The Extraordinary Shareholders' Meeting also approved the proposal of the mandatory conversion of savings shares into newly issued special category unlisted shares without voting rights, as well as the proposal to adopt new Articles of Association. The mandatory conversion and the adoption of the new Articles of Association were also approved, within its competence by the Special Savings Shareholders' Meeting of Pirelli & C. S.p.A. The Extraordinary Shareholders' Meeting of Pirelli & C. S.p.A. also approved the merger and incorporation of the parent company Marco Polo Industrial Holding S.p.A. into Pirelli & C. S.p.A. on the basis of 6.30 Pirelli shares to be assigned post-merger to Marco Polo International Holding Italy S.p.A. (Holdco) – the sole partner of Marco Polo Industrial Holding S.p.A. - for each 1 share held prior to the merger by Marco Polo International Holding Italy S.p.A. (Holdco) in Marco Polo Industrial Holding S.p.A.

The merger deed was stipulated on **May 6, 2016,** and was effective as of June 1, 2016. As provided for in the merger plan, tax and accounting effects were recognised retroactively as of January 1, 2016.

On **February 16, 2016,** the Board of Directors of Pirelli & C. S.p.A. approved the main details of a refinancing plan aimed at extending debt maturities and optimising the debt structure. This plan was successfully completed on **July 28, 2016.** The refinanced total amounted to euro 6.4 billion and was achieved at a lower overall cost of less than 3.5%. The operation consisted of syndicated refinancing for a total amount of euro 4.8 billion maturing in three and five years, where the requested amount was for slightly less than twice the amount offered, and a line of credit for euro 1.6 billion with an eighteen month expiry, which was the result of a 'club deal' with a select number of lending institutions. Due to the aforesaid operation, Pirelli reimbursed the Bidco Facility and cancelled the Mergeco Facility loan made available to the company by a syndicate of banks as part of the Public Offer made to Pirelli by Marco Polo Industrial Holding S.p.A.

On **February 26, 2016,** the mandatory conversion of savings shares into unlisted special shares took effect. The last day of trading on the Stock Exchange of the savings shares had been February 25, 2016.

On **March 15, 2016**, the Ordinary Shareholders' Meeting provided for the renewal of the entire Board of Directors and resolved to appoint for three financial years - and therefore until the Shareholders' Meeting for the approval of the Financial Statements as at December 31, 2018, - the Board Directors being; Ren Jianxin, Yang Xingqiang, Bai Xinping, Ze'ev Goldberg, Wang Dan, Jiao Chonggao, Zhang Haitao and Yang Xun (representing the shareholder China National Tire & Rubber Corporation Ltd); Marco Tronchetti Provera, Giorgio Bruno, Luca Rovati, Carlo Acutis and Gustavo Bracco (representing the shareholder Camfin S.p.A.); Igor Sechin, Andrey Kostin and Emerson Milenski (representing the shareholder Long Term Investments).

Furthermore, in accordance with the new statutory provisions, the Shareholders' Meeting resolved to increase the number of Statutory Members of the Board of Auditors to five, by appointing as Statutory Auditors, Fabrizio Acerbis, Giovanni Bandera and David Reali. The Board of Auditors is currently composed as follows: Francesco Fallacara (as Chairman), Fabrizio Acerbis, Fabio Artoni, Giovanni Bandera and David Reali (as Statutory Auditors), and Fabio Facchini and Giovanna Oddo (as Alternate Auditors) and shall expire with the approval of the Financial Statements as at December 31, 2017.

The new Board of Directors - which met after the Shareholders' Meeting - voted to approve, Ren Jianxin as Chairman, granting him the legal representation of the company as well as all other powers attributed to the Chairman under the current Articles of Association, without prejudice to the powers and prerogatives of the Board of Directors, and Marco Tronchetti Provera as Chief Executive Officer and Executive Vice Chairman, and confirming the attribution to the Chairman the powers for the operational management of Pirelli as already delegated in the previous mandate.

On **March 15, 2016**, Pirelli announced that the right of withdrawal, consequent to the conversion of savings shares into special shares, had been validly exercised for 460,277 savings shares (which had become special shares after the mandatory conversion), for a total equivalent liquidated value of euro 6,894,028.91. The aforementioned shares which were subject to withdrawal were offered with the right of option and the right of pre-emption to all shareholders of Pirelli & C. S.p.A. for the period March 15 - April 15, 2016.

On **April 20, 2016** Pirelli announced an investment to span the next three year period of USD 200 million in Mexico, for the construction of a new factory in Silao as an addition to the current existing car tyre plant in Silao. This new investment was launched in 2016 and adds to the approximate USD 360 million invested to date, and to the USD 50 million already earmarked for 2016 and 2017 collectively.

By the end of 2018, Pirelli's total investment for the two plants in Silao will amount to more than USD 600 million.

On **April 21, 2016,** following the outcome of the rights offer to shareholders of a total of 460,277 special shares in relation to which the right of withdrawal was validly exercised, the shareholder Marco Polo Industrial Holding S.p.A. – who exercised the option and pre-emption rights to which they were entitled – purchased all the shares which were subject to the right of withdrawal.

On **April 27, 2016,** the Shareholders' Meeting approved the Financial Statements as at December 31, 2015, and the proposed allocation of the profits formulated by the Board of Directors. The Shareholders' Meeting also authorised the Company to purchase treasury shares for the redemption of special shares.

On **April 29, 2016**, in exercising the right of redemption as provided for by the Articles of Association, the Company purchased from the shareholders who held special shares (other than Marco Polo Industrial Holding S.p.A. and Company shareholders), all the remaining outstanding special shares. Following the aforesaid operation, Marco Polo Industrial Holding S.p.A. – taking into account the treasury shares held by Pirelli & C. S.p.A. – as a result held 100% of the ordinary and special capital of the Pirelli Group.

On **May 12, 2016** the Board of Directors of Pirelli & C. S.p.A. examined and approved the Group's results as at March 31, 2016, which had closed with further growth in the Premium segment, with revenues at organic level, increased by +5.1%, equal to euro 1,436.0 million, thanks to the positive performance of the price mix component (+6.1%).

On **May 16, 2016** the shareholders of RCS MediaGroup S.p.A, Pirelli & C. S.p.A (4.43%), Diego Della Valle (7.32%), Mediobanca S.p.A. (6.25%) and UnipolSai Assicurazioni S.p.A. (4.59%) – stake holders of a total of 22% of the capital of the publishing house - reached an agreement with International Acquisitions Holding S.à r.l (a Luxembourg company indirectly controlled by the Investindustrial VI L.P. fund, which is managed by the English company Investindustrial Advisors Limited), for the joint launch of a voluntary Public Offer for the purchase of 77.4% of the share capital of the RCS MediaGroup S.p.A. which they did not hold. The launch of the Public Offer – aimed at supporting and accelerating the restructuring process initiated by management as well as, starting from the existing business platform, to create an international scale, multimedia publishing group – came about on June 20, 2016 through the vehicle International Media Holding S.p.A. (Pirelli & C. S.p.A has invested in IMH and currently owns a 25% stake of) at a unit price of euro 0.7 per share (which was increased to euro 0.8 per share on June 24, and to euro 1.00 per share on July 8, 2016).

At the expiry of the of the subscription period on July 18, 2016 IMH announced that during the subscription period (from June 20, 2016 to July 15, 2016), as a result of the Public Offer launched by IMH, the RCS shares tendered equalled 12.9% of the RCS share capital.

Taking into account (i) the RCS shares tendered as part of the IMH Public Offer, (ii) shares already collectively held by IMH shareholders, as well as (iii) 2.17% of the share capital of RCS, acquired from IMH on July 13, 2016, IMH announced that the Terms and Conditions of the Minimum Quantity (as defined by the Public Offer prospectus) had not been fulfilled and that they would not be exercising the right to waive this condition, and so as a consequence the Public Offer launched by IMH was to be considered as being without legal effect.

The RCS shares tendered to the IMH Public Offer were therefore returned as entitled to their respective owners.

On **June 17, 2016** Pirelli and FIA renewed the contract for the supply of tyres for the FIA Formula 1 World Championship for another three years, from 2017 to 2019. Pirelli has been the exclusive supplier of Formula 1 tyres since 2011. The agreement was ratified at the end of the winter season during which Pirelli and FIA, in collaboration with the teams, reached a major agreement, making changes to the technical regulations. In 2017 in fact, new technical regulations will enter into force which will include significant modifications to the chassis and increases in tyre width.

On **July 15, 2016** the Ordinary Shareholders' Meeting of Aeolus approved the transfer to Aeolus by Pirelli Tyre S.p.A. of 10% of Pirelli Industrial S.r.l., and the transfer to Pirelli Tyre S.p.A. of 80% of the Aeolus car business, along with the integration into Aeolus, of two assets owned by the CNRC (China National Tire and Rubber) and the formalisation of a licensing agreement between Pirelli Tyre and Aeolus for the Industrial segment technology. As of the October 1, 2016 following the attainment of the all the necessary authorisations, Pirelli Tyre S.p.A. acquired control of the Aeolus car business, and sold 10% of Pirelli Industrial S.r.l. to Aeolus.

On **September 30, 2016** Pirelli announced an investment plan of approximately euro 200 million for the 2016 - 2021 period, for the manufacturing centre in Slatina, Romania, a testament to the facility's strategic importance in context of the business activities of the Group. This new investment plan will allow for the creation of new jobs and the achievement of an annual production capacity of 15 million units, compared to the current 10 million. Additional planned investments as of now until the end of 2021 will ensure further improvement of Pirelli's industrial competitiveness at European level. This expansion and upgrading project also involves the Slatina production area dedicated to Motorsports which includes a Formula One manufacturing unit that acts as a back-up for Pirelli's main plant based in Turkey.

GROUP PERFORMANCE AND RESULTS

The Interim Financial Report at September 30, 2016 has been prepared on a voluntary basis in that following the delisting of Pirelli, the Company has no legal obligation to prepare quarterly reports.

In this document, in addition to the financial figures as provided for by the International Financial Reporting Standards (IFRS), alternative performance indicators derived from IFRS were used in order to allow for a better assessment of the progress of the Group's operations. These indicators are: Gross Operating Margin, Adjusted EBIT, Fixed Assets, Provisions, Operating Working Capital, Net Working Capital and Net Financial Liquidity (Debt) Position. Reference should be made to the paragraph "Alternative Performance Indicators" for a more detailed description of these indicators.

By way of the effect of the reverse merger between the parent company Marco Polo Industrial Holding S.p.A. (incorporated company) into the subsidiary Pirelli & C. S.p.A. (incorporating company), which became effective as of June 1, 2016 but with accounting and tax effects retroactively effective as of January 1, 2016, the Interim Financial Report of Pirelli & C. S.p.A. at September 30, 2016 has been prepared on a going concern basis with respect to the consolidated Financial Statements at December 31, 2015 of the parent company Marco Polo Industrial Holding S.p.A.
Therefore the comparative Statement of Financial Position figures at December 31, 2015 are those of the parent company Marco Polo Industrial Holding S.p.A. However it is to be noted, that the comparative consolidated Income Statement figures and financial flow figures for Marco Polo Industrial Holding S.p.A. for the first nine months of the 2015 financial year, have not been reported, due to the fact that Marco Polo Industrial Holding S.p.A. did not prepare Financial Statements at September 30, 2015. Furthermore, due to the effect of the acquisition and consequent consolidation of Pirelli on the part of Marco Polo Industrial Holding S.p.A., as of September 1, 2015 this data would not be comparable.

For the purpose of ensuring a comparison of the performance of the Pirelli Group for the first nine months of 2016 compared to the same period of the previous year, the comparative figures for the Pirelli Group only ("Pirelli Group Reported") for the first nine months of 2015 have been presented in this Financial Report.
The comments relating to Income Statement figures, unless otherwise indicated, refer to the comparison with Income Statement figures for the same period of the previous year for the Pirelli Group Reported only.

It is also to be noted that during the month of September 2016, the price paid by Marco Polo for the acquisition of the Pirelli Group was completed at the fair value of the Pirelli assets and liabilities acquired (the PPA – Purchase Price Allocation). As a result of the reverse merger, which involved the incorporation of the acquiring company Marco Polo Industrial Holding S.p.A., into the subsidiary Pirelli & C. S.p.A., the accounting effects of the Purchase Price Allocation are reflected in the Financial Statements of the surviving entity, Pirelli & C. S.p.A.
The main effects were detailed as follows:

- identification and detection of the value of the Pirelli Brand (an intangible fixed asset with an indefinite useful life) for a total of euro 2.3 billion euros (euro 1.7 billion net of tax effects);
- identification and detection of other intangible fixed assets with a finite useful life for a total value of euro 2.0 billion (euro 1.4 billion net of tax effects);
- revaluation of tangible fixed assets to a total of euro 0.9 billion (euro 0.7 billion net of tax effects);
- detection of residual Goodwill amounting to euro 2.4 billion.

Of particular note are the amortisable intangible fixed assets. It is to be noted that these assets are related to activities that are continuously regenerated internally within the company and which incur costs that are not capitalised, and which end up duplicating the amortisations created by way of the effect of the PPA. In order to neutralise this effect and render the Income Statement figures for 2016 more comparable with those of previous periods, a new intermediate economic measure was implemented called the adjusted EBIT, which apart not including non-recurring and restructuring expenses, does not include the amortisations attributable to the intangible fixed assets identified by the PPA.

As of the moment that the acquisition date was deemed as September 1, 2015, the aforesaid allocation has been reflected in the comparitive Income Statement and Statement of Financial Position figures at December 31, 2015 and has therefore been restated.

Reference should be made to the Note: “Business Combinations” in the Financial Statements section of this present document for more details.

Of final note is that the deconsolidation of the Venezuelan company Pirelli de Venezuela C.A. was effective as of December 31, 2015, and that therefore the financial data for the first nine months of 2016 does not include the data from the Income Statement and the Statement of Financial Position of the Venezuelan company. In order to provide a coherent representation of the new scope, the operating income (loss) is discussed in terms of an analysis of the changes which occurred compared to the same period of the preceding financial year, excluding the results for the Venezuelan company.

* * *

The **Group's** results for the first nine months of 2016 were characterised by:

- strengthening of the Premium segment with a growth in volumes of +14.2% (+15.9% for the third quarter) which was superior to that of the market trend (+9% for the first nine months and +9% for the third quarter): the Premium proportion of Consumer revenues reached 64.6% (62.2% for the first nine months of 2015, on a like-for-like basis);
- noticeable improvement in the price/mix component (+5.5%), with growth in both the Consumer (+5.1%) and Industrial (+6.5%) businesses, which was due to price increases in emerging markets, to higher sales in the Replacement channel, and the different geographic and product mixes.
- progressive improvement in volumes (+1.2% for the first nine months of 2016, +3.7% for the third quarter), which was driven by the Consumer business (+3.1% for the first nine months, +5.5% for the third quarter) with sustained growth in mature markets and a recovery in sales in emerging markets, for the Industrial segment (-6.2% for the first nine months, -3.8% for the third quarter) but which continued to be impacted by the weakness in the truck and agro market particularly in South America.
- an organic growth in revenues of +6.6% net of the exchange rate effect (-6.7%) and on a consolidated like-for-like basis (an organic growth in revenues of +7.9% for the third quarter);
- efficiencies of euro 68.1 million (euro 16.8 million for the third quarter which were also impacted by the reduced level of attainment of the productive capacity in Industrial business). Since 2014, 73% of the 2014-2017 four-year plan target of euro 350 million has been reached;

- improvement in the operating performance with an adjusted EBIT margin which reached 14.4% (+0.3 percentage points compared to the same period of 2015 net of Venezuela) due to the effectiveness of internal levers such as price/mix, efficiencies and volumes for countering the volatility of exchange rates, the increased cost of raw materials as well as inflation in emerging markets;
- a negative net financial position of euro 5,972.4 million including the effects of the aforementioned merger with Marco Polo Industrial Holding S.p.A. (a net financial position at December 31, 2015 of euro 1,199.1 million excluding the debt deriving from the acquisition recorded by Marco Polo Industrial Holding S.p.A., which instead totalled euro 5,331.0 million including the debt), with a lower seasonal cash flow usage compared to the previous year, on a like-for-like basis (euro 507.1 million for the first nine months of 2016 compared with euro 572.0 million for the same period in 2015) thanks to the careful management of operating working capital. There was the usual seasonal pattern for working capital, with the collection for winter product sales in Europe and Russia in the fourth quarter in conjunction with the sell-out activities in the markets in question, which brought about - together with the finalisation of the divestment of some financial holdings and properties - a natural improvement in the net financial position for the months that followed.

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

(in millions of euro)

	09/30/2016	09/30/2015 Pirelli Group reported	09/30/2015 Pirelli Group reported (excl. Venez.)	12/31/2015 (**)
Net sales	**4,533.1**	**4,711.9**	**4,539.1**	**2,208.8**
Gross operating margin before non-recurring and restructuring expenses	872.1	893.4	861.9	499.0
% of net sales	19.2%	19.0%	19.0%	22.6%
Adjusted operating income (loss)	655.0	661.8	638.2	387.1
% of net sales	14.4%	14.0%	14.1%	17.5%
Adjustment: - amortisation of intangible fixed assets included in PPA	(79.3)	(4.6)	(4.6)	(33.1)
- non-recurring and restructuring expenses	(35.2)	(9.1)	(9.1)	(34.8)
Operating income (loss)	**540.5**	**648.1**	**624.5**	**319.2**
% of net sales	11.9%	13.8%		14.5%
Net income (loss) from equity investments	(52.7)	(6.2)		(28.2)
Financial income/(expenses)	(383.4)	(180.5)		(234.9)
Total net income (loss) before tax	**104.4**	**461.4**		**56.1**
Tax expenses	(81.7)	(170.2)		(38.2)
Tax rate % on net income (loss) before tax	78.3%	(36.9%)		68.1%
Net income (loss) from continuing operations	**22.7**	**291.2**		**17.9**
Net income (loss) from discontinued operations	**-**	**(14.6)**		**-**
Total net income (loss)	**22.7**	**276.6**		**17.9**
Net income attributable to the Parent Company	16.7	269.0		n\a
Operating fixed assets	**10,193.8**			**10,361.4**
Inventories	1,027.1			1,053.9
Trade receivables	997.1			676.2
Trade payables	(1,057.0)			(1,320.1)
Operating Net working capital	**967.2**			**410.0**
% of net sales (°)	16.0%			n\a
Other receivables/other payables	8.4			(111.0)
Total Net working capital	**975.6**			**299.0**
% of net sales (°)	16.1%			n\a
Net invested capital	**11,169.4**			**10,660.4**
Equity	**3,188.2**			**3,281.6**
Provisions	2,008.8			2,047.8
Net financial (liquidity)/debt position	**5,972.4**			**5,331.0**
Equity attributable to the Parent Company	3,118.6			3,209.6
Investments in property, plant and equipment and intangible assets	238.4			
Research and development expenses	173.3			
% of net sales	3.8%			
Research and development expenses - Premium	142.9			
% on sales Premium	5.8%			
Employees (headcount at end of period)	36,763			
Industrial sites (number)	18			

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

(**) data from consolidated financial statements of Marco Polo Industrial Holding S.p.A. restated as consequence of the completion of the Purchase Price Allocation

For a better understanding of the Group's performance, the following **economic data is subdivided according to business segments.**

(in millions of euro)

	A			B			A+B = C			D		C+D		
	Consumer			**Industrial**			**Total Tyre**			**Other business**		**TOTAL GROUP**		
	09/30/2016	09/30/15 (Pirelli Group)		**09/30/2016**	09/30/15 (Pirelli Group)		**09/30/2016**	09/30/15 (Pirelli Group)		**09/30/2016**	09/30/15 (Pirelli Group)	**09/30/2016**	09/30/15 (Pirelli Group)	
		excl. Venez.	reported		excl. Venez.	reported		excl. Venez.	reported				excl. Venez.	reported
Net sales	**3,784.0**	3,610.4	3,761.6	**746.9**	921.8	943.4	**4,530.9**	4,532.2	4,705.0	**2.2**	6.9	**4,533.1**	4,539.1	4,711.9
Gross operating margin before non-recurring and restructuring expenses	**806.5**	753.7	779.0	**66.3**	112.8	119.0	**872.8**	866.5	898.0	**(0.7)**	(4.6)	**872.1**	861.9	893.4
Adjusted operating income (loss)	**622.4**	568.6	587.0	**34.0**	75.2	80.4	**656.4**	643.8	667.4	**(1.4)**	(5.6)	**655.0**	638.2	661.8
Amortisation of intangible fixed assets included in PPA	**(78.4)**	(4.6)	(4.6)	**(0.9)**	-	-	**(79.3)**	(4.6)	(4.6)	-	-	**(79.3)**	(4.6)	(4.6)
Non-recurring and restructuring expenses	**(27.0)**	(6.2)	(6.3)	**(8.2)**	(1.1)	(1.0)	**(35.2)**	(7.3)	(7.3)	-	(1.8)	**(35.2)**	(9.1)	(9.1)
Operating income (loss)	**517.0**	557.8	576.1	**24.9**	74.1	79.4	**541.9**	631.9	655.5	**(1.4)**	(7.4)	**540.5**	624.5	648.1

For the first nine months of 2016, **Group net sales** amounted to euro 4,533.1 million, which in organic terms represented a growth (net of exchange rates and on a consolidated like-for-like basis) of +6.6% compared to the same period of 2015 (+7.9% for the third quarter). The trend in revenues was sustained by the Consumer business, (with an organic growth of +8.2% for the first nine months, +10% for the third quarter) thanks to a good performance in the mature markets such as APAC and MEAI. The Industrial segment (with an organic growth of +0.3% for the first nine months, +0.1% for the third quarter), was impacted by weakness in the South American market as well as in other emerging markets. With the inclusion of the negative impact of the exchange rate effect, the consolidated revenues recorded were substantially consistent with those of the previous year on a like-for-like basis (a growth of +5.6% for the third quarter.

Tyre Business net sales amounted to euro 4,530.9 million, with an organic growth of 6.7% (+8.0% for the third quarter) which was consistent with that of the previous year including the exchange rate effect (a growth of +5.7% for the third quarter).

Net sales for the Premium segment (tyres with a rim diameter equal to or greater than 17 inches for the car business, and radial and X-ply custom touring tyres, off-road and Sport Touring tyres with a speed rating of ≥H for the motorcycle business) totalled euro 2,443.1 million (+8.8% compared to euro 2,244.7 million for the first nine months of 2015, on a like-for-like basis, +11.7% net of the exchange rate effect), increasing the Premium proportion of the Consumer business turnover to 64.6% (62.2% in the corresponding period of 2015, on a like-for-like basis), and with a growth in volumes of +14.2%, (+15.9% for the third quarter), superior to the +9% growth of the market.

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

	1 Q		2 Q		3 Q		Cumulative at 09/30	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Volume	-0.8%	-1.3%	0.8%	0.6%	3.7%	-3.3%	1.2%	-1.4%
of which Premium volume	*11.7%*	*10.0%*	*15.0%*	*11.0%*	*15.9%*	*12.2%*	*14.2%*	*11.0%*
Price/mix	6.1%	3.7%	5.9%	3.4%	4.3%	7.0%	5.5%	4.8%
Change on a like-for-like basis - same scope of consolidation	**5.3%**	**2.4%**	**6.7%**	**4.0%**	**8.0%**	**3.7%**	**6.7%**	**3.4%**
Translation effect	-9.3%	4.1%	-8.3%	2.4%	-2.3%	-4.2%	-6.7%	0.7%
Change (before impact of Venezuela)	**-4.0%**		**-1.6%**		**5.7%**		**0.0%**	
Change in scope of consolidation - Venezuela	-4.3%		-3.2%		-3.6%		-3.7%	
Total change	**-8.3%**	**6.5%**	**-4.8%**	**6.4%**	**2.1%**	**-0.5%**	**-3.7%**	**4.1%**

The performance for total tyre volumes which for the first nine months recorded a total growth of +1.2% (+3.7% for the third quarter), reflected the diverse dynamics between the Consumer and Industrial segments and between mature and emerging markets.

The performance in the Consumer segment (volumes at +3.1% for the first nine months, +5.5% for the third quarter) was supported by Premium growth (+14.2 %) while Non-Premium (-4.6%) was impacted by the weak demand in LatAm and Russia, in particular in the Original Equipment channel.

The performance in Industrial volumes (-6.2% for the first nine months, -3.8% for the third quarter) was impacted by the negative trend in demand in South America (truck market in decline at -28% in Original Equipment and at -4% in the Replacement channel).

The marked improvement in the price/mix (+5.5% overall, representing a growth for both segments) reflected the continuation of Pirelli's value strategy and was supported by the success of high-end products, and the balancing of geographical markets and sales channels able to offer increased opportunities.

In particular, the positive performance of the Consumer business (price/mix +5.1%), benefited from the improvement in the mix (the increased proportion of Premium), and from the greater proportion of sales in the Replacement channel.

The price/mix in Industrial business (+6.5%) reflected the price increases progressively carried out during 2015 and continued with in 2016, particularly in South America and other emerging countries, which were however not sufficient to offset the sharp devaluation of exchange rates (-10.7% for the first nine months of 2016).

The following is a breakdown of **Tyre business net sales by geographical area and product category**:

GEOGRAPHICAL AREA	Cumulative at 09/30/2016			Cumulative 'at 09/30/2015	
				excl. Venez.	Reported
	Euro\mln	*yoy (excl. Venez)*			
Europe	1,729.2	*4.9%*	38.2%	36.4%	35.0%
Russia and CIS	123.8	*-17.2%*	2.7%	3.3%	3.2%
NAFTA	710.0	*8.3%*	15.7%	14.5%	13.9%
South America	1,019.6	*-11.6%*	22.5%	25.4%	28.2%
Asia\Pacific (APAC)	548.2	*3.9%*	12.1%	11.6%	11.2%
Middle East\Africa\India (MEAI)	400.1	*0.7%*	8.8%	8.8%	8.5%
TOTAL	**4,530.9**	***0.0%***	**100.0%**	**100.0%**	**100.0%**

PRODUCT	Cumulative at 09/30/2016			Cumulative 'at 09/30/2015	
				excl. Venez.	Reported
	Euro\mln	*yoy (excl. Venez)*			
Car tyres	3,495.5	*5.7%*	77.1%	73.0%	73.3%
Motorcycle Tyres	288.5	*-5.1%*	6.4%	6.7%	6.6%
Consumer	**3,784.0**	***4.8%***	**83.5%**	**79.7%**	**79.9%**
Truck	660.2	*-19.9%*	14.6%	18.1%	18.0%
Agriculture	86.7	*-11.2%*	1.9%	2.2%	2.1%
Industrial	**746.9**	***-19.0%***	**16.5%**	**20.3%**	**20.1%**
TOTAL	**4,530.9**	***0.0%***	**100.0%**	**100.0%**	**100.0%**

APAC (12.1% of the tyre business revenues) along with NAFTA were the regions with the highest profitability: EBIT margin in the twenties which was stable compared to the first nine months of 2015. The improvement in revenue performance (+7.5% net of exchange rates for the first nine months of 2016, +14.6% for the third quarter) was achieved despite lower sales for the Industrial and non-Premium Consumer business. The Premium business recorded growth thanks also to increased market exposure on the Original Equipment channel which counted new certifications with European and local car brands.

The strategy of focusing on high-end products made it possible to limit the negative impact of the devaluation of the Yuan (total exchange rate effect for the region of -3.6% for the first nine months, -2.2% for the third quarter) and the decline in market prices.

NAFTA (15.7% of the tyre business revenues) recorded an organic increase in revenues of +10% (+10.7% for the third quarter). The performance of revenues reflected the positive trend in volumes, the improvement of the mix, as well as the partial adjustments of prices to the current exchange rates and raw materials situation, while still maintaining the same positioning for the higher value segments. Profitability (EBIT margin) improved to the twenties range (low twenties profitability for the first nine months of 2015).

MEAI (8.8% of the tyre business revenues) recorded a revenue growth net of exchange rates of +8.1% (+9.2% for the third quarter) with profitability in the high-teens which was stable compared to 2015.

Europe (38.2% of tyre business revenues) ended the first nine months with a marked improvement in net profitability (EBIT margin in the mid-teens compared to the low teens for the same period of 2015), thanks to the +12.4% growth of Premium segment revenues. The organic growth for total revenues was equal to +6.2% (+5.8% for the third quarter), a performance which reflected both the progressive reduction of market exposure on the non-Premium segment and the drop in sales for the Industrial business.

Russia (2.7% of tyre business revenues), recorded an organic contraction in sales of -4.3% net of the exchange rate effect, with a reduction in volumes equal to -10.5% in the presence of a market in sharp decline (Replacement -15%, Original Equipment -18%). Profitability which was slightly negative compared to 2015 which had been impacted by worsening exchange rates and the performance in volumes which given the competitiveness of local production, were mainly intended as a support for exports and for improved results for Europe. An improvement trend was evident for the third quarter with an organic growth in revenues of +8.8% sustained by the good performance in volumes (+4.4%) as well as by improvement in the price/mix.

South America (22.1% of tyre business revenues) recorded a total decline in revenues of -11.6% with an inversion in the third quarter (+3.8%); excluding the relevant negative exchange rates effect (-17.5% for the first nine months, -2.3% for the third quarter) with progressive organic growth which asserted itself at +5.9% (+6.1% for the third quarter). The continuation of the difficult market conditions in the area, which badly impacted the Original Equipment channel (car market volumes –19% and truck -28%), but which also continued to be of concern for the Replacement channel (car market volumes -5% and truck -4%), weighed on the performance in volumes which declined overall by -9.4%.

The performance in organic revenues was also due to the continued growth of the product mix, thanks to the performance in Premium and to the 01 Truck series, as well as the price increases in Consumer and Industrial progressively implemented during 2015 and continued within 2016 to counter the volatility of exchange rates.

Profitability was in the mid single-digits, a decline compared to the same period of 2015 (double digits), principally due to the performance of the Industrial business considering the difficult economic conditions, while for the Consumer business profitability was recorded in the high single digits.

The **Group's adjusted operating income (loss) -** before non-recurring and restructuring expenses and the amortisation of the intangible fixed assets included in the PPA - amounted to euro 655.0 million (an adjusted EBIT margin of 14.4%), a growth of +2.6% as compared to euro 638.2 million for the first nine months of 2015 on a consolidated like-for-like basis (an adjusted EBIT margin of 14.1%).

Specifically, the adjusted operating income (loss) for the Group was as follows:

(in millions of euro)

	1 Q	2 Q	3 Q	Cumulative at 09/30
2015 Adjusted operating income (loss) - excl. Venezuela	**208.5**	**229.4**	**200.3**	**638.2**
Differences from foreign currency translation from consolidation	(22.0)	(22.1)	(8.2)	(52.3)
Price/mix	35.8	38.0	31.3	105.1
Volumes	(1.6)	0.7	28.3	27.4
Cost of prodution factors (raw materials)	(6.4)	(3.8)	(0.2)	(10.4)
Cost of prodution factors (labour/energy/others)	(23.5)	(27.8)	(22.5)	(73.8)
Efficiencies	30.5	20.8	16.8	68.1
Amortisation, depreciation and other	(5.6)	(21.2)	(24.7)	(51.5)
Other businesses	1.4	1.1	1.7	4.2
Change	**8.6**	**(14.3)**	**22.5**	**16.8**
2016 Adjusted operating income (loss)	**217.1**	**215.1**	**222.8**	**655.0**

The changes were impacted by:

- the price/mix (euro +105.1 million) and the growth in violumes (euro +27.4 million) which more than compensated the significant effects of the changes in exchange rates (euro –52.3 million mainly due to the consolidation of exchange rates of the Latin American currencies), higher depreciations, amortisations and other costs (euro -51.5 million), and to the increase in raw materials purchased in local currencies (euro -10.4 million);
- efficiencies of euro 68.1 million, which substantially covered the higher costs of production (euro -73.8 million). Since 2014, efficiencies to the amount of euro 254.9 million have been achieved equal to 73% of the 2014-2017 four year plan target of euro 350 million;
- improvement in the operating income of other businesses (euro +4.2 million).

The **operating income (loss) of the Group** which amounted to euro 540.5 million, was impacted by;

- non-recurring and restructuring expenses to the amount of euro 35.2 million due to continuing structural rationalisation, and above all the activities under way for the integration of Pirelli's Industrial segment with the assets of China National Industrial Tire & Rubber Co. Ltd;
- euro 79.3 million relative to the amortisation of the intangible fixed assets identified during the Purchase Price Allocation.

In the corresponding period of 2015 the operating income (loss) of the Group had amounted to euro 624.5 million, impacted by non-recurring and restructuring expenses which had amounted to euro 9.1 million, and euro 4.6 million for the amortisation of the intangible fixed assets recorded as a result of previous PPAs.

Income (loss) from equity investments by the Group was negative for euro 52.7 million and was mainly due to the impact of the equity method consolidation of the results of the associate Prelios S.p.A. for the fourth quarter of 2015 and first quarter of 2016 (a pro-rata loss of euro 8.3 million), the Indonesian PT Evoluzione Tyres Joint Venture I (a loss of euro 5.1 million), as well as to the results of the first nine months of 2016 for Fenice S.r.l. (a pro-rata loss of euro 29.3 million). With reference to Fenice S.r.l., the negative result was partially offset by the restatement of the value recorded for the investment (euro 8.6 million) in order to adjust the same to its fair value, which resulted in the release to the Income Statement of part of the impairments recorded in previous financial years. The result from equity investments also reflected the impairment of Prelios S.p.A. attributable to the loss from dilution consequent to the Prelios share capital increase completed in March 2016 (euro 9.9 million), not subscribed by Pirelli, and the impairment of the investment in the Venezuelan company Pirelli de Venezuela C.A. (euro 7.9 million) mainly due to the significant depreciation of the Venezuelan Bolivar against the US Dollar.

The **net income of the Group** at September 30, 2016 was equal to euro 22.7 million, compared to euro 276.6 million for continuing operations for the first nine months of 2015. In addition to the trends highlighted regarding the operating income (loss) and net income (loss) from investments, the net income trend for the first nine months also reflects the increase in **net financial expenses** of euro 202.9 million (from euro 180.5 million for the first nine months of 2015 to euro 383.4 million for the first nine months of 2016). This increase was mainly attributable to the bank debt contracted by Marco Polo Industrial Holding S.p.A. for the acquisition of the Pirelli Group ("Bidco Facility"), to the subsequent refinancing operation ("Senior Facilities"), as well as to the early repayment of the US Private Placement bond loan of USD 150 million, which, in accordance with the contract terms, resulted in higher expenses which amounted to euro 25.4 million.

The average cost of debt for the period was 6.16%.

Tax expenses for the first nine months of 2016 amounted to euro 81.7 million (euro 170.2 million for the first nine months of 2015) compared with earnings before tax of euro 104.4 million (euro 461.4 million for the first nine months of 2015) with a tax rate of 78.3% (36.9% at September 30, 2015). The tax rate needs to be normalised due to, the effect arising from the consolidation of equity investments in associated companies (euro -42.8 million, equal to an impact of 23 percentage points on the tax rate, and an impact of -0.5 at September 30, 2015) as well as due to the non-deductibility of a significant portion of interest payables on outstanding loans (euro 26 million euro in tax on non-deductible interest, with an impact of 18 percentage points on the tax rate, with no impact at September 30, 2015 due to the fact that all interest payables for the Italian companies were wholly deductible. Net of these effects, the tax rate would therefore be 38%, consistent with the tax rate recorded at September 30, 2015.

The **net income attributable to Pirelli & C. S.p.A.** was positive for euro 16.7 million compared to euro 269.0 million for the same period of the previous financial year.

Equity went from euro 3,281.6 million at December 31, 2015 to euro 3,188.2 million at September 30, 2016.

Equity attributable to Pirelli & C. S.p.A. at September 30, 2016 amounted to euro 3,118.6 million as compared to euro 3,209.6 million at December 31, 2015.

This change, analytically shown in the table below, was essentially related to the negative fair value adjustment of financial assets and to actuarial losses on pension funds.

(in millions of euro)

	Group	Non-controlling interests	Total
Equity at 12/31/2015 (**)	**3,209.6**	**72.0**	**3,281.6**
Translation differences	(21.4)	(1.2)	(22.6)
Net income (loss)	16.7	6.0	22.7
Fair value adjustment of other financial assets/derivative instruments	(53.7)	-	(53.7)
Actuarial gains/(losses) on employee benefits	(19.2)	-	(19.2)
Dividends approved / paid	-	(2.4)	(2.4)
Effect of purchase of special shares for withdrawal	(6.9)	(4.0)	(10.9)
Purchase of special treasury shares for redemption	(5.4)	-	(5.4)
Other	(1.1)	(0.8)	(1.9)
Total changes	**(91.0)**	**(2.4)**	**(93.4)**
Equity at 09/30/2016	**3,118.6**	**69.6**	**3,188.2**

(**) consolidated financial statements of Marco Polo Industrial Holding S.p.A.

- At September 30, 2016, the **net financial position of the Group** was negative for euro 5,999.4 million compared to negative euro 5,331.0 million at December 31, 2015. There was the usual seasonal pattern for working capital, with the collection for winter product sales in Europe and Russia for the fourth quarter, in conjunction with sell-out activities in the markets in question, which brought about - together with the finalisation of the divestment of some financial holdings and properties - a natural improvement in the net financial position for the months that followed.

The composition of the net financial position of the Group at September 30, 2016 and at the close of the previous financial year was as follows:

(in millions of euro)

	09/30/2016	12/31/2015
Current borrowings from banks and other financial institutions	618.2	5,297.8
Current derivative financial instruments	39.8	15.1
Non-Current borrowings from banks and other financial institutions	6,161.6	1,275.7
Total gross debt	**6,819.6**	**6,588.6**
Cash and cash equivalents	(679.9)	(1,110.0)
Securities held for trading	(38.1)	(78.2)
Current financial receivables and other assets	(32.8)	(11.9)
Current derivative financial instruments	(14.5)	(6.8)
Non-current financial receivables and other assets	(81.9)	(50.7)
Total financial receivables and cash	**(847.2)**	**(1,257.6)**
Total net financial (liquidity)/debt position	**5,972.4**	**5,331.0**

The **structure of the gross financial debt**, which amounted to euro 6,819.6 million, was as follows:

(in millions of euro)

	Financial Statements 09/30/2016	Maturity date				
		2016	2017	2018	2019	2020 and beyond
Use of committed credit facilities	5,380.8	-	174.6	1,932.4	1,323.3	1,950.5
Bond 1,750% - 2014/2019	600.0	-	-	-	600.0	-
EIB loans	50.0	-	20.0	20.0	10.0	-
Schuldschein	5.0	-	5.0	-	-	-
Other loans	783.8	586.6	51.8	138.4	1.6	5.4
Total gross debt	**6,819.6**	**586.6**	**251.4**	**2,090.8**	**1,934.9**	**1,955.9**
		8.6%	3.7%	30.6%	28.4%	28.7%

It is to be noted that following the merger of Marco Polo Industrial Holding S.p.A. (“Bidco”) into Pirelli & C. S.p.A. which took place on June 1, 2016, the secured bank debt contracted by Bidco ("Bidco Facility") was incorporated into Pirelli & C. S.p.A.

Subsequently on July 25, 2016 (the signing date) the Pirelli Group proceeded to refinance both the bank debt which existed prior to the merger, as well as the Bidco Facility debt which was cancelled on July 28 (the closing date). The refinanced total amounted to euro 6.4 billion and was achieved at a lower overall cost of less than 3.5%. The operation consisted of syndicated refinancing for a total amount of euro 4.8 billion maturing in three and five years, and a line of credit for euro 1.6 billion with an eighteen month expiry, which was the result of a 'club deal' with a select number of lending institutions. Due to the aforesaid operation, Pirelli reimbursed the Bidco Facility and cancelled the Mergeco Facility loan made available to the company by a syndicate of banks as part of the Public Offer made to Pirelli by Marco Polo Industrial Holding S.p.A.

At September 30, 2016, the Group had a liquidity margin equal to euro 1,632.3 million composed of euro 914.3 million of non-utilised nominal line of credit facilities (a contractual Senior Facilities amount of euro 6.4 billion), and euro 718.0 million in cash and cash equivalents and securities held for trading.

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

(in millions of euro)

	1 Q		2 Q		3 Q		Cumulative at 09/30	
	2016	2015 Pirelli Group reported adjusted	**2016**	2015 Pirelli Group reported adjusted	**2016**	2015 Pirelli Group reported adjusted	**2016**	2015 Pirelli Group reported adjusted
Adjusted operating income (loss)	217.1	215.0	215.1	239.5	222.8	207.3	655.0	661.8
Amortisation and depreciation (excl. PPA amortisation)	72.9	76.9	73.6	78.2	70.6	76.5	217.1	231.6
Investments in property, plant and equipment and intangible assets	(74.0)	(85.6)	(82.0)	(103.2)	(82.4)	(73.0)	(238.4)	(261.8)
Change in working capital/other	(715.9)	(895.2)	101.4	151.6	(51.7)	(113.7)	(666.2)	(857.3)
Operating net cash flow	**(499.9)**	**(688.9)**	**308.1**	**366.1**	**159.3**	**97.1**	**(32.5)**	**(225.7)**
Financial income/(expenses)	(82.7)	(52.1)	(198.1)	(61.3)	(102.6)	(67.1)	(383.4)	(180.5)
Tax expenses	(27.2)	(54.1)	(25.9)	(63.7)	(28.6)	(52.4)	(81.7)	(170.2)
Ordinary net cash flow	**(609.8)**	**(795.1)**	**84.1**	**241.1**	**28.1**	**(22.4)**	**(497.6)**	**(576.4)**
Financial (investments) / disinvestments	(5.2)	(14.4)	-	(0.4)	-	-	(5.2)	(14.8)
Disposal of real estate	-	-	-	-	16.1	-	16.1	-
Disposal of investments	-	-	11.1	-	-	-	11.1	-
Dividends paid to non-controlling interests	-	(7.6)	(2.4)	(2.5)	-	-	(2.4)	(10.1)
Cash Out for non-recurring and restructuring expenses	(19.5)	(6.4)	(11.4)	(2.6)	(8.8)	(3.7)	(39.7)	(12.7)
Reversal of impairment in Venezuela included in financial expenses	-	-	-	14.2	-	9.1	-	23.3
Reversal of release of the provision for deferred tax liabilities included in tax expenses	-	-	-	-	(22.1)	-	(22.1)	-
Financial expenses included in the acquisition debt	-	-	122.2	-	-	-	122.2	-
Exercise of Fenice share options	-	-	-	-	-	(12.2)	-	(12.2)
Differences from foreign currency translation/other	(70.1)	45.8	(33.1)	(37.4)	13.7	22.5	(89.5)	30.9
Net cash flow before dividends paid / extraordinary transactions	**(704.6)**	**(777.7)**	**170.5**	**212.4**	**27.0**	**(6.7)**	**(507.1)**	**(572.0)**
Dividends paid by Parent Company	-	-	-	(179.5)	-	-	-	(179.5)
Impact Steelcord disposal	-	24.4	-	35.6	-	(14.4)	-	45.6
Change NFP Bidco from 01/01 to 05/31	-	-	(134.3)	-	-	-	(134.3)	-
Net cash flow	**(704.6)**	**(753.3)**	**36.2**	**68.5**	**27.0**	**(21.1)**	**(641.4)**	**(705.9)**

The improvement in **operating net cash flow** for the first nine months of 2016 (negative at euro 32.5 million) compared to the same period for 2015 (negative at euro 225.7 million) was above all mainly linked to the management of working.

Investments amounted to euro 238.4 million (euro 261.8 million for 2015), and were mainly aimed at increasing the Premium segment capacity in Europe, NAFTA and China and at the improvement of the mix.

Total net cash flow for the first nine months of 2016, prior to the effects arising from the merger with Marco Polo Industrial Holding S.p.A. was negative to the amount of euro 507.1 million, compared to the negative value of euro 572.0 million for the first nine months of 2015 (prior to the payment of dividends and the final collection relative to the disposal of the Steelcord business).

CONSUMER BUSINESS

The table below shows the results as compared with the corresponding period for 2015:

(in millions of euro)

	1 Q			2 Q			3 Q			Cumulative at 09/30		
	2016	2015 (Pirelli Group)		2016	2015 (Pirelli Group)		2016	2015 (Pirelli Group)		2016	2015 (Pirelli Group)	
		excl. Venez.	reported		excl. Venez.	reported		excl. Venez.	reported		excl. Venez.	reported
Net sales	**1,165.7**	1,177.6	1,237.4	**1,303.9**	1,241.7	1,284.3	**1,314.4**	1,191.1	1,239.9	**3,784.0**	3,610.4	3,761.6
yoy (excluding Venezuela)	-1.0%			5.0%			10.4%			4.8%		
Gross operating margin before non-recurring and restructuring expenses	**263.3**	239.5	246.3	**270.2**	266.6	276.8	**273.0**	247.6	255.9	**806.5**	753.7	779.0
% of net sales	22.6%	20.3%	19.9%	20.7%	21.5%	21.6%	20.8%	20.8%	20.6%	21.3%	20.9%	20.7%
Adjusted operating income (loss)	**201.2**	179.0	183.6	**207.6**	203.4	211.5	**213.6**	186.2	191.9	**622.4**	568.6	587.0
% of net sales	17.3%	15.2%	14.8%	15.9%	16.4%	16.5%	16.3%	15.6%	15.5%	16.4%	15.7%	15.6%
Amortisation of intangible fixed assets included in PPA	**(26.2)**	(1.6)	(1.6)	**(26.1)**	(1.5)	(1.5)	**(26.1)**	(1.5)	(1.5)	**(78.4)**	(4.6)	(4.6)
Non-recurring and restructuring expenses	**(10.8)**	(1.6)	(1.6)	**(7.3)**	(1.5)	(1.5)	**(8.9)**	(3.1)	(3.2)	**(27.0)**	(6.2)	(6.3)
Operating income (loss)	**164.2**	175.8	180.4	**174.2**	200.4	208.5	**178.6**	181.6	187.2	**517.0**	557.8	576.1
% of net sales	14.1%	14.9%	14.6%	13.4%	16.1%	16.2%	13.6%	15.2%	15.1%	13.7%	15.4%	15.3%

Net sales totalled euro 2,469.6 million, with an organic growth on a like-for-like basis (excluding Venezuela for 2015) of +8.2% (+4.8% which also included the negative exchange rates effect of -5.6% and a positive change in scope of +2.2% due to the reorganisation of the business (with controlled distribution included entirely in the consumer segment), thanks to:

- improvement of the price/mix (+5.1%) linked to the increasing proportion of Premium (64.6% of Consumer revenues in 2016 compared to 62.2% in 2015), higher sales in the Replacement channel and price increases in emerging markets to offset the exchange rates and inflation trends;
- positive contribution of the volumes component at +3.1% (+5.5% for the third quarter) which was linked to the sustained growth in NAFTA, MEAI, APAC, and Europe, while South America and Russia were affected by the general market downturn.

Premium net sales amounted to euro 2,443.1 million, representing an overall increase of +8.8% compared to the same period of the previous year (+11.7% before the exchange rate effect), with growth concentrated in the mature markets.

The analysis of the change in net sales is as follows:

	1 Q		2 Q		3 Q		Cumulative at 09/30	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Volume	1.7%	0.4%	2.1%	2.2%	5.5%	-1.4%	3.1%	0.4%
of which Premium volume	*11.7%*	*10.0%*	*15.0%*	*11.0%*	*15.9%*	*12.2%*	*14.2%*	*11.0%*
Price/mix	5.2%	4.7%	5.8%	4.1%	4.5%	7.8%	5.1%	5.5%
Change on a like-for-like basis - same scope of consolidation	**6.9%**	**5.1%**	**7.9%**	**6.3%**	**10.0%**	**6.4%**	**8.2%**	**5.9%**
Change in scope of consolidation Consumer/Industrial	-0.3%		4.6%		2.2%		2.2%	
Translation effect	-7.6%	4.5%	-7.5%	4.5%	-1.8%	-1.1%	-5.6%	2.6%
Change (before impact of Venezuela)	**-1.0%**		**5.0%**		**10.4%**		**4.8%**	
Change in scope of consolidation - Venezuela	-4.8%		-3.5%		-4.4%		-4.2%	
Total change	**-5.8%**	**9.6%**	**1.5%**	**10.8%**	**6.0%**	**5.3%**	**0.6%**	**8.5%**

There was improvement in profitability in the first nine months of 2016 with an **operating income (loss) adjusted** before non-recurring and restructuring expenses and the amortisation of intangible fixed assets included in the PPA of euro 622.4 million (+9.5% for the same period of 2015 on a like-for-like basis) and a margin of 16.4% which grew by +0.7 percentage points (15.7% for 2015), thanks to the aforementioned dynamics and the continued achievement of internal efficiencies.

Operating income (loss) amounted to euro 517 million (with a margin of 13.7%), impacted by non-recurring and restructuring expenses of euro 27 million and the amortisation of intangible fixed assets included in the PPA which amounted to euro 78.4 million.

In the corresponding period of 2015 the **operating income (loss)** amounted to euro 557.8 million (with a margin of 15.4%), impacted by non-recurring and restructuring expenses of euro 6.2 million and the amortisation of intangible fixed assets included in the PPA which amounted to euro 4.6 million.

INDUSTRIAL BUSINESS

The table below shows the results as compared with the corresponding period for 2015:

(in millions of euro)

	1 Q			2 Q			3 Q			Cumulative at 09/30		
	2016	2015 (Pirelli Group)		2016	2015 (Pirelli Group)		2016	2015 (Pirelli Group)		2016	2015 (Pirelli Group)	
		excl. Venez.	reported		excl. Venez.	reported		excl. Venez.	reported		excl. Venez.	reported
Net sales	**269.4**	317.9	327.9	**227.9**	315.5	324.1	**249.6**	288.4	291.4	**746.9**	921.8	943.4
yoy (excluding Venezuela)	-15.3%			-27.8%			-13.5%		-	-19.0%		
Gross operating margin before non-recurring and restructuring expenses	**26.9**	45.0	47.2	**18.9**	39.9	42.3	**20.5**	27.9	29.5	**66.3**	112.8	119.0
% of net sales	10.0%	14.2%	14.4%	8.3%	12.6%	13.1%	8.2%	9.7%	10.1%	8.9%	12.2%	12.6%
Adjusted operating income (loss)	**16.4**	31.4	33.3	**8.1**	27.7	29.7	**9.5**	16.1	17.4	**34.0**	75.2	80.4
% of net sales	6.1%	9.9%	10.2%	3.6%	8.8%	9.2%	3.8%	5.6%	6.0%	4.6%	8.2%	8.5%
Amortisation of intangible fixed assets included in PPA	**(0.3)**	-	-	**(0.3)**	-	-	**(0.3)**	-	-	**(0.9)**	-	-
Non-recurring and restructuring expenses	**(4.5)**	(0.4)	(0.4)	**(0.9)**	-	-	**(2.8)**	(0.7)	(0.6)	**(8.2)**	(1.1)	(1.0)
Operating income (loss)	**11.6**	31.0	32.9	**6.9**	27.7	29.7	**6.4**	15.4	16.8	**24.9**	74.1	79.4
% of net sales	4.3%	9.8%	10.0%	3.0%	8.8%	9.2%	2.6%	5.3%	5.8%	3.3%	8.0%	8.4%

Industrial business performance was impacted by the continued negative economic conditions in South America (the region constitutes 50% of business turnover), in particular the drop in the Brazilian GDP which was forecast to decline by -3% in 2016, while the decline in industrial production and the rise in unemployment continued. In this context, demand in the truck and agro market suffered a further contraction of volumes in the first nine months of 2016 with declines respectively of –28% in truck Original Equipment and –4% in truck Replacement.

Net sales totalled euro 746.9 million, a decline of -19% compared to the first nine months of 2015 (euro 921.8 million excluding Venezuela), with an organic growth of +0.3% net of both the exchange rate effect (-10.7%) and the change of scope (-8.6%) relative to the reorganisation of the business (with controlled distribution included entirely in the consumer segment). The decline in volumes (-6.2% for the first nine months, -3.8% for the third quarter) was impacted by the aforementioned decline in the Latin American markets and the slowdown of the Chinese market.

There was a positive performance in the price/mix component (+6.5%) thanks to the improvement in the product and channel mix, and to price increases progressively implemented during the course of 2015 and continued with in 2016 in South America, and other emerging markets which were characterised by the devaluation of local currencies.

The analysis of the change in net sales is as follows:

	1 Q		2 Q		3 Q		Cumulative at 09/30	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Volume	-10.1%	-6.7%	-4.5%	-4.7%	-3.8%	-9.7%	-6.2%	-7.1%
Price/mix	*9.1%*	*-0.1%*	*6.3%*	*1.3%*	*3.9%*	*4.8%*	*6.5%*	*2.0%*
Change on a like-for-like basis - same scope of consolidation	**-1.0%**	**-6.8%**	**1.8%**	**-3.4%**	**0.1%**	**-4.9%**	**0.3%**	**-5.1%**
Change in scope of consolidation Consumer/Industrial	1.1%		-18.1%		-9.0%		-8.6%	
Translation effect	-15.4%	3.0%	-11.5%	-4.4%	-4.6%	-14.4%	-10.7%	-5.4%
Change (before impact of Venezuela)	**-15.3%**		**-27.8%**		**-13.5%**		**-19.0%**	
Change in scope of consolidation - Venezuela	-2.5%		-1.9%		-0.8%		-1.8%	
Total change	**-17.8%**	**-3.8%**	**-29.7%**	**-7.8%**	**-14.3%**	**-19.3%**	**-20.8%**	**-10.5%**

Adjusted operating income (loss) amounted to euro 34.0 million, equal to 4.6% of sales, which represented a decrease compared to euro 75.2 million for 2015 (8.2% of sales) on a like-for-like basis.

Operating income (loss) amounted to euro 24.9 million (euro 74.1 million for the first nine months of 2015 on a like-for-like basis), with a margin of 3.3% compared to 8.0% for the corresponding period of 2015. Profitability performance was impacted by the decline in volumes, the higher cost of raw materials and the negative exchange rates effect.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE QUARTER

On **October 13, 2016** Pirelli and the Bicocca University of Milan signed a renewal for another six years of the CORIMAV Consortium for research on advanced materials, created in 2001 by Pirelli and the University, with the aim of, developing cutting-edge technologies in the field of new materials, sustaining research activity and experimentation for the purpose of patenting, and to foster training initiatives and the professional development of young researchers. Since its inception, the CORIMAV Consortium has enabled the filing of 15 patents, and the funding of 44 scholarships and 36 doctoral fellowships in ecological and innovative materials.

On **October 19, 2016**, the Board of Directors of Pirelli & C. S.p.A. took favourable note of the progress being made on the integration between Pirelli Industrial and Aeolus, and examined the guidelines of the Pirelli Business Plan for the Industrial segment. The Board also approved the 2016-2018 business plan, with a view to 2020, for the Pirelli Consumer business, the sole global player entirely focused on the Consumer business segment and who foresees: strengthened leadership in the more lucrative Prestige and Premium segments; a business model which is increasingly more focused on the end consumer (the Consumer Centric Approach); the overseeing of the new business opportunities offered by new and sustainable mobility (Cyber Tyre and Vélo); more efficient and fully digitized industrial, commercial and managerial processes based on predictive models made possible through the use of big data analytics.

In support of that position, the Board of Directors adopted an organisational model which provides for, the establishment of the new Pirelli Digital General Management, entrusted to Luigi Staccoli, to oversee all activities directed towards digitisation of the company; the aggregation of all technical structures and sales to Original Equipment under the responsibility of the General Manager Technology, Maurizio Boiocchi; the attribution of the management of all commercial structures and the Motorcycle Business Unit to the Chief Commercial Officer Consumer, Roberto Righi, in support of the Consumer Centric Approach; the appointment of Paolo Dal Pino as Chief Executive Officer of Pirelli Industrial, and the supersession of the General Manager of Operations department, as of January 1, 2017.

Based on these presuppositions, the Board of Directors expressed the desire to accelerate the public listing of the company by immediately initiating all necessary actions. It is expected that the preliminary phases for preparing the Initial Public Offer could be completed during the first half of 2017, with the objective of proceeding, depending on opportune market conditions, with the launch during the first half year of 2018, of the IPO on the Milan Stock Exchange, or in any case, on one of the major international level stock markets. Among the elements which support the success of the listing, the Board of Directors singled out the alignment of governance with international best practices, through a Board of Directors and Board Committees composed of an adequate number of independent Directors; a corporate structure which, although starting from a concentrated shareholder structure emerged following the Public Offer, will give rise to an evolution which will ensure an adequate public float able to meet the expectations of international investors; an incentive system to ensure an alignment of the interests of management with those of all shareholders.

ALTERNATIVE PERFORMANCE INDICATORS

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

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

- **Gross operating margin**: an intermediate economic measure which derives from the operating income which excludes the amortisation of intangible assets and the depreciation of tangible assets (property, plant and equipment);
- **Adjusted EBIT:** an intermediate measure, which derives from the operating income but which excludes the amortisation of intangible assets related to assets detected as a consequence of Business Combinations, and operational costs due to non-recurring and restructuring expenses;
- **Fixed assets**: this measure is constituted by the sum of the items "Property, plant and equipment", "Intangible assets", "Investments in associates and joint ventures" and "Other financial assets";
- **Provisions**: this measure is constituted by the sum of "Provisions for liabilities and charges (current and non-current)", "Employee benefit obligations" and "Provisions for deferred taxes";
- **Operating working capital**: this measure is constituted by the sum of "Inventory", "Trade receivables" and "Trade payables";
- **Net working capital**: this measure consists of the operating working capital and other receivables and payables not included in the “Net financial position";
- **Net financial position**: this measure is represented by gross financial debt less cash and cash equivalents as well as financial receivables.

OTHER INFORMATION

Role of the Board of Directors

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

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

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

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

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

Information on Share Capital and Ownership Structure

The subscribed and paid up share capital as at the date of approval of this report amounts to euro 1,345,381 thousand, and is represented by 207,625,214 registered shares without indication of nominal value, which are subdivided as follows:

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

(*) without voting rights

The ordinary shares are held by the sole shareholder Marco Polo International Holding Italy S.p.A. with the exception of 351,590 ordinary treasury shares which are held by Pirelli & C. S.p.A.

The special shares are held by the sole shareholder Marco Polo International Holding Italy S.p.A. with the exception of 772,792 special treasury shares which are held by Pirelli & C. S.p.A.

The company is subject to the management and coordination by Marco Polo International Italy S.p.A., which is the sole shareholder of Marco Polo International Holding Italy S.p.A.

Extracts of the Agreements between the shareholders of Marco Polo International Italy S.p.A. which contain the provisions relative to the governance of Pirelli are available on the Company's website.

Related party transactions

Related party transactions, including intra-group transactions, do not qualify as either unusual or exceptional, but are part of the ordinary course of business for the companies of the Group. Such transactions, when not settled under standard conditions, or are dictated by specific regulatory conditions, are in any case regulated by conditions in line with those of the market.

The effects of the related party transactions in the Income Statement and the Statement of Financial Position, on the consolidated data for the Pirelli & C. Group at September 30, 2016 were as follows:

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

(in millions of euro)

Revenues from sales/services and other income	1.6	The amount refers mainly to rental income and related rental management fees received from the Prelios Group (euro 1.3 million) and for services rendered to PT Evoluzione Tyres (euro 0.3 million).
Other costs	20.4	This item includes costs for the purchase of energy and the hire of equipment from Industriekraftwerk Breuberg GmbH (euro 16.0 million), costs for the purchase of products from PT Evoluzione Tyres (euro 4.2 million) and the supply of services by the CORIMAV consortium (euro 0, 1 million).
Financial income	0.1	The amount refers to interest on loans granted by Pirelli International plc to PT Evoluzione Tyres.
Other non-current receivables	6.3	Refers to a loan granted by Pirelli International plc to PT Evoluzione Tyres.
Current trade receivables	2.7	Includes receivables from services provided to the Prelios S.p.A. group. (euro 1.7 million) and to PT Evoluzione Tyres (euro 1.0 million).
Other current receivables	0.2	The amount mainly refers to financial receivables from Fenice S.r.l. (euro 0.2 million).
Non-current borrowings from banks and other financial institutions	1.3	Security deposit received from Prelios S.p.A. to guarantee the lease of the Milan office.
Current trade payables	16.1	The amount refers mainly to payables for the purchase of energy from Industriekraftwerk Breuberg GmbH.
Other current payables	3.7	Other payables refers mainly to the advance received for the sale to Aeolus of 10% of Pirelli Industrial finalised in October (euro 3.6 million).

TRANSACTIONS WITH OTHER RELATED PARTY

(in milllions of euro)

Revenues from sales and services	2.3	Mainly includes the sale of goods and services by Pirelli Tyre S.p.A. (euro 1.5 million) and Pirelli Pneus Ltda (euro 0.8 million) to Pirelli de Venezuela C.A.

The Board of Directors

Milan, November 16, 2016

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in thousands of euro)

	09/30/2016	12/31/2015 (°)
Property, plant and equipment	3,392,785	3,363,634
Intangible assets	6,521,287	6,605,278
Investments in associates and J.V.	112,493	167,348
Other financial assets	167,211	225,121
Deferred tax assets	131,999	123,724
Other receivables	206,641	147,624
Tax receivables	12,329	6,169
Non-current assets	**10,544,745**	**10,638,898**
Inventories	1,027,081	1,053,929
Trade receivables	997,062	676,192
Other receivables	321,769	165,409
Securities held for trading	38,046	78,167
Cash and cash equivalents	679,901	1,110,024
Tax receivables	102,105	62,410
Derivative financial instruments	20,663	61,305
Current assets	**3,186,627**	**3,207,436**
Total Assets	**13,731,372**	**13,846,334**
Equity attributable to owners of the Group:	3,118,606	3,209,595
- Share capital	1,342,281	10,196
- Reserves	1,759,660	3,182,019
- Net income (loss)	16,665	17,380
Equity attributable to non-controlling interests:	69,552	72,041
- Reserves	63,475	71,524
- Net income (loss)	6,077	517
Total Equity	**3,188,158**	**3,281,636**
Borrowings from banks and other financial institutions	6,161,487	1,275,688
Other payables	89,847	98,631
Provisions for liabilities and charges	155,285	144,506
Provisions for deferred tax liabilities	1,446,621	1,477,516
Employee benefit obligations	350,724	362,540
Tax payables	3,153	2,646
Non-current liabilities	**8,207,117**	**3,361,527**
Borrowings from banks and other financial institutions	618,235	5,297,841
Trade payables	1,056,953	1,320,058
Other payables	468,377	407,627
Provisions for liabilities and charges	56,162	63,221
Tax payables	85,757	62,445
Derivative financial instruments	50,613	51,979
Current liabilities	**2,336,097**	**7,203,171**
Total Liabilities and Equity	**13,731,372**	**13,846,334**

(°) the balance refers to the restated consolidated financial statements of Marco Polo Industrial Holding S.p.A. following the completion of the PPA

CONSOLIDATED INCOME STATEMENT (in thousands of euro)

	01/01 - 09/30/2016
Revenues from sales and services	4,533,069
Other income	151,338
Changes in inventories of unfinished, semi-finished and finished products	(48,361)
Raw materials and consumables used (net of change in inventories)	(1,497,281)
Personnel expenses	(903,842)
Amortisation, depreciation and impairment	(296,751)
Other costs	(1,399,529)
Increase in fixed assets for internal work	1,820
Operating income (loss)	**540,463**
Net income (loss) from equity investments	(52,729)
- share of net income (loss) of associates and j.v.	*(42,765)*
- gains on equity investments	*8,973*
- losses on equity investments	*(20,733)*
- dividends	*1,796*
Financial income	56,134
Financial expenses	(439,467)
Net income (loss) before tax	**104,401**
Tax	(81,659)
Total net income (loss)	**22,742**

Attributable to:

Owners of the parent company	16,665
Non-controlling interests	6,077

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in thousands of euro)

		01/01 - 09/30/2016
A	**Net income (loss) for the period**	**22,742**
Components of other comprehensive income:		
	B - Items that will not be reclassified to income statement:	
	- Net actuarial gains (losses) on employee benefits	(19,171)
	- Tax effect	(962)
	Total B	**(20,133)**
	C - Items reclassified / that may be reclassified to income statement:	
	Exchange differences from translation of foreign financial statements	
	- Gains / (losses) for the period	(22,631)
	- (Gains) / losses reclassified to income statement	-
	Fair value adjustment of other financial assets available for sale:	
	- Gains / (losses) for the period	(49,196)
	- (Gains) / losses reclassified to income statement	-
	Fair value adjustment of derivatives designated as cash flow hedges:	
	- Gains / (losses) for the period	(6,507)
	- (Gains) / losses reclassified to income statement	3,020
	- Tax effect	(278)
	Share of other comprehensivie income related to associates and JVs net of tax	180
	Total C	**(75,412)**
D	**Total components of other comprehensive income (B+C)**	**(95,545)**
A+D	**Total comprehensive income (loss) for the period**	**(72,803)**
	Attributable to:	
	- Owners of the Parent	(77,680)
	- Non-controlling interests	4,877

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 09/30/2016

(in thousands of euro)

	Attributable to the Parent					Non controlling interests	TOTAL
	Share Capital	Translation reserve	Total IAS Reserves *	Other reserves/ retained earnings	Total attributable to the Parent		
Total at 12/31/2015	**10,196**	**(61,814)**	**(18,590)**	**3,279,803**	**3,209,595**	**72,041**	**3,281,636**
Components of other comprehensive income	-	(21,431)	(72,914)	-	(94,345)	(1,200)	(95,545)
Net income (loss)	-	-	-	16,665	16,665	6,077	22,742
Total conprehensive income (loss)	**-**	**(21,431)**	**(72,914)**	**16,665**	**(77,680)**	**4,877**	**(72,803)**
Dividends paid	-	-	-	-	-	(2,283)	(2,283)
Effect of purchase of special shares for withdrawal	-	-	-	(6,894)	(6,894)	(3,995)	(10,889)
Purchase of special treasury shares for redemption	-	-	-	(5,449)	(5,449)	-	(5,449)
Effect of the incorporation of Marco Polo Industrial Holding S.p.A / Other	1,332,085	-	19	(1,333,070)	(966)	(1,088)	(2,054)
Total at 09/30/2016	**1,342,281**	**(83,245)**	**(91,485)**	**1,951,055**	**3,118,606**	**69,552**	**3,188,158**

(in thousands of euro)

	Breakdown of IAS reserves *				
	Reserve for fair value adjustment of available-for-sale financial assets	Reserve for cash flow hedge	Reserve for actuarial gains/losses	Tax effect	**Total IAS reserves**
Balance at 12/31/2015	**(4,538)**	**(2,797)**	**2,544**	**(13,799)**	**(18,590)**
Other components of other comprehensive income	(49,954)	(2,549)	(19,171)	(1,240)	(72,914)
Other changes	-	-	-	19	19
Balance at 09/30/2016	**(54,492)**	**(5,346)**	**(16,627)**	**(15,020)**	**(91,485)**

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of euro)

		01/01 - 09/30/2016
	Net income (loss) before taxes	104,401
	Reversals of amortisation, depreciation, impairment losses and restatement of property, plant and equipment and intangible assets	296,751
	Reversal of financial expenses	439,467
	Reversal of financial income	(56,134)
	Reversal of dividends	(1,796)
	Reversal of gains/(losses) on equity investments	11,760
	Reversal of share of net income from associates and joint ventures	42,765
	Ordinary taxes	(81,659)
	Change in inventories	36,579
	Change in trade receivables	(312,564)
	Change in trade payables	(224,213)
	Change in other receivables/other payables	(124,146)
	Change in provisions for employee benefit obligations and other provisions	(72,660)
	Other changes	3,883
A	**Net cash flows provided by (used in) operating activities**	**62,435**
	Investments in property, plant and equipment	(234,500)
	Disposal of property, plant and equipment	2,016
	Investments in intangible assets	(3,900)
	Disposals (Acquisition) of investments in associates and JV	(4,007)
	Disposals (Acquisition) of financial assets	9,918
	Dividends received	1,796
B	**Net cash flows provided by (used in) investing activities**	**(228,677)**
	Change in financial payables	11,932
	Change in financial receivables/Securities held for trading	23,604
	Financial income (expenses)	(383,333)
	Dividends paid	(2,283)
C	**Net cash flows provided by (used in) financing activities**	**(350,080)**
D	**Total cash flows provided (used) during the period (A+B+C)**	**(516,323)**
E	**Cash and cash equivalents at beginning of financial year**	**1,094,457**
F	**Exchange differences from translation of cash and cash equivalents**	(23,619)
G	**Cash and cash equivalents at end of financial year (D+E+F) (°)**	**554,515**
(°)	**of which:**	
	cash and cash equivalents	679,901
	passive current accounts	(125,386)

FORM AND CONTENT

The Interim Financial Report at September 30, 2016 has been prepared on a voluntary basis in that following the delisting of Pirelli, the Company has no legal obligation to prepare quarterly reports.

By way of the effect of the reverse merger between the parent company Marco Polo Industrial Holding S.p.A. (incorporated company) into the subsidiary Pirelli & C. S.p.A. (incorporating company), which became effective as of June 1, 2016 but with accounting and tax effects retroactively effective as of January 1, 2016, the Interim Financial Report of Pirelli & C. S.p.A. at September 30, 2016 has been prepared on a going concern basis with respect to the consolidated Financial Statements at December 31, 2015 of the parent company Marco Polo Industrial Holding S.p.A. Therefore the comparative Statement of Financial Position figures at December 31, 2015 are those of the parent company Marco Polo Industrial Holding S.p.A. However It is to be noted, that the comparative consolidated Income Statement figures and financial flow figures of Marco Polo Industrial Holding S.p.A. for the first nine months of the 2015 financial year, have not been reported, due to the fact that Marco Polo Industrial Holding S.p.A. did not prepare Financial Statements at September 30, 2015. Furthermore, due to the effect of the acquisition and consequent consolidation of Pirelli on the part of Marco Polo Industrial Holding S.p.A., as of September 1, 2015 this data would not be comparable.

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

The accounting standards and criteria are consistent with those used in preparing the Financial Statements as at December 31, 2015 to which, reference should be made for more details, with the exception of the following new standards or amendments to existing standards, which are applicable as of January 1, 2016:

- Amendments to IAS 19 - Employee benefits - defined benefit plans: contributions from employees or third parties: there were no impacts due to the application of these amendments.
- Improvements to IFRS 2010-2012 cycle (issued by the IASB in December 2013): the amendments to IFRS 2, IAS 16 and IAS 38 were not applicable to the Group. There was no significant impact on the Financial Statements or on the Group's disclosures due to the application of these amendments.
- Amendments to IFRS 11 Joint Arrangements: these amendments have had no impact on the Group's Financial Statements since there were no acquisitions of interests in joint operations during the period.
- Amendments to IAS 16 and IAS 38 – Clarification regarding Acceptable methods of depreciation and amortisation: these amendments have had no impact on the Financial Statements since the Group does not use revenue based methods to calculate depreciation and amortisation.
- Amendments to IAS 27 – The application of the Equity method in separate Financial Statements: the adoption of the option permitted by these amendments is currently being analysed.
- Improvements to IFRS 2010-2012 cycle (issued by the IASB in September 2014): there were no impacts on the Group's Financial Statements arising from the application of these amendments.
- Amendments to IAS 1 - Disclosure initiative: following the application of these amendments, in the Statement of Comprehensive Income, the portion of other Comprehensive Income Statement components related to associates and joint ventures was classified among the items which may or may not be reclassified to the Income Statement.

BUSINESS COMBINATIONS

On August 11, 2015 - following the acquisition by Marco Polo Industrial Holding S.p.A, of 20.34% of Pirelli & C. S.p.A. from Camfin S.p.A., and the signing of the Pirelli Shareholders' Agreement, in addition to the acquired shares, Pirelli was also interested in the 5.85% share of capital indirectly held by Camfin S.p.A. in Pirelli & C. S.p.A. through Cam 2012 S.p.A., and as an additional result of the Public Offer, which had been mandatory for Pirelli ordinary shares and voluntary for Pirelli savings shares, and by way of the subsequent procedure through which the offerer acquired the remaining residual ordinary shares, Marco Polo Industrial Holding S.p.A, in the course of 2015, acquired 100% of the outstanding Pirelli & C. S.p.A. ordinary shares and 95.9% of the outstanding savings shares.
Through these transactions China National Tire & Rubber Co. Ltd (CNRC - the controlling shareholder of Marco Polo Industrial Holding S.p.A.), by means of the vehicle Marco Polo Industrial Holding S.p.A., acquired control of the Pirelli Group and therefore this transaction was accounted for pursuant to the requirements of IFRS 3 - Business Combinations in the consolidated Financial Statements of Marco Polo Industrial Holding S.p.A.

As regards the accounting for the acquisition, it is maintained that the individual steps by which control of the Pirelli Group was acquired should be considered as a single transaction.

Furthermore, on the basis of the aforesaid considerations, it is maintained that the CNRC, by means of the vehicle Marco Polo Industrial Holding S.p.A., as of the end of the first phase (the acquisition of 20.34% of the share capital of Pirelli & C. S.p.A. from Camfin, and the signing the Pirelli Shareholders' Agreement), had gained control of the Pirelli Group, in particular:

- already from the beginning of the first phase, the objective of the CNRC was to obtain control of Pirelli;
- in order to achieve the goal of obtaining control of Pirelli & C. S.p.A., China National Tire & Rubber Co. Ltd (CNRC), a subsidiary of ChemChina (ChemChina), Camfin S.p.A. (Camfin) and the shareholders of Camfin S.p.A. (Coinv S.p.A. and Long-Term Investments Luxembourg S.A.), signed a binding agreement for a long term industrial partnership with Pirelli, which established the terms and conditions for the acquisition and the subsequent industrial reorganisation;
- the purchase price of euro 15 per share fully reflects the premium price for the control of Pirelli & C. S.p.A, confirming the desire of the CNRC to control Pirelli & C. S.p.A.;
- management considered it reasonable that CNRC could control Pirelli at the end of the Public Offer.

On the basis of the aforesaid, in consideration of August 11, 2015 as the date of the acquisition of control, the management of CNRC designated September 1, 2015 to the terms and conditions of the contract, as the first effective date for the consolidation of Pirelli & C. S.p.A. and its subsidiaries.

As a result of the reverse merger, which involved the incorporation of the acquiring company Marco Polo Industrial Holding S.p.A., into the subsidiary Pirelli & C. S.p.A., the accounting effects of the Purchase Price Allocation are reflected in the Financial Statements of the surviving entity, Pirelli & C. S.p.A.

The fair value of identifiable assets and liabilities acquired on the acquisition date is shown in the following table:

(in thousands of euro)

		Provisional fair value at the acquisition date	Adjustments to provisional values	Fair value at the acquisition date
Property, plant and equipment		2,467,316	944,181	3,411,497
Intangible assets (excluding Goodwill)		86,553	4,197,680	4,284,233
Pirelli pre-existing Goodwill		879,126	(879,126)	-
Investments in associates and J.V.		190,681	-	190,681
Other financial assets		216,673	-	216,673
Deferred tax assets		122,062	-	122,062
Other receivables		155,291	-	155,291
Tax receivables		6,259	-	6,259
Non-current assets		**4,123,962**	**4,262,735**	**8,386,697**
Inventories		1,074,589	-	1,074,589
Trade receivables		1,080,010	-	1,080,010
Other receivables		269,872	-	269,872
Securities held for trading		32,651	-	32,651
Cash and cash equivalents		751,750	-	751,750
Tax receivables		114,460	-	114,460
Derivative financial instruments		61,712	-	61,712
Current assets		**3,385,043**	**-**	**3,385,043**
Total Assets		**7,509,005**	**4,262,735**	**11,771,740**
Borrowings from banks and other financial institutions		1,341,266	-	1,341,266
Other payables		55,966	-	55,966
Provisions for liabilities and charges		349,376	66,600	415,976
Provisions for deferred tax liabilities		48,288	1,443,256	1,491,544
Employee benefit obligations		468,148	-	468,148
Tax payables		2,940	-	2,940
Non-current liabilities		**2,265,984**	**1,509,856**	**3,775,840**
Borrowings from banks and other financial institutions		1,351,462	-	1,351,462
Trade payables		1,019,488	-	1,019,488
Other payables		384,253	-	384,253
Provisions for liabilities and charges		66,943	-	66,943
Tax payables		120,379	-	120,379
Derivative financial instruments		37,663	-	37,663
Current liabilities		**2,980,188**	**-**	**2,980,188**
Total liabilities		**5,246,172**	**1,509,856**	**6,756,028**
Equity attributable to non-controlling interests		62,505	-	62,505
Total value Net assets acquired	**A**	**2,200,328**	**2,752,879**	**4,953,207**
Pro-rata of net assets acquired (99,8% of A)	**B**	**2,196,603**	**2,748,199**	**4,944,802**
Purchase price of the acquisition	**C**	**7,296,065**	**-**	**7,296,065**
Goodwill	**C-B**	**5,099,462**	**(2,748,199)**	**2,351,263**

Due to the completion of the Purchase Price Allocation the following major adjustments to the fair value of the acquired assets and liabilities were performed and determined on a provisional basis as at December 31, 2015:

- detection under intangible fixed assets of the value of the Pirelli Brand at euro 2,270 million (euro 1,637 million net of tax effects) for which it was maintained that the requirements for it to be classified as an intangible fixed asset with an indefinite useful life had been met;
- detection under intangible fixed assets of the value of the Metzeler Brand at euro 67 million (euro 48 million net of tax effects);
- detection under intangible fixed assets of the value of Technology at euro 1,437 million (euro 1,036 million net of tax effects);
- detection under intangible fixed assets of the value of Customer Relationships at euro 478 million (euro 345 million net of tax effects);
- revaluation of tangible fixed assets to a net value of euro 944 million (euro 676 million net of tax effects).

Exchange rates

The main exchange rates used for consolidation were as follows:

(local currency vs euro)

	Period-end exchanges rates		Change in %	Average exchange rate at 09/30		Change in %
	09/30/2016	12/31/2015		2016	2015	
Swedish Krona	**9.6210**	9.1895	4.70%	**9.3730**	9.3708	0.02%
Australian Dollar	**1.4657**	1.4897	(1.61%)	**1.5046**	1.4630	2.85%
Canadian Dollar	**1.4690**	1.5116	(2.82%)	**1.4741**	1.4038	5.00%
Singaporean Dollar	**1.5235**	1.5417	(1.18%)	**1.5297**	1.5202	0.62%
U.S. Dollar	**1.1161**	1.0887	2.52%	**1.1163**	1.1144	0.17%
Taiwan Dollar	**34.9953**	35.7769	(2.18%)	**36.1816**	35.0822	3.13%
Swiss Franc	**1.0876**	1.0835	0.38%	**1.0936**	1.0622	2.96%
Egyptian Pound	**9.9110**	8.5214	16.31%	**9.6053**	8.5151	12.80%
Turkish Lira (new)	**3.3608**	3.1776	5.77%	**3.2710**	2.9568	10.63%
New Romanian Leu	**4.4523**	4.5245	(1.60%)	**4.4842**	4.4404	0.99%
Argentinian Peso	**17.0875**	14.1357	20.88%	**16.2555**	10.0009	62.54%
Mexican Peso	**21.5978**	18.9074	14.23%	**20.4157**	17.3598	17.60%
South African Rand	**15.5238**	16.9530	(8.43%)	**16.6834**	13.7005	21.77%
Brazilian Real	**3.6251**	4.2504	(14.71%)	**3.9536**	3.5286	12.04%
Chinese Renminbi	**7.4531**	7.0696	5.42%	**7.3417**	6.8806	6.70%
Russian Ruble	**70.8823**	79.6972	(11.06%)	**76.1955**	66.3589	14.82%
British Pound	**0.8610**	0.7340	17.31%	**0.8029**	0.7272	10.41%
Japanese Yen	**113.0900**	131.0700	(13.72%)	**120.9609**	134.7823	(10.25%)

Net financial liquidity (debt) position

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

(in thousand of euro)

	09/30/2016	12/31/2015
Current borrowings from banks and other financial institutions	618,235	5,297,841
Current derivative financial instruments (liabilities)	39,843	15,149
Non-current borrowings from banks and other financial institutions	6,161,487	1,275,688
Total gross debt	**6,819,565**	**6,588,678**
Cash and cash equivalents	(679,901)	(1,110,024)
Securities held for trading	(38,046)	(78,167)
Current financial receivables and other assets	(32,833)	(11,888)
Current derivative financial instruments (assets)	(14,533)	(6,840)
Non-current financial receivables and other assets	(81,879)	(50,738)
Total net financial (liquidity)/debt position	**5,972,373**	**5,331,021**