— 2017

Annual Report

CONTENTS

PRESENTATION OF 2017 PIRELLI INTEGRATED ANNUAL REPORT

The Pirelli 2017 integrated report (Annual Report 2017) aims to provide a comprehensive overview of the process of creating value for the Company's Stakeholders, as resulting from the integrated management of the financial, productive, intellectual, human, natural, social and relational capitals. Reporting reflects the business model adopted by Pirelli, which is inspired by the United Nations' Global Compact, the principles of Stakeholder Engagement set forth by the AA1000, and the Guidelines of ISO 26000.

The financial capital, which comprises the company's financial resources, drives the sustainable management of the other capitals and is in turn influenced by the value created by the latter. In 2017, business operations generated an EBIT adjusted (before non-recurring and restructuring expenses and before amortization of intangible assets related to assets recorded as a result of the Business Combination) and before start-up costs equal to 927 million euro (17.3% the EBIT Margin Adjusted), up 10% from the previous year on a like-for-like basis.

In turn, the Company's productive capital, which includes 19 tyre factories in 13 Countries in four continents, is managed in a perspective of environmental efficiency, with targets by 2020 in terms of a reduction of the specific indices of energy consumption, CO_2 emissions and water withdrawal and an increase in waste recovery. In this regard, in 2017 vs 2016, Pirelli has registered a reduction of the energy specific consumption by 4%, a decrease in water withdrawal of 14%, a reduction of specific CO_2 emissions by over 4% and an increase of 5% of renewable electrical energy used, reaching 43% on total electricity used, compared to the 38% of 2016. Waste recovery reached 93%, efficaciously pursuing the target of "*zero waste to landfill*".

All this has helped to achieve efficiencies on costs amounting to 46.6 million euro in total.

The research and development activities, which have always been at the heart of Pirelli's strategy, contribute substantially to the improvement of environmental efficiency along the entire product life-cycle, from the innovative raw materials to the process, distribution, use and up to the end of life of tyres. In 2017, Pirelli invested 221.5 million euro in research and development (4.1% of revenues) of which 199.9 million euro destined to High Value activities (6.5% of High Value revenues). In turn, Pirelli's Green Performance products, which combine performance and respect for the environment, at the end of 2017 represent 42%[1] of total tyre turnover (40% in 2016 and 32% in 2015). Focusing only on High Value[2] products, the percentage of Green Performance rises to 52%.

[1] Figure obtained by weighing the value of sales of Green Performance tyres on the total value of sales of Group tyres. Green Performance products identify the tyres that Pirelli produces throughout the world and that fall only under rolling resistance and wet grip classes A, B, C according to the labelling parameters set by European legislation. The new calculation criterion introduced in 2017 required a restatement on previous years.

[2] High Value products are determined by rims equal or greater than 18 inches and, in addition, include all "Specialties" products (Run Flat, Self-Sealing, Noise Cancellation System).

The strong investment in innovation also feeds Pirelli's intellectual capital, which comprise a total portfolio of active patents gathered in 715 families concerning innovations of product, process and materials, as well as a brand recognised worldwide.

The evolution of the cited capitals is closely related to the commitment, the competence and the dedication of the human capital, at the heart of the Company's growth. Merit, ethics and sharing of strong values and clear policies, dialogues, attention to welfare and diversity are accompanied by advanced instruments to attract and retain the best talent. The investment in the "culture of health and safety at work" and in training is fundamental, with an accident frequency index that in 2017 decreased by 18% compared to 2016 and an investment in training that reached 8 average days per employee, thus surpassing for the fifth consecutive year the target of 7 average-per-capita days as envisaged by the Sustainability Plan.

Pirelli's social and relational capitals are based on the continuous and transparent dialogue that the Company maintains with its Stakeholders. During 2017, particular importance was given to the consultation of the relevant stakeholders (among which international NGOs, Pirelli's main natural rubber suppliers, traders and farmers in the supply chain, automotive customers, international multilateral organizations) in order to issue the Pirelli Policy on Natural Rubber.

In methodological terms, the drafting of the Annual Report 2017 took into consideration the Integrated Reporting principles contained in the framework of the International Integrated Reporting Council (IIRC), the Financial Statements and Consolidated Financial Statements were drawn up according to IFRS international accounting standards, and the sustainability performance meets the GRI Standards and the provisions of the Legislative Decree of December 30, 2016, no. 254.

NOTICE OF SHAREHOLDERS' MEETING

The persons entitled to vote in the general meeting of ordinary shareholders of Pirelli & C. Società per Azioni are called to an Ordinary Shareholders' Meeting in Milan at Viale Sarca no. 214, at 10:30 on Tuesday, 15 May 2018, in a single call, to discuss and resolve on the following

AGENDA

1. Financial Statements as at 31 December 2017. Related and consequent resolutions.

2. Appointment of a Director subject to an increase to 15 in the number of members of the Board of Directors. Related and consequent resolutions.

3. Board of Statutory Auditors:

   - appointment of standing and alternate auditors;

   - appointment of the Chairman;

   - determination of remuneration of auditors.

4. Remuneration policy: consultation.

5. Three-year monetary incentive plan (2018-2020) for Pirelli's Group Management. Related and consequent resolutions.

6. Insurance policy designated "*Directors and Officers Liability Insurance*". Related and consequent resolutions.

CORPORATE BODIES

Board of Directors [1]

Chairman	Ren Jianxin
Executive Vice Chairman and Chief Executive Officer	Marco Tronchetti Provera
Director	Yang Xingqiang
Director	Bai Xinping
Director	Giorgio Luca Bruno
Independent Director	Laura Cioli
Independent Director	Domenico De Sole
Independent Director	Fan Xiaohua
Director	Ze'ev Goldberg
Independent Director	Marisa Pappalardo
Independent Director	Cristina Scocchia
Independent Director	Tao Haisu
Director	Giovanni Tronchetti Provera
Independent Director	Wei Yintao

Secretary of the Board	Alberto Bastanzio

Board of Statutory Auditors [2]

Chairman	Francesco Fallacara
Statutory auditors	Fabio Artoni
	Antonella Carù
	Luca Nicodemi
	Alberto Villani
Alternate Auditors	Fabio Facchini
	Giovanna Oddo

Audit, Risk, Sustainability and Corporate Governance Committee

Chairman – Independent Director	Fan Xiaohua
Independent Director	Laura Cioli
Independent Director	Cristina Scocchia

Committee for Related Party Transactions

Chairman – Independent Director	Domenico De Sole
Independent Director	Marisa Pappalardo
Independent Director	Cristina Scocchia

Nominations and Successions Committee

Chairman	Marco Tronchetti Provera
Director	Ren Jianxin
Director	Bai Xinping
Director	Giovanni Tronchetti Provera

Remuneration Committee

Chairman – Independent Director	Tao Haisu
Director	Bai Xinping
Independent Director	Laura Cioli

Strategies Committee

Chairman	Marco Tronchetti Provera
Director	Yang Xinqiang
Director	Bai Xinping
Director	Giorgio Luca Bruno
Independent Director	Domenico De Sole
Director	Ze’ev Goldberg
Independent Director	Wei Yintao

Independent Auditing Firm[4]	PricewaterhouseCoopers S.p.A.

Corporate Financial Reporting Manager[4] Francesco Tanzi

The Supervisory Board (as provided for by the Organizational Model 231 adopted by the company) is chaired by Prof. Carlo Secchi.

1. Appointment: August 1, 2017, effective as of August 31, 2017. Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2019.
2. Appointment: May 14, 2015. Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2017 (Antonella Carù appointed by the Shareholders' Meeting held on August 1, 2017, Alberto Villani and Luca Nicodemi appointed by the Shareholders' Meeting held on September 5, 2017).
3. Appointment: August 1, 2017, effective as of the date of the commencement of trading of Pirelli shares on the Mercato Telematico Azionario (screen-based stock exchange) which is organised and managed by Borsa Italiana S.p.A. (October 4, 2017). Expiry: Shareholders' Meeting convened for the approval of the Financial Statements at December 31, 2025.
4. Appointment: Board of Directors Meeting held on August 31, 2017. Expiry: jointly with the current Board of Directors.

DIRECTORS' REPORT ON OPERATIONS

AT DECEMBER 31, 2017

COMPANY PROFILE

Below is a summary of the Company description and strategic guidelines underlying the 2017-2020 Industrial Plan as contained in the documentation published for the IPO.

1. COMPANY PROFILE

Pirelli is one of the world's leading tyre producers and provider of ancillary services, and the only producer in the industry to exclusively focus on the Consumer business (tyres for cars, motorcycles and bicycles). Pirelli counts on its globally recognised brand and its distinctive positioning in the High Value segment, namely products created to provide the highest levels in terms of performance, safety, quietness and grip on the road surface.

Pirelli has a distinctive industrial tradition of more than 140 years, characterised by a sustainable management model, which has always been associated with its capacity for innovation, product quality and brand strength, which is also recognised outside the world of Automobiles and Motorcycles.

Present in sports competitions since 1907, Pirelli has been the exclusive supplier for Formula 1® World Championships since 2011, which represents a constant challenge in terms of technological innovation and is an important driving force in the enhancement of the Pirelli brand. Pirelli is also present in over 460 automotive and motorcycle championships.

Pirelli invests in research and development mainly for High Value products. In 2017, over 90% of the total research and development costs were addressed on High Value products, approximately 6.5% of the related revenues, being one of the highest levels amongst the world's leading tyre producers. The Company can also count on a portfolio of approximately 6,100 active patents grouped into 715 families, each on average extended across 8-9 countries.

Through their strong partnerships with the most prestigious car manufacturers, Pirelli offers the widest range of High Value tyres, which - at December 31, 2017 - counted more than 2,160 homologations (of over 2,740 in total), of which 88% carry original markings, 34% are Prestige and 29% winter tyres.

Pirelli counts on its vast commercial presence, with a network of approximately 14,600 points of sale at December 31, 2017 in over 160 countries, as well as its high exposure to the three major markets for High Value tyres: Europe, NAFTA and APAC (which at December 31, 2017 accounted for 75% of total revenues and 92% of High Value revenues).

The Group also boasts a geographically diversified production structure with 19 plants in 13 countries and a total capacity at the end of 2017 of approximately 76 million car tyres, of which more than half (55%) was suited to the manufacture of High Value tyres. At December 31, 2017, 78% of the productive capacity of Consumer Activities for Automotive and Motorcycle radials were concentrated in countries with low production costs.

At December 31, 2017, the Company employed 30,189 people (29,787 at the end of 2016).

Just two years after the Public Offer promoted by ChemChina together with Camfin shareholders, Pirelli returned to the stock market on October 4, 2017, following a reorganisation process which led to the separation of the Industrial business and to the focus on the Consumer business, enriched with new proficiencies also through the creation of new departments and business (Consumer Marketing, Digital, Data Science, Cyber and Velo).

2. FOCUS ON THE HIGH VALUE SEGMENT

Pirelli focuses on the most technologically demanding segments, which are considered high growth and high profitability.

The High Value segment can be identified through the following categories:

- **Prestige**: tyres designed and developed in partnership with car manufacturers belonging to the Prestige Car segment (which traditionally includes producers such as Ferrari, Lamborghini, Maserati, Bentley, Bugatti, Rolls Royce, Porsche, Aston Martin, McLaren and Pagani) which are subject to specific homologations;

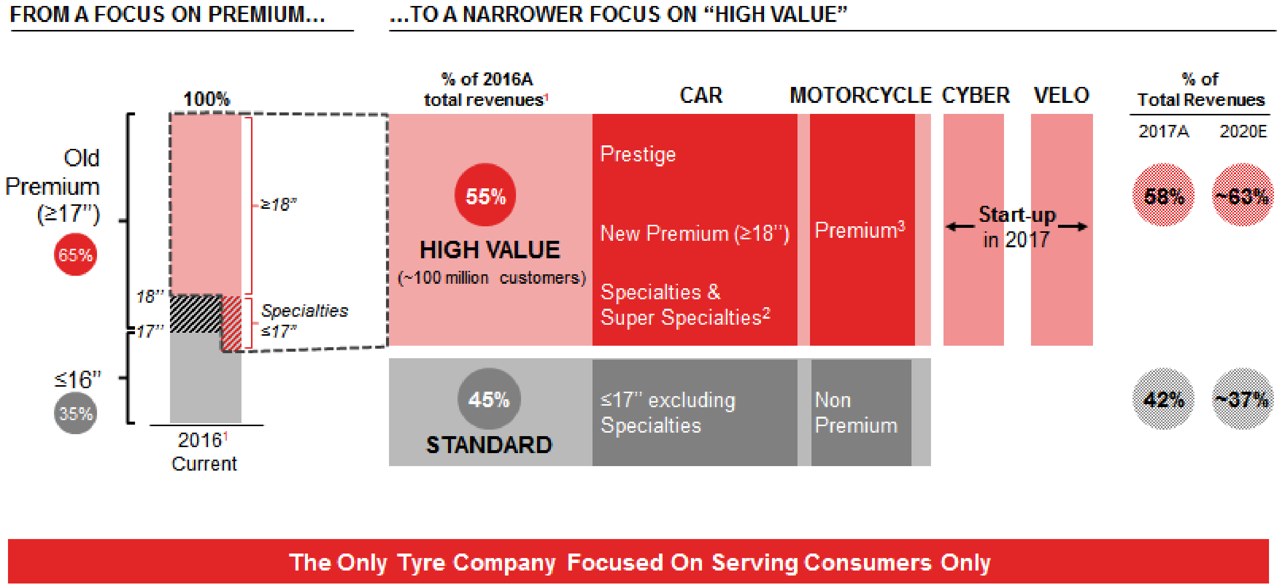
- **New Premium**: tyres with a rim diameter ≥18 inches, aimed primarily but not exclusively at motor vehicles belonging to the Auto Prestige and Auto Premium segments (which traditionally includes car manufacturers such as BMW, Mercedes, Audi, Alfa Romeo, Jaguar, Land Rover, Infiniti, Lexus, Lincoln, Acura, Cadillac and Volvo). Until the end of 2016 Pirelli identified tyres with a rim diameter ≥17 inches as Premium tyres. As of the first half-year of 2017, Pirelli has redefined the scope of Premium tyres as tyres with a rim diameter ≥18 inches, and thereby also modifying the nomenclature to New Premium;

- **Specialties and Super Specialties**: tyres with a high technological content for vehicles of every class, which meet the needs of specific applications (for example Runflat or Self Sealing) or customisations for the end consumer (for example, the Colour Edition tyres), regardless of the size of the rim diameter;

- **Premium Motorcycle**: tyres for high-end motorcycles that ensure high performance.

These categories will be joined by the products and services for connected vehicles and for the Velo world, activities which were launched in 2017.

NEW FOCUS ON "HIGH VALUE"

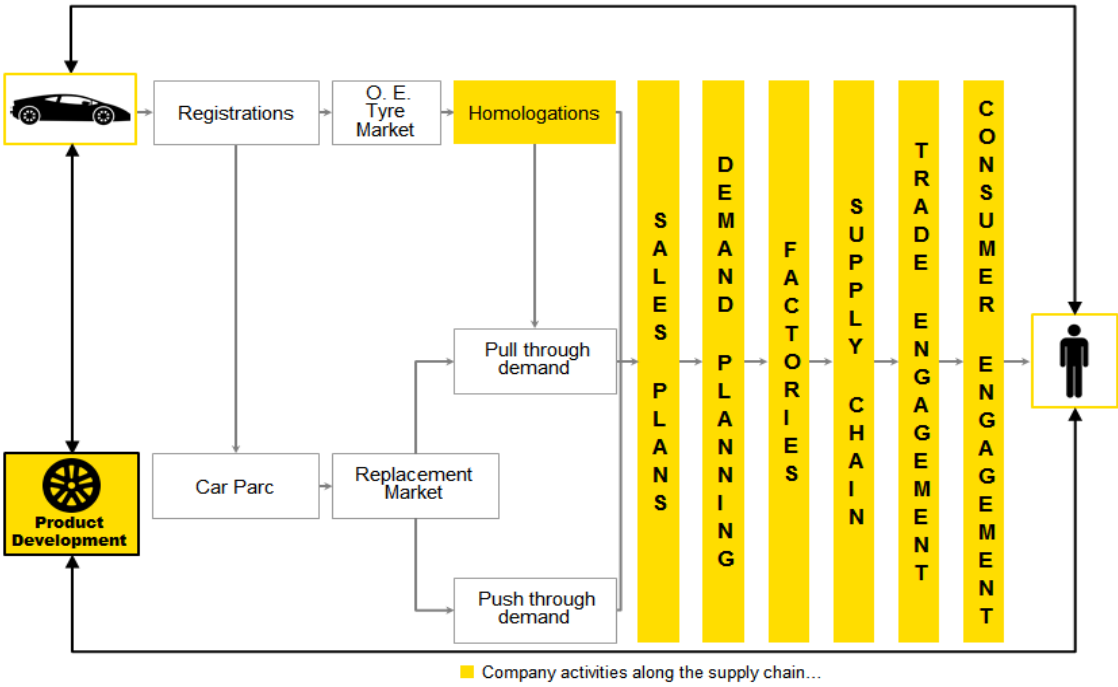


For the 2017 financial year, revenues for the Group from sales and services amounted to euro 5,352 million for the Company, while the EBIT adjusted without *pre*-start-up-costs ([3]), amounted to euro 927 million, the equivalent of 17.3% of revenues. During the same year, Pirelli generated 57.5% of its turnover (euro 3.1 billion euro out of euro 5.4 billion), and approximately 83% of its EBIT adjusted without start-up costs, from within the High Value segment. For 2020 Pirelli expects to increase the High Value share of its turnover to up to 63%, and its turnover share of the EBIT adjusted to up to 85%.

[3] This refers to costs of euro 50.2 million incurred during the 2017 financial year for the start-up phase of programs which intercept the new needs of the end customer, such as connectivity (the Cyber activity), return to the bicycle business (the Velo project), the activities for the digital transformation of the Company and the activities for the reconversion of the Aeolus manufacturing plant for Car. For more information on the EBIT adjusted, reference should be made to Chapter IX, Paragraph 9.1.2 of the Registration Document.

3. BUSINESS MODEL

The wide range of products offered by Pirelli is conceived, created, checked and commercialised for sale by following an organisational integrated supply-chain model which goes from product development, to commercialisation for sale and finally to marketing.



Pirelli's business model starts from the development of tyres in partnership with Premium and Prestige car manufacturers which are developed along an integrated process which arrives at the end consumer. The purpose of this integration is to obtain products which satisfy the needs and tastes of the most demanding users.

These partnerships allow Pirelli to enjoy high visibility on the technological innovations that the car manufacturers intend to introduce, and are the starting point in ensuring the successful positioning in the market for High Value, Original Equipment tyres, as well as in the Replacement channel. At the level of automotive brands, the Company's client base is particularly diversified. At December 31, 2017, Pirelli was supplying 44 brands of car manufacturers with Original Equipment.

This joint development, together with the homologations, guarantees the perfect match of tyres with the dynamic characteristics and electronics of the car (reaching the so called *"Perfect fit*") which encourages loyalty, and the retention of the end consumer (generally higher in the High Value segment), thereby impacting directly on the Replacement channel. Pirelli estimates that over the three-year period 2018-2020, over 60% of the High Value Replacement sales volumes, and over 50% of the High Value sales of Original Equipment will be generated by the homologations in the portfolio during the 2017 financial year.

In addition to the product development activities with the car manufacturers, Pirelli closely monitors the trends in the global automotive and motorcycle market, and, in particular, trends for new vehicle registrations and cars on the road, where the latter forms the reference base for the Replacement market.

Through the homologations and the analysis of these trends, Pirelli is able to obtain medium-long term visibility both on the production expected in the Original Equipment market as well as in the Replacement market. The latter can in turn be analysed as follows:

- a "potential" pull-through market, i.e. the potential replacement generated by vehicles equipped with Pirelli tyres as Original Equipment;

- a "potential" push-through market, which derives from the replacements for cars for which Pirelli does not have homologations.

The sales plans, through the Demand Planning process, are allocated to the productive structure, which operates in close coordination with the purchasing function.

The tyres produced are subsequently distributed through the Supply Chain until they reach the distribution networks, or distributed directly to the retailer points of sale (approximately 14,600 at the end of 2017) which allows Pirelli to serve an ever more geo-localised car market. Further down the distribution chain Pirelli also carries out a series of initiatives which accompany the consumer from brand consideration up until the purchase, during which digital and physical reference material at their disposition is made available to the customer.

3.1 Globally recognised integrated sustainable management

Pirelli is the Global Leader in sustainable management for the Auto Components sector, according to RobecoSAM's Sustainability Yearbook 2018.

The main areas of development where the Company is involved include:

- the reduction of environmental impacts along the life cycle of the product, from raw materials to the production process, to the use and end-of-life phase. Pirelli develops products and production processes aimed at minimising polluting emissions, waste production and increasing the recycling of materials, the use of natural resources. To this end, research and development activities constitute an essential lever, primarily those focused on innovative materials;

- sustainable management of the supply chain along all phases of the relationship with the Supplier, from the selection to the contract, from the monitoring and prevention of risks through to third-party on-site audits, up until the engagement of the company which will share in the development of projects reaching down to the origins of the value chain, such as in the case of natural rubber;

- an employment governance inspired by the best international practices, adjusted to support the Company's growth strategy, and focused on efficient organisation, business ethics, the enhancement of diversity, shared objectives, a healthy and safe working environments, training in support of an increasingly digital-oriented cultural evolution, welfare and engagement;
- a proactive dialogue with the financial market on sustainability planning and performances achieved;
- active presence in the international committees which are the amongst the most relevant for the definition and implementation of strategies for sustainable development (UN Global Compact LEAD, World Business Council for Sustainable Development);
- constant attention to relational capital. From its dialogue with stakeholders and the understanding of their expectations, the Company benefits both in terms of risk mitigation and the seizing of opportunities, as well as the strengthening of its license to operate (globally and locally);
- support for the development of local communities and the acceleration of the spread of a Culture of Road Safety.

4. PIRELLI STRENGTHS

4.1 Strategic positioning in a profitable and growing segment, located within a resilient industry

The distinctive positioning in the profitable High Value segment, which is expected to grow and is to a large extent located within a resilient industry such as the Replacement sector, is a significant competitive advantage for Pirelli.

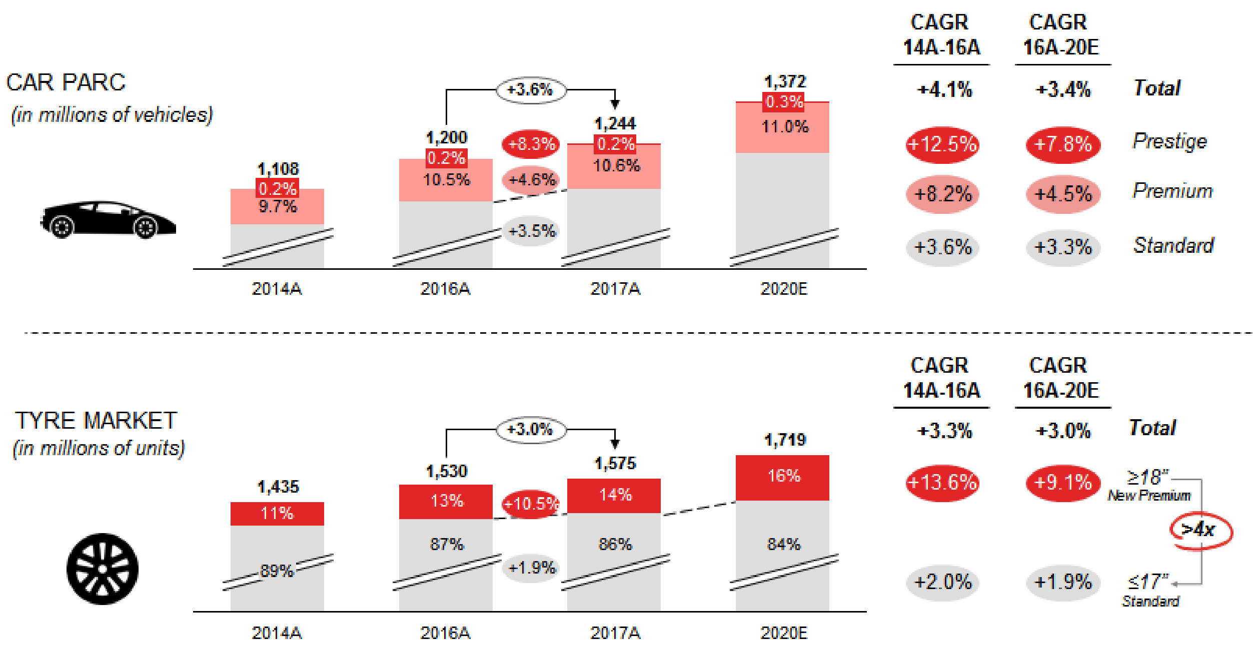
In particular, the High Value tyre segment generates higher profit margins because the products included therein are recognised by the consumer as high value-added and are associated with performance, advanced technology, safety and sustainability. Because of these characteristics, Pirelli is able to put in practice a pricing policy located at the upper-end of the market for high-end tyres for Automobiles and Motorcycles.

The New Premium tyre market segment, which is a significant part of the High Value market for motor vehicles, is characterised by a higher growth than that of the standard segment, considering:

- the evolution of the circulating car market mix (the share of Prestige and Premium segments for 2014 was 9.9%, 10.8% for 2017, 11.3% for 2020);
- the growing number of car models which are accompanied by the diversification of the characteristics of the tyres approved for each individual car model;
- the growing demand for Specialties and Super Specialties tyres;

- the increasing market share of SUVs (14% of global registrations in 2010, 29% in 2016, 34% in 2020);

- the evolution of automobile design towards higher tyre rim diameters;



Source: Prepared by the Company based on studies by a leading research firm on the Automotive market and on data supplied by regional associations for tyre producers, as well as internal data. The 2016 tyre market data has been updated with regard to what is contained in the Registration Document.

95% of the New Premium market is concentrated in Europe, Apac and NAFTA ([4]).

In 2017 the New Premium segment recorded a growth of +10.5%, which is over 5 times higher than that of the standard market ([5]).

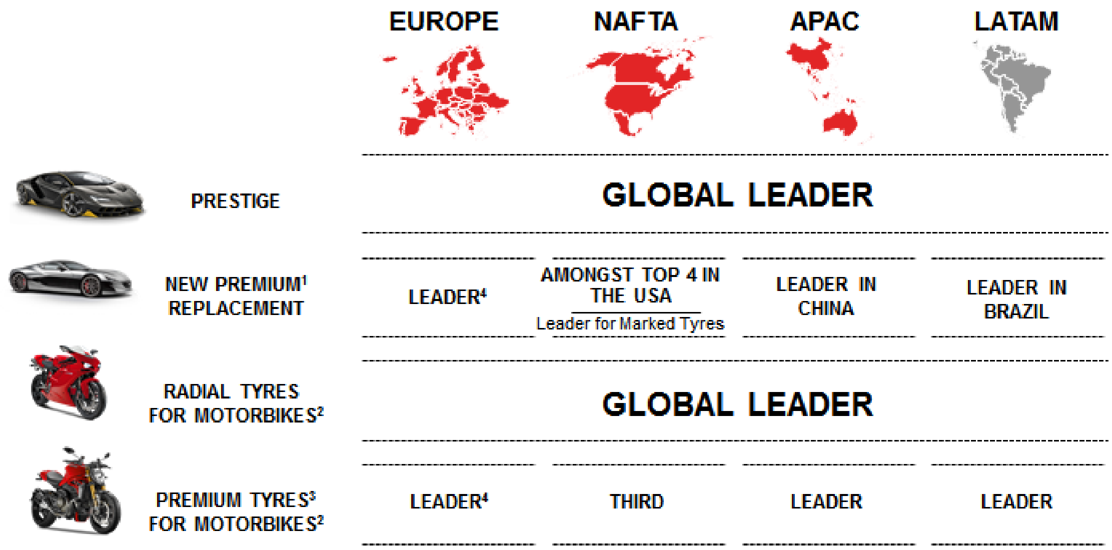
The Replacement market, which accounted for 74% of the Group's revenues for 2017, has historically proved to be a resilient market as it is tied to the number of cars in use, and is capable of producing high revenues and high profit margins which are not influenced by economic cycles.

4 Source: Prepared by the Company based on studies by a research firm on the Automotive market and on data supplied by regional associations for tyre producers.

5 Source: Prepared by the Company based on studies by a research firm on the Automotive market and on data supplied by regional associations for tyre producers.

4.2 Leadership position in the high value markets ([6])

Over the years, Pirelli has achieved a distinctive position with regard to High Value tyres and today holds a leadership position in the Prestige tyre segment, with a share of more than one third of the global market in terms of sales volumes, and in the radial sector of the market for motorcycle Replacement tyres. Pirelli is also a leader in Europe, China and Brazil, in the New Premium car and Premium motorcycle tyre market.



[1]Car tyres with a rim diamter ≥18"; [2]Data refers to Pirelli and Metzeler brands jointly; [3]Radial, Custom Touring, Off Road eSport Touring X-ply with a speed rating of ≥H; [4]Area scope includes Italy, Spain, France, UK and Germany
Source: Pirelli estimates based on third-party data

4.3 Pirelli is an iconic Brand capable of engaging consumers even beyond the limits of the tyre market

The Pirelli brand is internationally recognised as an iconic brand associated with technology and Italian excellence in the automotive and motorcycle field, and beyond. The Pirelli Brand and the *"P lunga"* logo, which has represented it for over a century, are associated with exclusivity and high value, and convey Pirelli's mission to bring technology, creativity and driving pleasure to the consumers. The Pirelli brand holds a position of primary importance amongst tyre brands in Italy and Brazil in terms of brand awareness, while at the same time positioning itself, in several other

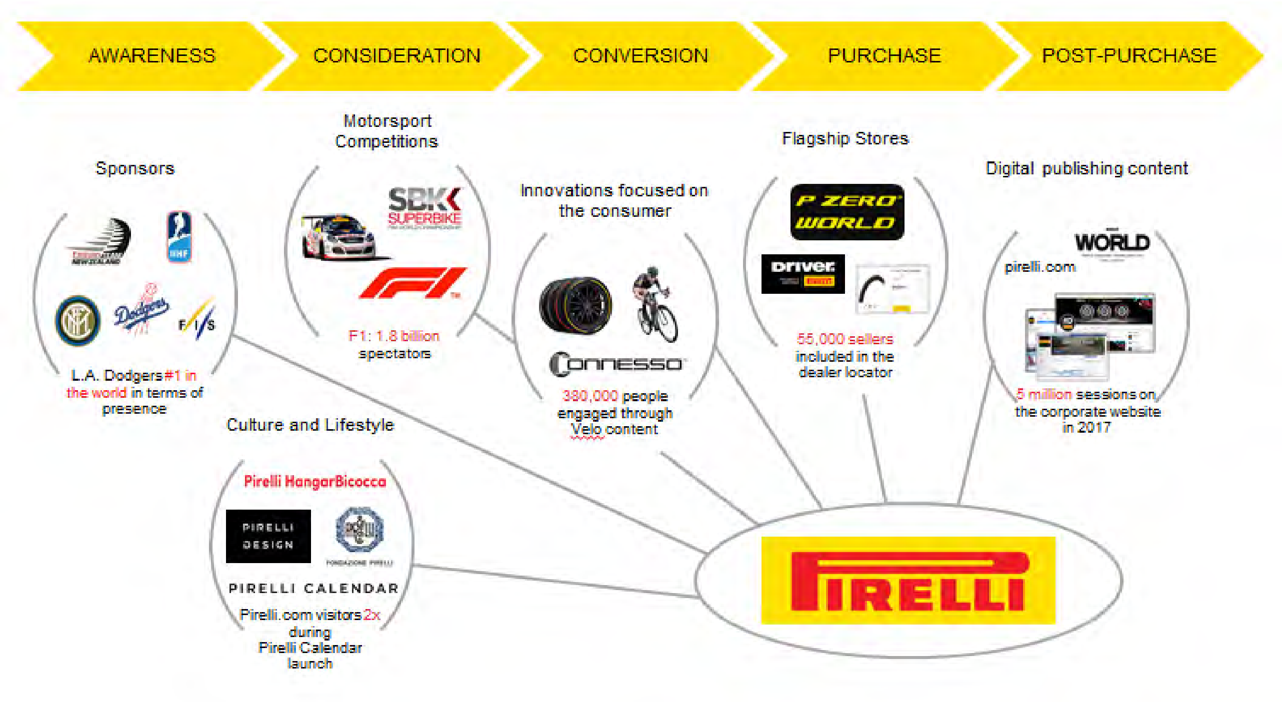
[6] The data regarding the Company's competitive positioning included in this paragraph has been prepared by the Company based on third-party sources including research studies carried out regarding the automotive and motorcycle industry, on regional tyre manufacturer associations, and information collected locally by the Pirelli sales force.

countries (for example the United Kingdom, Germany and China), amongst the three best-known tyre brands ([7]).

The reputation of the Pirelli name and the Pirelli brand is linked, in addition to the excellence and quality of Pirelli products, to decades of successes in automobile racing and to the distinctive position of the Company as supplier to luxury car manufacturers.

Even outside the world of engines, the reputation and strength of the brand are constantly fuelled by Pirelli through the continuous association of the logo with events and major projects. The Pirelli brand is in fact an icon in sport, design, lifestyle, in initiatives for the community, and in art and culture in general. Pirelli's sponsorship of numerous sports associations, such as the Football Club Internazionale Milano, Infront Sports and Media for the FIS Alpine Ski World Championships, the Ice Hockey World Championships ([8]), and, more recently the vessel Emirates Team New Zealand in the America's Cup, bears testimony to this affinity. Pirelli is also present in the field of design and culture with projects such as the Pirelli Calendar, and through the activities carried out with the support of the Pirelli Foundation and Pirelli Hangar-Bicocca™.

The high visibility of the Pirelli Brand translates into the strong engagement of consumers through digital communication channels, which also include, in addition to the pirelli.com website, other websites devoted to individual products in 43 countries, in 25 languages, while also being present on major social networks where it reached over 340 million users during 2017.



7 Source: Prepared by the Company also based on third-party sources including brand tracking studies relative to the tyre market as edited by third-party sources.

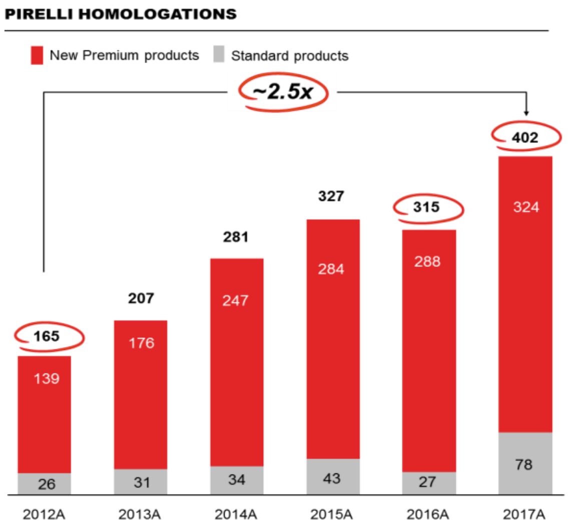
8 Organised respectively by the International Ski Federation (FIS) and the International Ice Hockey Federation (IIHF).

4.4 Solid commercial relationships with the producers of Prestige and Premium vehicles

Over time, Pirelli has developed close relationships with the most eminent Prestige car manufacturers (such as Ferrari, Maserati, Lamborghini, Porsche, Bentley, Aston Martin, Bugatti, Rolls Royce, Pagani and McLaren), Premium car manufacturers (such as Audi, Mercedes, BMW, Jaguar, Land Rover and Volvo) and motorcycles (such as Ducati, BMW, MV Agusta, Triumph and KTM), relying on the strength of the brand, its reputation, the technological skills acquired and the ability to understand the needs of end consumers.

As December 31, 2017, Pirelli was involved in over 100 collaborations with producers belonging to the Premium segment, in projects for the development of innovative technology.

Their collaboration with car manufacturers allows Pirelli to develop tyres made to measure for different types of vehicles which can be clearly identified with special markings (so-called marked tyres), which meet the needs of consumers and ensure the perfect functioning of all the components in the latest generation of cars (all-wheel drive, hybrid systems, driver assistance systems). For the 2014-2016 period over 300 new homologations were obtained per year, after an average development of approximately 24 months, adding to the aforementioned portfolio of homologations and markings. The pace of homologations increased during 2017: 402 homologations including 324 New Premium.



At the end of 2017 Pirelli had a portfolio of over 2,160 High Value homologations (of over 2,740 in total), of which 88% carry original markings, 34% are Prestige and 29% winter tyres.

Pirelli believes that these partnerships are highly strategic in that:

- they allow for the prediction of long-term demand for tyres;
- they strengthen the competitive positioning and the predictability of short-term demand in the Replacement channel, thanks to the carry-over impact. Moreover, in the case of Prestige and Premium Cars, customers tend to re-purchase Replacement tyres of the

same brand supplied as Original Equipment, which translates into both customer loyalty and greater predictability of demand for Replacement tyres;

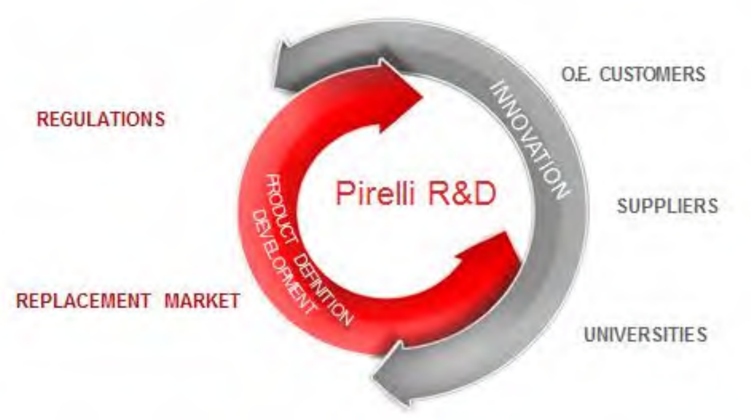
- This allows Pirelli to strengthen its knowledge of the tastes and needs of its end customers, thanks to the co-operations between Pirelli and car manufacturers in conjunction with joint marketing activities, events and Motorsport competitions.

Over the years Pirelli has also developed expertise and a highly qualified know-how concerning the specific requirements of car producers which are difficult to replicate.

4.5 Capacity for continuous technological innovation

Technological innovation is an essential element of Pirelli strategy and plays a central role in the Company's business model, especially with reference to High Value products.

For many years Pirelli has been conducting research and development in accordance with the "Open Innovation" model: co-operating with research centres, suppliers and universities. Pirelli develops distinctive solutions which are only accessible internally, creating a leverage effect with respect to their skills. As December 31, 2017, there were 31 collaboration projects in place with partner universities, 20 JDAs and 50 NDAs([9]) with suppliers and universities, and over 100 collaboration agreements with Premium Car manufacturers.



These research and development activities allow Pirelli to be amongst the market leaders with its range of innovative, technologically superior tyres, which are technically complex and highly prized by specialised magazines in the automotive and motorcycle industry. The high level of skills necessary for the development of these tyres is one of the competitive and strategic advantages of the Company and represents an effective barrier to entry into the High Value tyre market.

[9] Respectively, Joint Development Agreements (JDA) and Non-Disclosure Agreements (NDA).

Pirelli's commitment in the field of sports competitions (in particular Formula 1® and Superbike World) has allowed for the development of new tyre models, the improvement of the quality of road product projects, and the improvement in the understanding of tyre dynamics in relation to temperatures when functioning, and material behaviour. The research and development activities and the know-how gained through the design, development and production of tyres for the Formula 1® World Championship have allowed Pirelli to accelerate the design and development of new products, and to implement a series of cutting-edge innovations in order to offer maximum levels in terms of performance and safety.

4.6 Production and global sales structure focused on High Value

Pirelli, one of the first multinational companies in the world with a solid international presence from the early twentieth century, served over 160 markets grouped into 6 regions in 2017: Europa, NAFTA, APAC, LATAM, MEAI, Russia and CIS.

Pirelli has a widespread sales network with over 250,000 points of sale, including:

- retail points of sale (approximately 14,600 at December 31, 2017, compared to 12,500 at the end of 2016), mainly concentrated in the three Premium geographical areas - Europe, Apac and NAFTA (75% for 2017, 75% for 2016). These points of sale are linked to Pirelli by loyalty formulas that result in the significant presence of Pirelli products at the points of sale.
- Automobile and Motorcycle dealerships (Pirelli sells to manufacturer houses such as BMW, Mercedes, Audi and Porsche, which in turn distribute to their dealerships) estimated at approximately 10,000 locations;
- points of sale (other than Pirelli retail points of sale) served through Tier 1[10] distributors, estimated at approximately 10,000 locations;
- points of sale (other than Pirelli retail outlets) served directly by Pirelli, stores owned by the competition and all the rest of the distribution network served by distributors other than Tier 1 distributors, wholesalers and large retail chains, for the remaining part.

Pirelli also commercialises its products for sale (Super Specialties products) in 9 countries through an on-line sales network managed by Pirelli (Shop.pirelli.com) and aimed at the end-consumer (so-called *e-commerce*).

On the production front, Pirelli operates through 19 factories located close to their sales markets, consistent with the local-for-local strategy, with a productive capacity for car tyres amounting to

[10] Tyre distributors with whom the Group has defined special partnerships based on the following key factors: sharing the strategic and financial value of the Pirelli brand, sharing marketing plans, sharing inventory and sales data to allow for better planning and predictability of demand, privileged access to product availability, dedicated supply chain.)

approximately 76 million tyres at December 31, 2017, of which more than half (55%) was suited to the manufacture of High Value products.

At December 31, 2017, more than two-thirds (78%) of Consumer production activities for Automotive and Motorcycle Radials was carried out in countries with competitive industrial costs such as Mexico, Brazil, Argentina, Romania, Russia and China. The production map is completed by the plants in Italy, the United Kingdom, Germany and the United States, where the very high level of automation compensates for the higher cost of labour. This production structure is the result of a process initiated in 2008, which led to a review of the production sites map, resulting in the creation of plants perfectly suited to the manufacture of High Value products in Romania, China and Mexico to substitute part of the production in the mature markets (Italy and Spain).

(*) Non-consolidated subsidiary since 2016
(**) JV consolidated using the equity method

During 2017, Pirelli made investments of euro 489 million (9.2% of turnover) aimed at:

- the increase of the High Value production capacity (+3.3 million units) mainly in Europe, Apac and NAFTA;
- promoting the upgrade of the standard capacity into High Value in the factories in Brazil and China (former Aeolus factory);
- improving quality and mix, as well as production processes and equipment.

4.7 Expert management with proven ability to achieve results

Pirelli senior management is made up of professionals with consolidated technical skills and many years of experience in the tyre industry (on average 16 years).

The Company is also equipped with an operating model which recognises the professional excellence of the individual specialist functions, with particular attention to attracting and enhancing young talents. In particular, Pirelli is engaged in training employees and management, coming from over 26 countries, through multiple initiatives.

5. PIRELLI COMPETITIVE ARENA

Within the industry, three main competitive clusters can be identified, for strategy, price positioning and product characteristics:

- ***Tier 1***: six producers (Pirelli, Nokian, Bridgestone, Michelin, Continental, and Goodyear) accounting for approximately 50% of the turnover for the tyre industry ([11]); they have a higher than average price positioning, a wide range of products and dedicated regional lines. Among these, Pirelli and Nokian are distinguished for their profitability, characterised by two different business models: Pirelli, pure Consumer, with a distinctive focus on the High Value segment and Nokian, whose speciality is winter Replacement tyres. The remaining four Tier 1 operators can be called Full-Liners in consideration of their presence in different businesses (Consumer, Truck, Agro, OTR and Aviation).

- ***Tier 2***: 14 producers (Sumitomo, Yokohama, Hankook, Cheng Shin, Cooper, Kumho, Toyo, MRF, Apollo, Nexen, Titan, Brisa, Trelleborg, Petlas), approximately 24% of the tyre industry ([12]). The group is characterised by a price positioning that is lower than for Tier 1, by a moderately broad range of products (generally focused on medium-range products) and by sales that are sufficiently diversified at a geographical level. In many cases these players implement strategies aimed at improving their positioning through new homologations with vehicle manufacturers (mainly entry level models), at capacity increases, at productive efficiency, and at marketing operations aimed at increasing the global visibility of the brand.

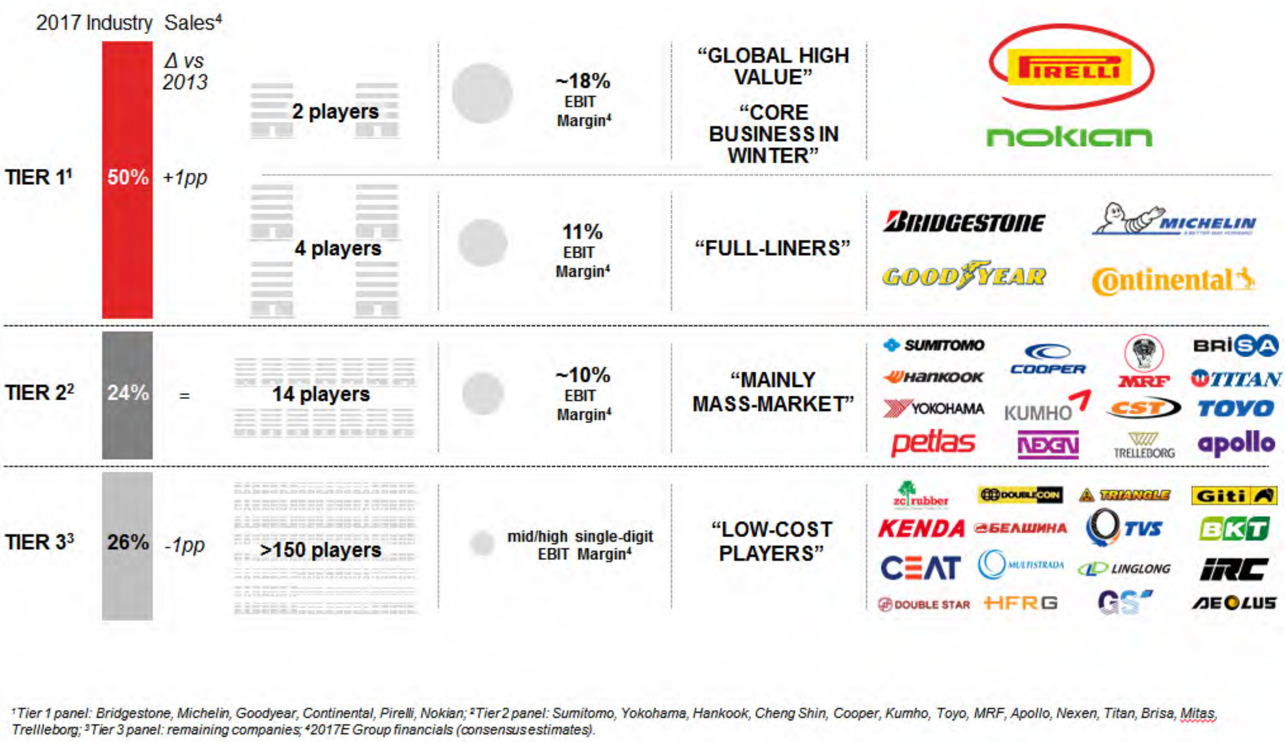
- ***Tier 3***: over 150 small producers, approximately 26% of the global tyre industry turnover ([13]). They have a generally low price positioning, and a productive and commercial structure focused on specific geographical areas. The operators in this category mainly focus on products with lower added value and are frequently imbalanced regarding supply and

[11] Source: August 2017 update of a study by an analysis company for the tyre sector.

[12] Source: August 2017 update of a study by an analysis company for the tyre sector.

[13] Source: August 2017 update of a study by an analysis company for the tyre sector.

demand for industrial business sector (tyres for buses and trucks), adopting a volume / organic growth strategy.



The aspects that differentiate Tier 1 compared to the rest of the tyre industry are the following:

- strong brand with the highest value amongst those in the industry;
- high investments in technology (R&D costs were on average 7.3% of Pirelli's High Value revenues during the last 4 years), in order to be able to offer cutting-edge and highly customised solutions, both for car manufacturers and for end consumers;
- reduced risks for excess capacity for the High Value segment, with the demand for 2020 equal to 278 million units, where 90% of the capacity is for tyres with a rim diameter ≥18 inches. The latter is estimated on the basis of announcements by Tier 1 players, assuming that these increases are destined only for the High Value segment. A balanced relationship between supply and demand reduces the risks of price pressure. By contrast, within the Standard segment, the risks of overcapacity are instead present;
- an active presence within new trends in the Automotive industry (Connected, Autonomous, Shared, Electric) thanks to investments in technology and innovation in order to seize all new opportunities;
- the ability to directly engage the end consumer, and especially new consumers (Millennials are already the largest generation in the world).

Pirelli, within the Tier 1 cluster, is distinguished by:

- exposure to High Value (57.5% of revenues for 2017), more than any other market player;
- a brand that is internationally recognised as an icon associated with technology and Italian excellence in the automotive and motorcycle field, and not only;
- solid business relationships, developed and consolidated over time, with the Prestige and Premium vehicle manufacturers. These collaborations have allowed Pirelli to expand its portfolio of homologations to over 2,160 for the High Value segment (out of a total of over 2,740);
- cutting-edge technological innovation, especially with reference to High Value products (over 90% of Pirelli R&D expenses);
- a portfolio of innovative solutions, which are able to meet the needs of the cars and consumers of the future, and above all able to intercept the new Automotive trends such as Connected, Autonomous, Shared and Electric.

  As to these trends, Pirelli has already responded with a wide range of products and services:

    - from "green" tyres, designed specifically for electric cars, to tyres which reduce the noise generated by the tyre rolling (Pirelli Noise Canceling System);
    - the Cyber™ and Connesso™ solutions for monitoring tyre conditions (including wear and tear), via the car's electronics or a smartphone;
    - Velo to intercept the future mobility needs of a customer base which is on average younger and more balanced regarding the male and female segments.

6. STRATEGY

Pirelli aims to consolidate and maximize returns for shareholders and to manifest increasing levels of turnover and profitability over time.

The main strategic orientation is to allocate investments, develop innovations, achieve operational improvements in the High Value businesses and to reduce presence in the so called Standard segments by limiting exposure in those markets where Standard is still predominant (such as, for example, Brazil).

The second orientation is to cultivate all businesses which are of relevance to the consumer, not just Automotive and Motorcycles, but also bicycles (the so called Velo), and solutions and services for connected vehicles aimed at Prestige and Premium consumers (Cyber™).

The third is to achieve an efficiency plan equal to 1% of revenues which is linked to industrial and product activities (such as the optimisation of raw materials costs, the simplification of products and the reduction of tyre weights), thanks to the growth of production in countries with low industrial costs, to improved productivity and the simplification of processes, plus the optimisation of costs, starting from energy costs.

6.1 Main actions for High Value

The 2020 Plan aims to improve performance through the following levers:

- **acceleration of the homologation program** with the Prestige and Premium car manufacturers, which provides Pirelli with visibility on future demand and certainty of market shares in the car dealership channels. In 2017 Pirelli obtained 402 homologations, of which 324 were New Premium;

- **development of an unprecedented product innovation program** that strengthens the Specialties and Super Specialties range, and which captures the needs for regional diversification. Between 2017 and 2020 Pirelli intends to launch up to 18 new product lines with global and regional coverage, including winter products, summer and four seasons, specialties/super specialties plus traditional products. During 2017 Pirelli expanded its portfolio with 4 new New Premium products (2 regional products specific for NAFTA and LatAm, 2 all-season products) and introduced Pirelli Connesso (Connected) and the Colorate (coloured Edition) as part of the Super Specialties range.

- **expansion of the High Value production capacity** from 38 million units in 2016 to 53 million in 2020 with a share of total car capacity of 67% (54% for 2016). This increase will be the result of the conversion of the standard into High Value capacity (3 million units) and of the further increase of the High Value capacity (over 11.0 million units). During 2017 Pirelli increased its High Value capacity by 3.3 million units, reaching a capacity for high-end products of approximately 42 million units (55% of the total car capacity);

- **increase in distribution coverage** through channels and points of sale where Pirelli exercises greater control and records higher sales. In particular, Pirelli intends to increase the sales generated by car dealers, Tier 1 distributors, retailers (the so-called retail points of sale or Pirelli Retail) and Pirelli e-commerce, from 41% (in 2016) to 66% in 2020. For 2017 the share of sales generated by these channels reached 48%;

- **enrichment of the Pirelli DNA with a strong Consumer *"gene"***, as evidenced by the creation of the new Consumer Marketing function. Thanks to the digital channels and the exploitation of the brand's strength, the new function will profile consumers in collaboration with the sales department, and will ensure a more personalised consumer engagement through a service which is assured by the points of sale network, which is becoming increasingly more qualified, more widespread and capable of serving Prestige and Premium consumers. Digital capabilities were expanded in 2017 to better profile customers in order to provide - in addition to a tailor-made product/service - relevant content for each customer segment at the right time during their Consumer Journey;

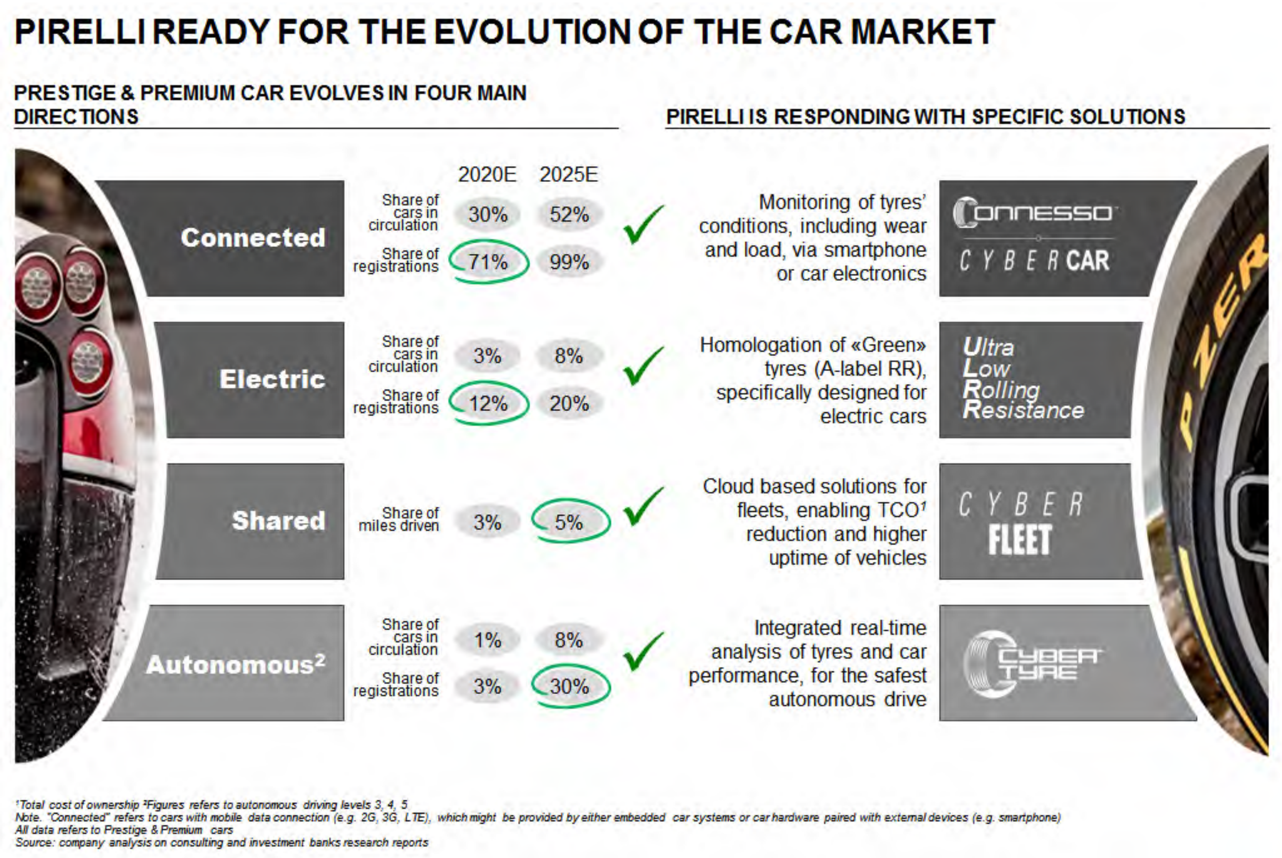
- **strengthening of the Motorcycle business** by leveraging the distinctive characteristics of two brands, Pirelli and Metzeler, to occupy complementary market segments and forge commercial relationships with a large number of motorcycle manufacturers. Pirelli also intends to continue the development of specific products for new motorcycles, and the development of partnerships with manufacturers in order to launch new products. In 2017 Pirelli strengthened its position both on the radial motorcycle segment, where it confirmed its position as a global leader and on the Premium motorcycle segment with an increase in share in Europe and South America. In Apac, the region with the highest growth, the presence in the radial business was extended through partnerships with the main Original Equipment Manufacturers OEMs (QJ Benelli in China, Kymko in Taiwan and Triumph and Ducati in Thailand);

- **launch of the two new Velo and Cyber™ businesses:** Pirelli intends to consolidate its leadership in the markets in which it currently operates and expand its presence by attacking new high potential segments.

The return to Velo, which belongs to the Pirelli tradition, not only takes place through innovative products but also through an approach focused on the Consumer and aimed closing in on the fundamental Consumer brand targets for the future, such as the new generations (the so called Millennials and Generation Z), women, and consumers attentive to sustainability and smart mobility. In May 2017 Pirelli announced the launch of the new line of tyres dedicated to road racing bikes, the P Zero™ Velo. The commercialisation of the range (in Europe, North America and Apac) began in August 2017 in three versions: P Zero™ Velo, P Zero™ Velo TT and P Zero™ Velo 4S.

With regard to innovations for solutions and services for new generation vehicles, Pirelli intends to exploit the data of the only component in contact with the road - the tyre - to provide consumers, the sales network and the car manufacturers with solutions and services which maximise the safety, minimise the operating costs and inventories in the supply chain, make the most of vehicle performance, and ultimately shorten vehicle development times. On the occasion of the Geneva Motor Show in March 2017, Pirelli Connesso™ was presented, a platform integrated with the P Zero™ or Winter Sottozero™ tyres which, thanks to a sensor and an application for Smartphones, is able to communicate with the motorist and provide information on certain fundamental parameters concerning the functioning of the tyre, and a range of other customised services.

Thanks to these solutions, Pirelli is ready to seize the growth opportunities linked to the technological trends of the future and is ready and able to keep up with the evolution of the Prestige and Premium cars along the trajectory of the C.A.S.E. (Connectivity, Autonomous, Shared, Electric).



6.2 Strategic re-conversion of Pirelli Standard capacity

Pirelli intends to continue to reduce its exposure to the Standard segment which is characterised by a profitability of one third of the High Value segment. Between 2016 and 2020 a standard capacity reduction of about 7 million units is foreseen, three of which have been converted into High Value (e.g.: LatAm), allowing Pirelli to serve the growing regions (e.g.: NAFTA) pending a recovery in the markets characterised by higher levels of uncertainty. In 2017, the project to convert the Standard capacity to High Value in Brazil began.

6.3 Transformation program

Pirelli intends to pursue the implementation of a transversal transformation and renewal program aimed at digitising the planning, production, distribution and consumer profiling processes.

Four inter-functional programs:

- **Integrated forecasting program**, which applies Data Science in order to provide greater predictability for short, medium and long-term demand;

- **Smart Manufacturing and Flexible Factory program**, which responds to the need to meet the demands of consumers, car companies and partner points of sale in an ever faster and more flexible way;

- **Supply Chain Program**, which aims to get closer and closer to consumers and to offer a personalised and contextualised service;

- **Prestige program**, which aims to get to know the end consumer more closely (manufacturers and owners of Prestige cars) to fully understand their needs in order to identify new opportunities for Pirelli.

Thanks to the implementation of these interdepartmental programs, Pirelli will be able to anticipate the needs of the market, to manage the growing complexity of the business, to increase the level of service offered to its customers and to increasingly engage the final consumer.

7. Target 2020

Based on these actions, the company expects to reach:

- an average annual growth of ≥ + 9.0% for the 2016-2020 period;
- a 63% High Value share of total revenues by the end of 2020;
- an adjusted EBIT Margin of between ~18.5%/ ~19.5% by the end of 2020;
- an 85% High Value share of the total EBIT adjusted by the end of 2020;
- an efficiencies plan accumulated during the 2017-2020 period of 1% of revenues;
- an investments forecast for the 2017-2020 period for an average equal to approximately 7% of annual revenues, 82% of which are earmarked for the High Value segment;
- indebtedness on the decrease with a Net Financial Position / EBITDA adjusted ratio lower than 2.

The results for 2017 demonstrate how the Company is in line with the projected path and objectives of the 2016-20 Industrial Plan.

€ Mln	2016A		2017A	2020E
REVENUES	4,976	+8% yoy	5,352	≥ 9% CAGR 16-20
% High Value share of Total Revenues	55.3%		57.5%	~ 63%
EBITDA Adj. without start-up costs				~ 23% ÷ 24%
Margin	21.7%		22.0%	
EBIT Adj. without start-up costs[1]	844		927	
Margin	17.0%		17.3%	~ 18.5% ÷ 19.5%
% High Value	81%		~83%	~ 85%
CAPEX TO REVENUE RATIO	~ 6.8%		9.1%	~ 7.0% average for 17-20
NFP/EBITDA Adj. without start-up costs	4.6X		2.7X	< 2.0X
ROI[2]	27%		28%	~ 35%

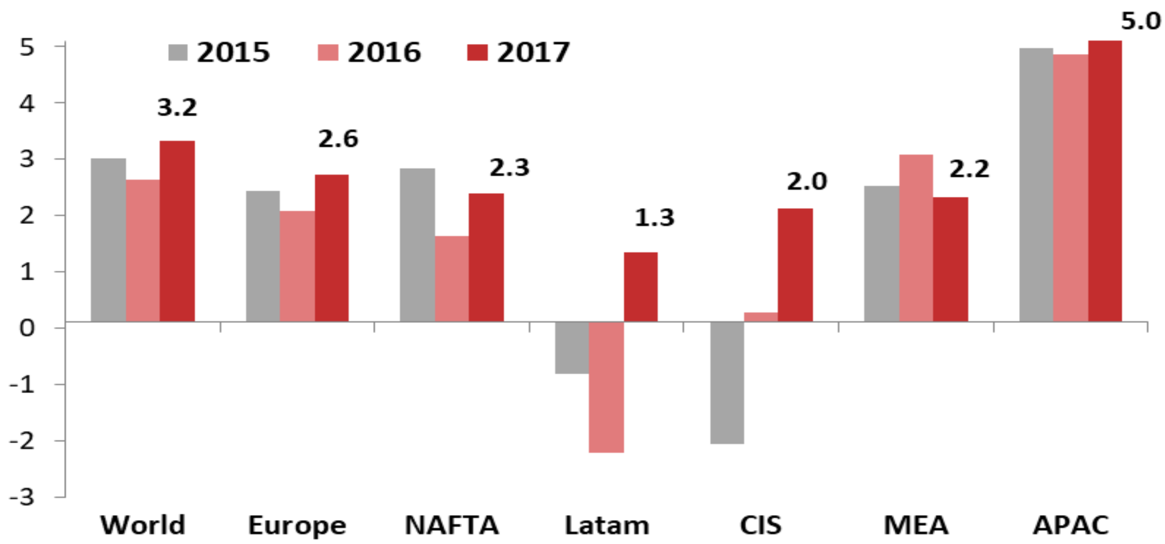
Note: 1. Impact of start-up costs on EBIT: 1% in 2017 and 2018 ; 2. ROI: EBIT Adjusted without start-up costs /Average Net Invested Capital excluding financial assets and intangible fixed assets from the PPA

MACROECONOMIC AND MARKET SCENARIO

MACROECONOMIC SCENARIO

The year 2017 was characterised by a recovery in economic activity which was supported by private consumption and by investments, as well as the strong performance in global trade. The growth rate of global GDP exceeded +3.0% (+2.5% in 2016).

Global GDP growth (annual change in %)



Source: IHS Markit, January 2018: growths shown for 2017 are estimates.

The European Union recorded an increase of +2.6% in 2017, the highest rate of growth in the past ten years. Positive economic performances distinguished all European Union countries, including the peripheral countries most affected by the global crisis of 2008-2009, with the sole exception of the United Kingdom (+1.8%), negatively affected by the uncertainties linked to negotiations for its exit from the European Union.

The performance of the United States also improved in 2017 with GDP growth of +2.3% (compared to +1.5% for 2016), thanks to the recovery in investment in the the oil sector. The reduction in the unemployment rate, together with the expectation of a gradual recovery in inflation, drove the Federal Reserve to adopt a more resctrictive monetary policy with three interest rate hikes.

Argentina, Brazil and Russia were amongst the emerging economies to exit recession during the course of 2017. China's economic growth exceeded expectations at +6.9% for 2017 (+6.7% for 2016), despite measures to reduce the use of credit.

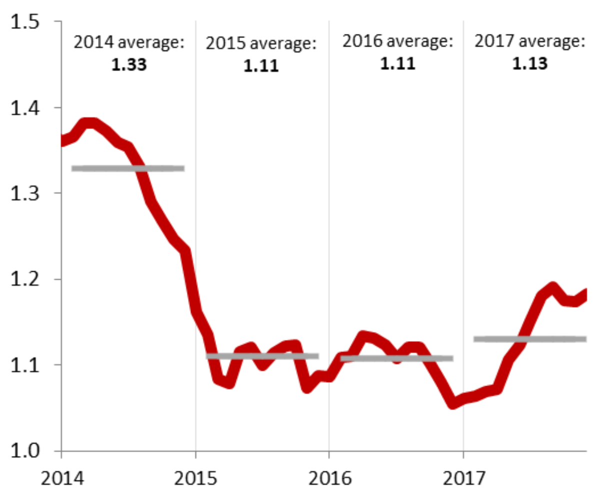
On the exchange rate front, the acceleration of economic activity in Europe during 2017 was accompanied by the slight appreciation of the Euro despite the stability of interest rates set by the European Central Bank and the continuation of the quantitative easing program. Against the US

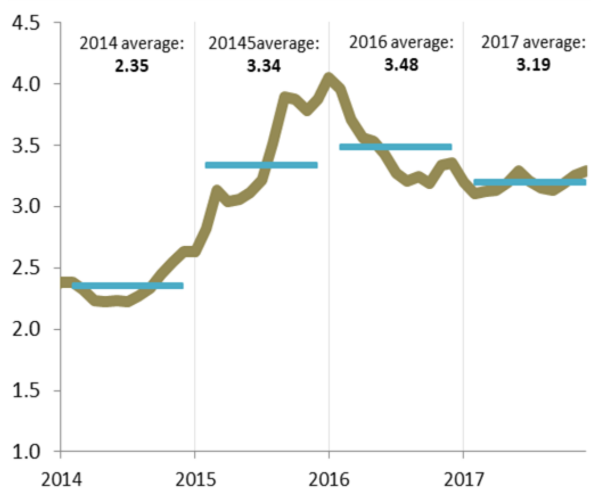
Dollar, the European currency rose from an average of 1.06 in the first quarter to 1.18 in the fourth quarter, leaving the average for the year at 1.13 US Dollars (+2.0% compared to 2016).

The US Dollar declined not only against the Euro but also against the currencies of various emerging countries, for example Brazil and Russia. The Brazilian Real went from an average of 3.38 against the US Dollar for 2016, to 3.19 for 2017, an appreciation of +9.0%. Similarly thanks to the economic recovery, the Rouble recorded an average exchange rate of 58.4 Roubles per US Dollar during the course of 2017 with an appreciation of +15.0%, compared to an average exchange rate of 67.0 Roubles per US Dollar for 2016.

The Renminbi depreciated slightly during 2017 against the US Dollar, with an annual average of 6.75 per US Dollar (versus an average exchange rate of 6.64 for 2016). Volatility was elevated with the currency reversing trend during the course of the year, with the currency moving from 6.89 in the first quarter of 2017 to 6.62 in the fourth quarter following three years of gradual depreciation.

Exchange rates: US Dollar per Euro Exchange rate: Brazilian Real per USD





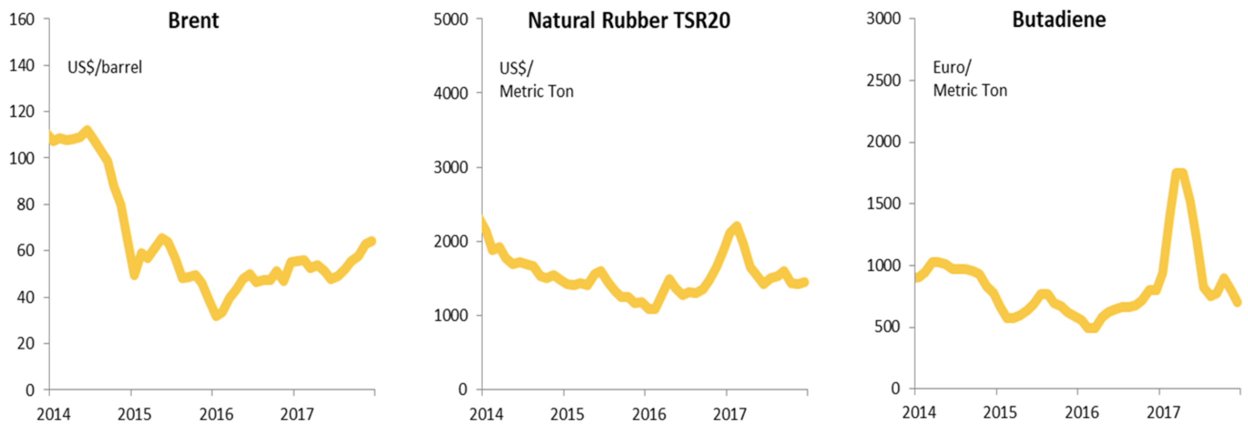
Source: European Central Bank monthly figures up until December 31, 2017.

Raw Materials

The year 2017 was distinguished by high volatility in raw materials prices. After a fall during the summer months, the price of oil (Brent) went from USD 50 to USD 64 per barrel, driven by the recovery in the global demand and by an agreement to cut oil production by the main crude oil producing countries. Brent recorded an average price for the year of USD 55 per barrel, +22.0% compared to the average price for 2016.

The volatility of the price of natural rubber was more pronounced due to strong demand during the first part of the year. Following a first quarter of strong growth with prices reaching USD 2,095 per ton, the price of natural rubber declined during the following months to average USD 1,437 per ton in the fourth quarter, with an average annual price of USD 1,651 per ton, +20.0% compared to that of 2016.

Price of raw materials



Source: IHS Markit

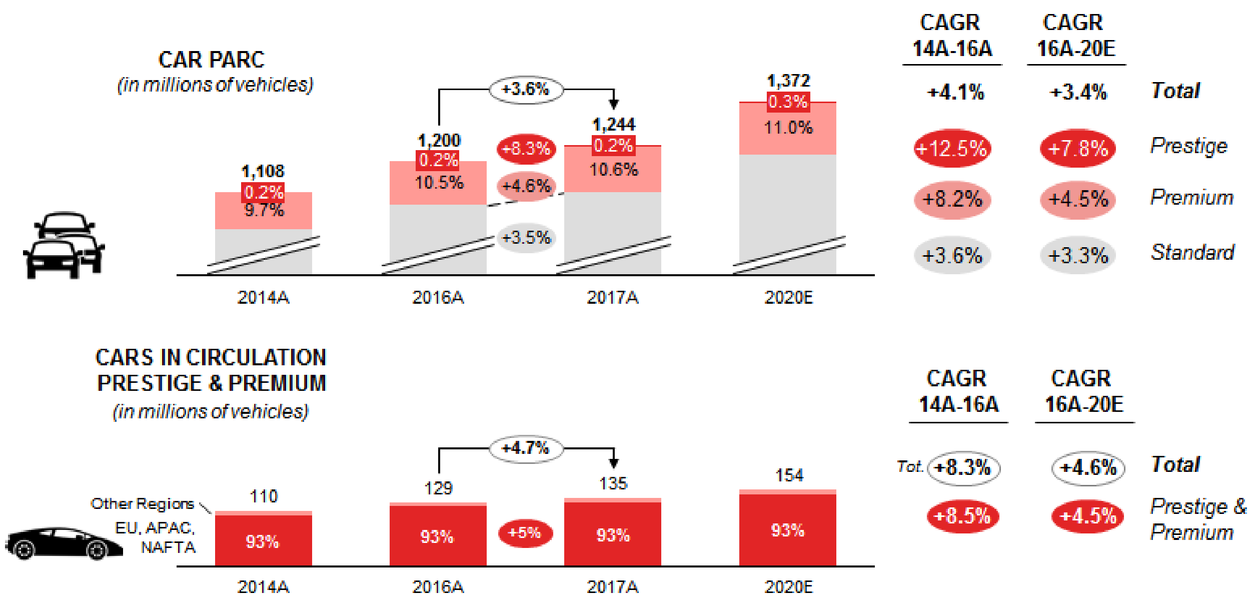
The average price of butadiene, the main raw material for the production of synthetic rubber, averaged Euro 1,112 per ton in 2017, an increase of +73% compared to the average price in 2016. Butadiene prices were sustained during the first half-year of the by a strong increase in demand from Asia during the first quarter, also due to the effect of re-stocking, and then plummeted during the third quarter due to an increase in supply and a normalisation of demand. From a price of Euro 1,500 per ton during the second quarter, butadiene prices returned to Euro 800 per ton during the fourth quarter, +3.0% compared to the corresponding quarter of 2016.

Automotive markets

The global car market registered a new record for registrations in 2017, which for the first time touched 94.5 million units sold, an increase of +2.5% compared to the previousyear, with sustained growth in emerging countries (+12.7% for LatAm, +12.1% for Russia) according to IHS Markit. The only exception was North America which, after seven years of growth, recorded a decline of -1.5% in registrations.

The Premium and Prestige segments which represented 12.5% of all vehicles sold recorded growth of +5.1% which was double that of the total market. This trend, which translates into the continued improvement of its share of the overall car parc, was sustained in particular by Apac (+10.6%). Europe confirmed itself as being the region with the highest share of Premium and Prestige sales (21%).

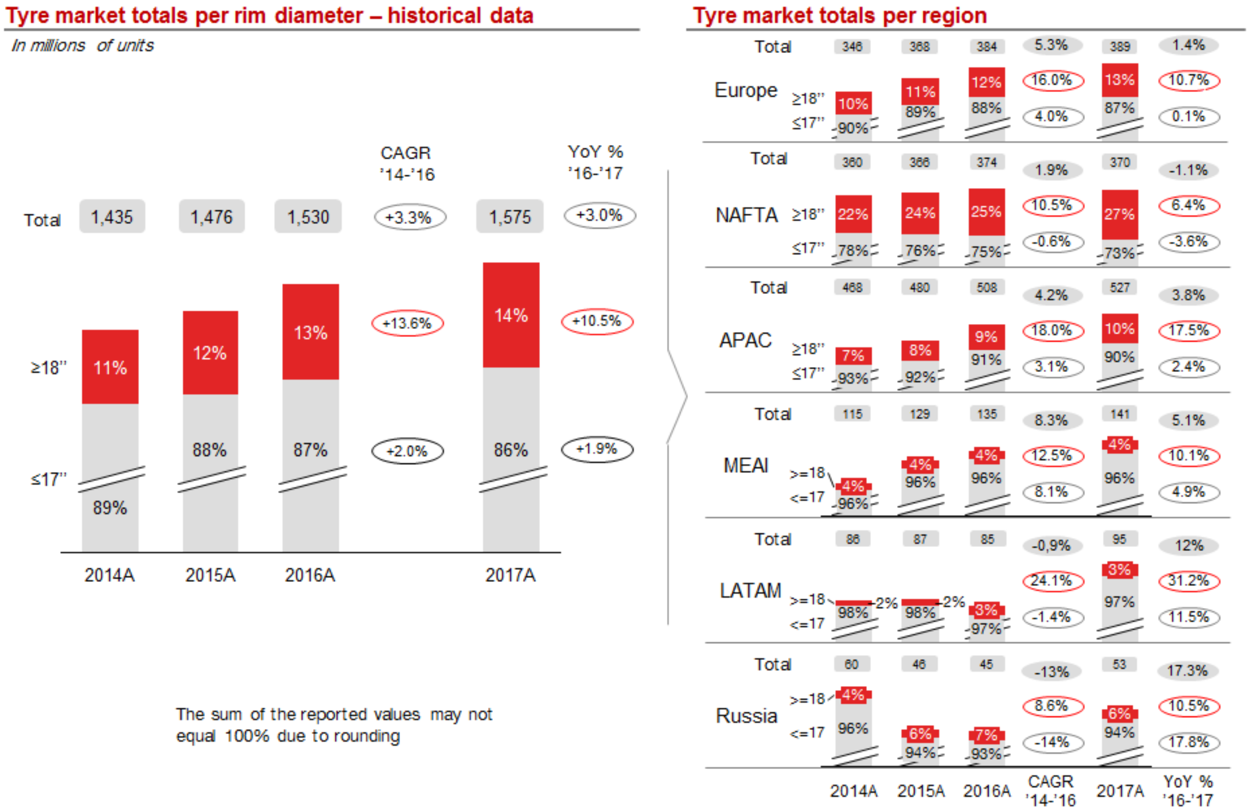
Thanks to growth of +3.6%, the car parc reached 1.24 billion automobiles with a share of the Premium and Prestige segment of +10.8% (+10.7% for 2016) equal to 135 million vehicles in circulation (129 million for 2016). Europe, NAFTA and Apac represent 93% of the Premium and Prestige.



Tyre markets

As regards the development of demand in the Car tyre market, a very positive trend was confirmed for the New Premium segment (car or light truck tyres with a rim diameter of ≧18 inches). This segment, on which Pirelli has focused its leadership position, recorded growth of +10.5% for 2017 equivalent to over five times the growth rate for the tyre segment with lower rim diameters (+1.9%). The New Premium segment reached a 14% share of the total market (13% for 2016).

Tyre Sales, Consumer Market by Geographical Area (annual change in %)



Source: Pirelli internal estimates

In **Europe**, sales of New Premium Car tyres recorded growth of +10.7% in 2017, compared to the more modest trend (+0.1%) recorded for the segment for tyres with a rim diameter of ≤17 inches. On the Original Equipment channel, New Premium sales grew by +10% compared to a decline in sales for non New Premium segment tyres (-2.0%). In the Replacement channel sales recorded a growth of +11.5% compared to +0.7% for tyres with a rim diameter ≤17 inches.

For the **NAFTA** area, sales of New Premium Car tyres were equal to +6.4% (11.0% for the Replacement channel, -0.7% for the Original Equipment channel) compared to the decline of -3.6% for the non New Premium segment (-3.0% for the Replacement channel, -6.3% for the Original Equipment channel).

For the **Apac** area sales of New Premium Car tyres were equal to +17.5% (14.0% for the Replacement channel, +19.2% for the Original Equipment channel) compared to a growth of +2.4% for the non New Premium segment (+4.7% for the Replacement channel, -0.8% for the Original Equipment channel).

Finally, recovery was seen for markets in **Latin America**, with a growth of +12.0% for the total market (Original Equipment+Replacement); +10.5% for the Replacement channel while Original Equipment grew by +19.9%.

In **Russia** the market recovered recording growth of +17.3% with the Replacment channel at +16.7% and Original Equipment at +21.0%.

SIGNIFICANT EVENTS OF 2017

On **January 13, 2017**, - the disposal to Cinda of 38% of the capital of Pirelli Industrial S.r.l. was finalised - as part of the wider reorganisation and integration project of the Industrial business. (today known as the Prometeon Tyre Group S.r.l.) pursuant to the agreement signed on December 28, 2016 between Pirelli Tyre S.p.A. and Cinda. The sale took place at a value of approximately 266 million euro.

On **February 9, 2017** Pirelli announced a price increase - as of April 1, 2017 - of up to 9% for all European and North American markets for car, light truck and motorcycle tyres of all product ranges (summer, all-season and winter) and brands.

On **February 14, 2017** on the occasion of its 110th Year Anniversary in Motorsports, at the Turin Automobile Museum, Pirelli presented its Motorsport season which saw the company committed - in addition to the Formula 1® World Championship - to over 460 championships for cars and motorcycles.

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

- the coloured editions of the P Zero™ and the Winter Sottozero™ tyres, for which Pirelli's engineers have developed innovative materials and protective finishes capable of ensuring brilliant and long lasting colours, also thanks to Pirelli's experience with F1®;

- Pirelli Connesso™, a digital platform which is integrated into the P Zero and Winter Sottozero tyres, which thanks to a sensor connected to an App, is able to communicate with the motorist and provide information on certain fundamental parameters concerning the functioning of the rubber, concerning safety, and a range of other personalised services.

During the month of **March 2017**, for the purpose of ensuring autonomous growth paths and independent development strategies, the two business areas - Consumer and Industrial - were definitively separated as a result of the assignment to the sole shareholder Marco Polo International Holding Italy S.p.A., of all TP Industrial Holding S.p.A. shares previously held by Pirelli & C. S.p.A.. TP Industrial Holding S.p.A., the company which holds 52% of the share capital of Pirelli Industrial S.r.l. (today called Prometeon Tyre Group S.r.l.), is the company that owns Pirelli's Industrial assets.

On **April 27, 2017** the Board of Directors of the Company decided to accelerate the listing process in order to take advantage of the market opportunities of the fourth quarter of 2017. This decision was made in the light of the positive results which had been achieved by the Company, the implemented focus on the Consumer business which had led Pirelli to becoming the sole *"pure consumer tyre player"* in the sector, and the favourable dynamics of the markets. In context of the listing, the CNRC confirmed its willingness to lower its share in Pirelli to below 50% of the capital, this without prejudicing the requisite conditions for the continued consolidation of Pirelli.

On **May 11, 2017** Pirelli announced its return to the world of cycling with a range of high performance tyres, dedicated to racing bikes.

At the **end of June 2017**, Marco Polo International Italy S.p.A. - a direct shareholder of Pirelli following the incorporation by merger of Marco Polo International Holding Italy S.p.A. – underwrote capital increase, which including the premium amounted to approximately euro 1.2 billion. It is also to be noted is that on **June 27, 2017** (with a closing date of June 29), Pirelli & C. S.p.A. and Pirelli International Plc underwrote a new unsecured refinancing contract for a total amount of euro 4.2 billion with a pool of leading international banks, whose first drawdowns were used, together with the proceeds from the aforementioned capital increase, to repay in full, on June 29, 2017, the financing underwritten in 2016 for the amount of euro 6.4 billion, and thus cancelling all collateral securities issued under this new financing. The refinancing operation was completed with improved conditions compared to the previous financing completed in 2016, particularly through the reduction of the all-in cost but also thanks to the lengthening of its average life, thus contributing to the improvement of Pirelli's financial profile.

At the **end of July 2017**, Burlington Loan Management DAC, an Irish investment vehicle managed by Davidson Kempner Capital Management LP, signed a purchase contract with Pirelli, Intesa Sanpaolo S.p.A., UniCredit S.p.A. and Fenice S.r.l. for the acquisition of 44.86% of the capital of Prelios S.p.A. amounting to 611,910,548 shares in total. The trade was set at euro 0.116 per share, which equalled a total of approximately euro 70.9 million, of which approximately euro 17.2 million was due to Pirelli, approximately euro 24.5 million euro to Fenice S.r.l, the vehicle invested in by Pirelli, and the remainder - in proportion to the investment held – due to Intesa Sanpaolo and Unicredit. The closing of the operation - with simultaneous collection - was finalised on **December 28, 2017.**

On **August 1, 2017** the Shareholders' Meeting of Pirelli approved a number of resolutions aimed at implementing the previously announced process of listing the Company shares on the stock exchange. Amongst other things, the adoption of a new text for the Articles of Association was approved (effective as of the listing date) which expressly provides for, amongst other things, a "corporate governance based on best international practice". In order to protect shareholders, specific provisions of the Articles of Association address the issue of the long term preservation of Pirelli's constitutive and intrinsic elements such the localisation in Italy of its registered headquarters and the Group's management centre, as well as the control of its technological know-how (including Pirelli brands). For such elements in particular, the Articles of Association provide (i) that Pirelli's technological know-how shall remain under Pirelli ownership and shall not be transferred to third parties, except where provided for in the same Articles of Association, and (ii) that the operating and administrative headquarters of Pirelli shall remain in Milan. Such provisions may be derogated only through a prior resolution adopted by a Pirelli Shareholders' Meeting where at least 90% of the share capital is represented as being in favour. Also on August 1, 2017 (effective as of August 31, 2017), the Shareholders Meeting renewed the Board of Directors, pursuant to the new Shareholders' Agreement signed on July 28, 2017 by the China National Chemical Corporation, the China National Tire & Rubber Corporation, Ltd., the Silk Road Fund Co.,Ltd., the CNRC International Limited (HK), the CNRC International Holding (HK) Limited, Fourteen Sundew S.à.r.l., Camfin S.p.A., Long-Term Investments Luxembourg S.A. and Marco

Tronchetti Provera & C. S.p.A.. The Board of Directors is currently composed of: Ren Jianxin (Chairman), Marco Tronchetti Provera (Executive Vice Chairman and Chief Executive Officer), Yang Xingqiang, Bai Xinping, Giorgio Luca Bruno, Ze'ev Goldberg and Giovanni Tronchetti Provera, as well as Independent Directors Laura Cioli, Domenico De Sole, Fan Xiaohua, Marisa Pappalardo, Cristina Scocchia, Tao Haisu and Wei Yintao. The same aforesaid Shareholders' Meeting also:

- appointed Antonella Carù as the new Statutory Auditor of the Company, replacing Fabrizio Acerbis, and;
- conferred the role for the statutory audit of accounts for the nine-year period from 2017 to 2025 to the independent auditing firm PricewaterhouseCoopers S.p.A..

On **August 31, 2017** Pirelli's Board of Directors deliberated on the governance structure of the Company, and approved, in particular, the constitution of the Board Committees and the establishment of procedures in view of the listing of the Company on the stock exchange. In addition, the Board of Directors appointed Marco Tronchetti Provera as Executive Vice Chairman and Chief Executive Officer, conferring to him the same powers of management of the Company, consistent with those of the previous mandate and with the Shareholders' Agreements signed on 28 July 2017.

On **September 1, 2017**, as part of the preparatory process for re-listing the Company, Pirelli's announced its new strategy of focusing on the High Value segment (Prestige, New Premium, Specialties and Super Specialties, and Premium Moto), as well as released the forecast data for the new 2017-2020 Industrial Plan, carve-out consolidated Interim Financial Statements at June 30, 2017 and a carve-out consolidated Financial Statements for 2016, 2015 and 2014.

On **September 5, 2017**, the Shareholders' Meeting appointed Luca Nicodemi and Alberto Villani as Statutory Auditors for the Company, replacing Giovanni Bandera and David Reali, who had resigned from the role for professional reasons.

On **September 12, 2017**, Pirelli, consistent with focusing its activities on its core business, notified the Chairman of the Agreement to invest in the capital of Mediobanca S.p.A., the decision to exercise the right of cancellation from the agreement for all shares held and conferred to the Agreement itself, approximately 1.8% of Mediobanca's share capital.

On **September 15, 2017**, in context of the listing process, CONSOB approved the registration document, the disclosure notes for the financial instruments and the related summary note for the offer of sale and admission to the listing on the Mercato Telematico Azionario (screen-based stock exchange), organised and managed by Borsa Italiana S.p.A., of the Pirelli shares offered by Marco Polo International Italy S.p.A.. The offer of sale was carried out from September 18, 2017 to September 28, 2017.

On **October 4, 2017** Pirelli & C. S.p.A. shares were launched on the Milan Stock Exchange on the Mercato Telematico Azionario (MTA or screen-based stock exchange) which is organised and managed by Borsa Italiana S.p.A. With the start of trading all management and coordination activities by Marco Polo International Italy S.p.A. ceased. As part of the Global Sales Offer, 350 million ordinary shares, were offered at a price of euro 6.5 per share for a capitalisation of euro 6.5 billion. The Greenshoe Option, granted as part of the transaction by Marco Polo International Italy S.p.A. to the placement consortium for 50 million shares, was partially exercised on November 2, 2017 for a total of 18,904,836 shares. With the inclusion of the Greenshoe Option, the Offer of Sale therefore concerned 368,904,836 ordinary Pirelli shares and, consequently, the total proceeds deriving from the Sales Offer which were exclusively due to Marco Polo International Italy S.p.A. amounted to approximately euro 2.4 billion. As a result of the partial exercise of the Greenshoe Option, Marco Polo International Italy S.p.A. holds 631,095,164 ordinary Pirelli shares which correspond to approximately 63.11% of the share capital.

On **December 21, 2017** the Board of Directors of Pirelli approved an EMTN (Euro Medium Term Note) for the issuance of senior unsecured non-convertible bonds for an amount equal to a maximum of euro 2.0 billion. The adoption of the EMTN program responds the objective of the constant optimisation of the Pirelli financial structure, and allows for the favourable and timely seizure of windows of opportunity available on the bond market. As part of this program, the Board of Directors authorised the issue, to be executed by January 31, 2019, of one or more bonds, to be placed with institutional investors, for a total maximum amount of up to euro 1.0 billion.

On **December 28, 2017**, the acquisition of the investment in Prelios S.p.A. by Lavaredo S.p.A., a newly established joint stock company designated by Burlington, was finalised, pursuant to the purchase contract signed in July.

GROUP PERFORMANCE AND RESULTS

In this document, in addition to the financial figures as provided for by the International Financial Reporting Standards (IFRS), alternative performance indicators derived from IFRS were used in order to allow for a better assessment of the of the Group's operating and financial performance. These indicators are:

- Gross Operating Margin adjusted (EBITDA adjusted);
- Gross Operating Margin adjusted without start-up costs (EBITDA adjusted without start-up costs);
- Operating Income (loss) (EBIT);
- Operating Income (loss) adjusted (EBIT adjusted);
- Operating Income (loss) adjusted without start-up costs (EBIT adjusted without start-up costs);
- Net Income (loss) related to continuing operations (Consumer) adjusted;
- Fixed Assets related to continuing operations;
- Provisions;
- Operating Working Capital related to continuing operations;
- Net Working Capital related to continuing operations;
- Net Financial (liquidity)/debt Position.

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

* * *

Also, as a result of the assignment by Pirelli & C. S.p.A of the shares of TP Industrial Holding S.p.A. (company that owned almost all of Pirelli's Industrial assets) to Marco Polo International Holding Italy S.p.A., the Industrial business qualified as a "discontinued operation". The results for the period for the "discontinued operation" were reclassified to the Income Statement as a single item, *"net income (loss) related to discontinued operations"*, and includes the financial data for the first quarter of 2017 for the Industrial Business, which no longer comes under the scope of the Group as a result of the assignment, as well as the twelve month results for some of the residual Industrial activities currently in the process of being separated. In accordance with the relevant accounting standard, the comparable financial data for 2016 was subjected to restatement.

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Pirelli closed the 2017 financial year with results which were consistent with the 2016-2020 Industrial Plan.

In particular, the **results** reflect the implementation of the High Value strategy, and the development of new activities aimed at capturing emerging new trends in mobility, as well as the reduction of exposure on the Standard segment.

The results are characterised by:

- Revenues which grew by +7.6% to euro 5,352.3 million, +11.8% for the High Value segment which represented 57.5% of the total revenues (55.3% for 2016);
- an EBIT adjusted without start-up costs which amounted to euro 926.6 million, representing a growth of +9.7%, thanks to the High Value segment which contributed a share of approximately 83% of the EBIT (81% for 2016).
- an EBIT margin adjusted without start-up costs at 17.3% (17.0% for 2016), 18.7% for the fourth quarter (17.6% for 2016);
- Net income related to continuing operations (Consumer) which grew to euro 263.3 million (euro 164.0 million for 2016);
- A net financial (liquidity)/debt position of euro 3,218.5 million, (euro 4,912.8 million at December 31, 2016 being data that was reported and also included in the Industrial business activities) and an NFP / EBITDA adjusted without start-up costs ratio equal to 2.7x for 2017 (4.6x at December 31, 2016 ([14])).

The main actions underlying these results and, more generally, actions relative to the implementation of the 2017-2020 Industrial Plan, can be summarised as follows:

- **strengthening of the High Value** segment with a growth in volumes of +12.5% and an improvement in the market share for the Prestige and Car New Premium segments (a growth of +15.4% for tyres with a rim diameter ≥18 inches compared to the +10.5% of the market) mainly in Europe, North America and Apac;
- **progressive reduction of exposure in the standard segment** with a -5.3% decrease in volumes mainly in Russia, MEAI, and in Europe with the reduction in sales of less profitable products. As a result of this impact the total growth in volumes (cars and motorbikes) stood at +1.0%
- **consequent improvement in the price/mix component**, which once again asserted itself at the highest level amongst peers: +6.9% for the total financial year, +7.8% for the fourth

[14] In order to make the comparison homogeneous, the adjusted net financial position / EBITDA indicator without start-up costs was calculated by comparing the EBITDA adjusted without start-up costs for 2016 restated (therefore only related to the Consumer activity) to the net financial (liquidity)/debt position of the sole Consumer Activity equal to euro 4,960.7 million.

quarter, due to the effect of the progressive mix improvement, and to the price increases put in place as of April 1, 2017.

In particular, at the level of the more specific programs, it should be noted:

- **strengthening of the partnership** with the main Prestige and Premium car manufacturers with a high-end portfolio of approximately 2,160 homologations capable of providing insight into future demand;

- **expansion of High Value production capacity mainly in Europe, NAFTA and Apac** by reconverting in-part the capacity of the Standard segment, preparing processes and organising the factories to handle the growing complexity and ever increasing rim diameters. The total capacity at the end of 2017 was approximately equal to 76 million tyres (71 million for 2016), of which 55% were High Value (54% for 2016);

- **increased distribution coverage in Europe, NAFTA, Apac and LatAm** with an increased presence on the car dealer channels, on retail and on client Tier 1, where Pirelli exercises greater control and records higher sales. In particular, for 2017 the share of sales generated by these channels reached 48% (41% for 2016);

- **the continued development of business programs that intercept new end-customer needs** (such as Cyber™ and Velo), **projects for the digital transformation of the Company and the conversion of Aeolus brand production into Pirelli brand production** in the manufacturing plant in Jiaozuo for the Car sector acquired from Aeolus. These activities were reflected in the sustainment of start-up costs of approximately euro 50 million for the 2017 financial year;

- **consequent efficiencies equal to approximately 1.0% of revenues for 2017** linked to industrial and product activities such as the optimisation of raw materials costs, the simplification of products and the reduction of tyre weights, the growth of production in countries with low industrial costs, improved productivity and the simplification of processes, plus the optimisation of energy and other costs.

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

(In millions of euro)	**12/31/2017**	**12/31/2016 ***	**12/31/2016 Carve out (**)**
Net sales	**5,352.3**	**4,976.4**	**4,976.4**
EBITDA adjusted without start-up costs	1,175.1	1,082.3	1,082.3
% of net sales	22.0%	21.7%	21.7%
EBITDA adjusted	**1,137.7**	**1,082.3**	**1,082.3**
% of net sales	21.3%	21.7%	21.7%
EBIT adjusted without start-up costs	926.6	844.3	844.3
% of net sales	17.3%	17.0%	17.0%
EBIT adjusted	**876.4**	**844.3**	**844.3**
% of net sales	16.4%	17.0%	17.0%
Adjustment: - amortisation of intangible assets included in PPA	(109.6)	(104.6)	(104.6)
- non-recurring and restructuring expenses	(93.2)	(53.2)	(53.2)
EBIT	**673.6**	**686.5**	**686.5**
% of net sales	12.6%	13.8%	13.8%
Net income (loss) from equity investments	(6.9)	(20.0)	(20.0)
Financial income/(expenses)	(362.6)	(427.3)	(427.3)
Net income (loss) before tax	**304.1**	**239.2**	**239.2**
Tax expenses	(40.8)	(75.2)	(75.2)
Tax rate % on net income (loss) before tax	(13.4%)	(31.4%)	(31.4%)
Net income (loss) related continuing operations (Consumer)	**263.3**	**164.0**	**164.0**
Eanings/(loss) per share related to continuing operations (in euro per share)	0.31	0.22	0.22
Net income (loss) related to continuing operations (Consumer) adjusted	386.8	296.6	296.6
Net income (loss) related to discontinued operations (Industrial)	(87.6)	(16.4)	
Total net income (loss)	**175.7**	**147.6**	
Net income attributable to the Parent Company	176.4	135.1	
Fixed assets related to continuing operations	**9,121.0**	**10,299.2**	**9,167.6**
Inventories	940.7	1,055.6	874.0
Trade receivables	652.5	679.3	680.1
Trade payables	(1,673.6)	(1,498.5)	(1,280.5)
Operating working capital related to continuing operations	**(80.4)**	**236.4**	**273.6**
% of net sales	(1.5%)	n.a.	5.5%
Other receivables/other payables	(42.2)	(310.7)	19.0
Net working capital related to continuing operations	**(122.6)**	**(74.3)**	**292.6**
% of net sales	(2.3%)	n.a.	5.9%
Net invested capital held for sale	**60.7**	-	-
Net invested capital	**9,059.1**	**10,224.9**	**9,460.2**
Equity	**4,177.0**	**3,274.9**	**2,633.4**
Provisions	1,663.6	2,037.2	1,866.1
Net financial (liquidity)/debt position	**3,218.5**	**4,912.8**	**4,960.7**
Equity attributable to the Parent Company	4,116.7	3,134.1	
Investments in property, plant and equipment and intangible assets	489.4		372.2
Research and development expenses	221.5		208.6
% of net sales	4.1%		4.2%
Research and development expenses - High Value	199.9		191.0
% on sales High Value	6.5%		6.9%
Employees (headcount at end of period)	30,189		29,787
Industrial sites (number)	19		19

(*) on the basis of IFRS 5 accounting principle: a) the economic comparative figures at 12/31/2016 related to the Industrial business have been reclassified in the item "Net income (loss) related to discontinued operations";b) balance sheet comparative figures at 12/31/2016 have not been restated and consequently include the figures related to the Industrial business

(**)the figures refer to the "Carve out" Consolidated Financial Statements at 12.31.2016 of the Consumer Business included in the Registration Document, prepared for the listing of Pirelli Group and released on 09.15.2017.

For a better understanding of the Group's performance, the following quarterly performance information is provided.

(In millions of euro)	1 Q		2 Q		3 Q		4 Q		TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net sales	**1,339.3**	1,180.9	**1,346.0**	1,246.0	**1,353.2**	1,279.6	**1,313.8**	1,269.9	**5,352.3**	4,976.4
yoy	13.4%		8.0%		5.8%		3.5%		7.6%	
*organic yoy **	8.4%		6.2%		8.3%		8.3%		7.9%	
EBITDA adjusted without start-up costs	**281.7**	261.5	**285.1**	268.4	**298.9**	271.5	**309.4**	280.9	**1,175.1**	1,082.3
% of net sales	21.0%	22.1%	21.2%	21.5%	22.1%	21.2%	23.5%	22.1%	22.0%	21.7%
EBITDA adjusted	**270.4**	261.5	**276.0**	268.4	**289.9**	271.5	**301.4**	280.9	**1,137.7**	1,082.3
% of net sales	20.2%	22.1%	20.5%	21.5%	21.4%	21.2%	22.9%	22.1%	21.3%	21.7%
EBIT adjusted and without start-up costs	**219.5**	203.6	**223.5**	209.6	**238.2**	207.5	**245.4**	223.6	**926.6**	844.3
% of net sales	16.4%	17.2%	16.6%	16.8%	17.6%	16.2%	18.7%	17.6%	17.3%	17.0%
EBIT adjusted	**205.0**	203.6	**211.2**	209.6	**226.0**	207.5	**234.2**	223.6	**876.4**	844.3
% of net sales	15.3%	17.2%	15.7%	16.8%	16.7%	16.2%	17.8%	17.6%	16.4%	17.0%
Adjustment: - amortisation of intangible assets included in PPA	(26.2)	(26.2)	(26.1)	(26.1)	(28.6)	(26.1)	(28.7)	(26.2)	(109.6)	(104.6)
- non-recurring and restructuring expenses	(10.1)	(11.3)	(35.6)	(8.1)	25.5	(9.2)	(73.0)	(24.6)	(93.2)	(53.2)
EBIT	**168.7**	166.1	**149.5**	175.4	**222.9**	172.2	132.5	172.8	673.6	686.5
% of net sales	12.6%	14.1%	11.1%	14.1%	16.5%	13.5%	10.1%	13.6%	12.6%	13.8%

* before exchange rate effect and changes in scope of consolidation

Group net sales amounted to euro 5,352.3 million, which represented a growth of +7.6%, +7.9% in organic terms, or rather net of the impact of the exchange rate effect (-0.7%), and for the consolidation of the Aeolus Car business (+0.4%). Organic growth for the fourth quarter was equal to +8.3%.

High Value revenues amounted to euro 3,078.1 million for 2017, which represented an organic growth of +13.4% (+11.8% net of the exchange rate effect) and whose contribution amounted to 57.5% of revenues (+2.2% compared to 2016).

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

	1 Q	2 Q	3 Q	4 Q	Cumulative at 12/31
	2017	2017	2017	2017	2017
Volume	2.9%	-0.3%	1.0%	0.5%	1.0%
Price/mix	5.5%	6.5%	7.3%	7.8%	6.9%
Change on a like-for-like basis	**8.4%**	**6.2%**	**8.3%**	**8.3%**	**7.9%**
Translation effect	4.0%	1.2%	-3.1%	-4.5%	-0.7%
Change in scope of consolidation - Aeolus car	1.0%	0.6%	0.6%	-0.3%	0.4%
Total change	**13.4%**	**8.0%**	**5.8%**	**3.5%**	**7.6%**

The performance for total sales volumes for 2017 resulted in a total growth of +1.0% and reflected the diverse dynamics within the different segments and markets.

The growth in volumes which was supported by the strengthening on the High Value segment (+12.5%, +15.4% for Car tyres with a rim diameter ≧18 inches) while the Car Standard segment (-5.6%) was impacted by the reduction in lower profitability volumes, particularly in Russia (with a sharp contraction in local sales for the Amtel brand), which had positive effects on the results.

The strong price/mix improvement (+6.9%) reflects the continuation of the Pirelli value strategy and was supported by the success of high-end products, and from the progressive increase in prices implemented as of April 1, 2017 to counter the increase in raw materials costs (an increase of +5.5 for the price/mix during the first quarter +5.5%, +6.5% for the second quarter, +7.3% for the third quarter, and +7.8% for the fourth quarter).

The apportionment of **net sales by geographical area** is reported in the following table:

Geographical area	**2017**				**2016**
	Euro\mln	*%*	*yoy*	*Organic Yoy**	*%*
Europe	2,238.0	41.7%	*6.9%*	*7.6%*	42.0%
Russia and CIS	159.6	3.0%	*-2.1%*	*-14.6%*	3.3%
NAFTA	983.9	18.4%	*5.3%*	*7.3%*	18.8%
South America	915.7	17.1%	*11.1%*	*7.4%*	16.6%
Asia\Pacific (APAC)	806.2	15.1%	*13.1%*	*14.3%*	14.3%
Middle East\Africa\India (MEAI)	248.9	4.7%	*-0.1%*	*5.6%*	5.0%
TOTAL	**5,352.3**	**100.0%**	***7.6%***	***7.9%***	**100.0%**

* before exchange rate effect and changes in scope of consolidation

Europe (41.7% of sales) ended the 2017 financial year with an organic growth of +7.5% (+6.9% including the exchange rate effect and the change in the scope of consolidation) supported by the strengthening on the High Value segment (a +12.8% organic growth in revenues) with an increase in the market share of tyres with a rim diameter ≥18 inches both on the Original Equipment channel as well as the Replacement channel. On the Standard segment, the reduction of exposure to products with lower profitability continued, with an acceleration in the second half-year. Profitability was in the mid-teens range, impacted by start-up costs, but which steadily increased during the second half-year (high teens range) as a result of the improved mix and the implementation of price increases.

NAFTA (18.4% of sales) recorded an organic growth in revenues of +7.4% (+5.3% including the exchange rate effect), with an organic growth of +7.8% for the High Value segment. This revenue performance reflected the positive trend in volumes and, in particular for the High Value segment on the Replacement channel, thanks to the introduction of all-season products and the greater penetration of the retail channel, while the trend for High Value Original Equipment was affected by the market slowdown in the second half of the year (-3.6% for the second half-year, -0.6% for 2017). In 2017 Pirelli consolidated its marked tyre leadership with an increase to the market share of approximately +1.5%; with improvement also in the market share for Replacement tyres with a rim diameter ≥18 inches. Profitability (EBIT margin) was in the twenties range.

Apac (15.1% of sales) along with NAFTA were the regions with the highest revenue growth and profitability (an EBIT margin in the twenties range). There was improvement in the performance of total revenues by +14.3%, net of the exchange rate effect and in the change in the scope of consolidation (a total growth of +13.1%), supported by the High Value segment (an organic growth of +21.4%, +18.3% net of the exchange rate effect). In particular, Pirelli strengthened its positioning in the high-end products range both in the Original Equipment channel (which counted new homologations with European and local car brands) and in the Replacement channel, which increased its market share by approximately 2%, thanks also to the expansion of commercial presence which now counts approximately 4,000 points of sale. The activities for the conversion of

Aeolus brand production into Pirelli brand production in the Aeolus Car tyre manufacturing plant acquired on October 1, 2016, were also continued in support of future growth in the area.

MEAI (4.7% of sales) recorded a growth in revenues of +5.6% (-0.1% net of the exchange rate effect on a like-for-like basis) with profitability in the mid-teens range which represented a slight increase compared to the corresponding period of 2016, despite the impact of the impairment of currencies particularly in Turkey. The focus on High Value continued with an organic revenue growth of +23.3% (a total growth of +19.3%) driven by the strengthening in the Replacement channel for tyres with a rim diameter ≥18 inches by approximately +2.0%, especially in the Gulf area.

In **Russia** (3.0% of sales) the strategy of focusing on the more profitable segments - with the progressive reduction in the production and sales of non-Pirelli brand products - impacted positively on the results for the 2017 financial year, with a strong improvement in profitability (an EBIT margin in the low-teens, which had been in the low single-digit range for the corresponding period of 2016). Revenues recorded a contraction of -2.1% (-14.6% including the exchange rate effect). The decline in High Value revenues (-4.0% YoY) reflected the Company's decision to reduce exports of high-end products to Russia, especially during the fourth quarter, in consideration of the contraction of the local market (-5.0% for the second half-year for the total market for tyres with a rim diameter ≥18inches, -11% for the fourth quarter), by allocating production mainly to Europe where demand was stronger.

South America (17.1% of sales) recorded a total revenue growth of +11.1%, and +7.4% in organic terms (excluding the exchange rate effect on a like-for-like basis). This performance reflected:

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

Profitability was in the high single-digits range which represented a growth compared to 2016, also due to the continued actions aimed at the improvement and conversion of the mix.

The **EBIT adjusted for the Group without start-up costs** amounted to euro 926.6 million, a growth of +9.7%, being euro +82.3 million in absolute values compared to the previous financial year (euro 844.3 million for 2016), thanks to the High Value segment which achieved a share of approximately 83% of the EBIT (81% for 2016). The EBIT adjusted without start-up costs attested itself at 17.3%, a growth of +0.3% compared to the previous financial year.

Start-up costs amounted to euro 50.2 million and refer to:

- programs which intercept the new needs of the end customer such as connectivity (Cyber^{TM}) and the return to the bicycle business (Velo project);

- activities aimed at the Company's digital transformation;
- activities for the the conversion of Aeolus brand production into Pirelli brand production in the Aeolus manufacturing plant for the Car sector acquired on October 1, 2016.

The **EBIT adjusted for the Group** amounted to euro 876.4 million which represented a growth of euro 32.1 million compared to the previous financial year.

The details were as follows:

(In millions of euro)	1 Q	2 Q	3 Q	4 Q	Total
2016 EBIT Adjusted	**203.6**	**209.6**	**207.5**	**223.6**	**844.3**
- Internal levers:					
Volumes	16.4	(1.9)	5.2	3.5	23.2
Price/mix	39.6	71.0	90.8	76.1	277.5
Amortisation, depreciation and other costs related to the development of High Value	(23.6)	5.3	(12.4)	(9.2)	(39.9)
Efficiencies	7.4	17.4	9.2	12.6	46.6
- External levers:					
Cost of production factors: (commodities)	(17.5)	(63.1)	(51.0)	(33.2)	(164.8)
Cost of production factors (labour/energy/others)	(10.1)	(12.9)	(11.4)	(19.2)	(53.6)
Differences from foreign currency translation from consolidation	3.7	(1.9)	0.3	(8.8)	(6.7)
Change without start-up costs	**15.9**	**13.9**	**30.7**	**21.8**	**82.3**
2017 EBIT adjusted without start-up costs	**219.5**	**223.5**	**238.2**	**245.4**	**926.6**
Start-up costs	(14.5)	(12.3)	(12.2)	(11.2)	(50.2)
2017 EBIT adjusted	**205.0**	**211.2**	**226.0**	**234.2**	**876.4**

The improvement in the results is linked to the effect of internal levers such as price/mix, volumes and efficiencies, which more than offset the rise in the cost of raw materials, costs inflation (particularly in emerging markets), higher amortisation and depreciation, and other costs related to business development.

In particular:

- the growth in volumes (euro +23.2 million);
- the improvement of the price/mix component (euro +277.5 million);
- efficiencies (euro +46.6 million);

which more than offset:

- the increase in the cost of raw materials (euro -164.8 million) and costs inflation particularly in the emerging markets (euro -53.6 million);
- higher amortisation, depreciation and other costs linked, in particular, to the development of the High Value segment and the expansion of territorial coverage (euro -39.9 million) and to translation differences (euro -6.7 million);

- the aforementioned start-up costs to the amount of euro 50.2 million.

The **EBIT** which amounted to euro 673.6 million (compared to euro 686.5 million for 2016) was impacted by:

- non-recurring and restructuring expenses to the amount of euro 93.2 million (euro 53.2 million for 2016) for structural rationalisation activities, for activities relative to the separation of Pirelli's Industrial business which took place in the first quarter of 2017, and for advisory costs and fees relative to the IPO process (euro 61.9 million). It should be noted that in the first half-year of 2017 that euro 37.4 million had been provisioned for the extraordinary incentive plan called "Special Award" in favour of a selected panel of high level executives and senior managers. This provision was released with a positive impact on the Income Statement during the third quarter of 2017, in that that the goal of Equity Value to which the payment of the related incentive was conditional had not been achieved.

- euro 109.6 million relative to the amortisation of the intangible fixed assets identified during the Purchase Price Allocation (euro 104.6 million for 2016).

The item **income (loss) from equity investments** was negative to the amount of euro 6.9 million (euro 20.0 million for 2016) and mainly refers:

- to the negative pro-rata share of the results for the 2017 financial year for the Indonesian Joint Venture PT Evoluzione Tyres (negative to the amount of euro 9.6 million) and the pro-rata negative result for the fourth quarter of 2016 and the first nine months of 2017 by Prelios S.p.A. (negative at euro 3.1 million). These negative results were partially offset by the positive pro-rata result of Fenice S.r.l. (positive at euro 5.0 million) which indirectly includes the result deriving from the disposal by Fenice S.r.l. of the investment in Prelios S.p.A.;

- to the impairment of the investment in the company Pirelli de Venezuela C.A. (negative to the amount of euro 7.6 million euro) whose residual value at December 31, 2017 was equal to euro 2.6 million;

- to the capital gain realised by effect of the disposal on December 28, 2017 of the total investment in Prelios S.p.A. (a capital gain net of the cost of the sale of euro 5.8 million);

- to dividends received from Mediobanca S.p.A. (euro 5.8 million) and Fin. Priv. S.r.l. (euro 0.8 million).

The loss recorded for 2016 which amounted to a total of euro 20.0 million was mainly attributable to the impairment of the investment in Prelios S.p.A. (a negative impact of euro 28.7 million), to the pro-rata losses of the vehicle Fenice S.r.l. (a negative impact of euro 21.9 million), to the pro-rata result of the Indonesian Joint Venture PT Evoluzione Tyres (a negative impact of euro 8.5 million), and to the impairment of the investment in Pirelli de Venezuela C.A. (a negative impact of euro 8.7 million euros), which was partially offset by the positive pro-rata result of the associate company

Eurostazioni S.p.A. (a positive impact of euro 46.1 million) mainly attributable to the capital gain deriving from the disposal of the investment held by Eurostazioni S.p.A. in Grandi Stazioni Retail S.p.A..

Net income (loss) related to continuing operations (Consumer) at December 31, 2017 amounted to euro 263.3 million, compared to earnings of euro 164.0 million for 2016. This result also reflected, in addition to the improvement in the operating income and the results from investments, the lower **net financial expenses** of euro 64.7 million (euro 362.6 million for 2017 compared to euro 427.3 million for 2016). The reduction in financial expenses was mainly attributable to the decrease of the cost of debt (5.36% at December 31, 2017 compared with 5.82% for 2016) resulted from the capital increase subscribed to by Marco Polo in June 2017 and the refinancing of the debt carried out at the end of the first half-year. **Tax expenses** for 2017 amounted to euro 40.8 million against pre-tax earnings of euro 304.1 million with a tax rate which attested itself at 13.4%. The tax rate for 2017 was positively impacted by the detection of deferred tax assets on tax losses and other temporary differences recognised in the period (surplus gross operating income for the share of interest payables which were not deducted and the ACE - tax concession Economic Growth Aid), pertinent to the Italian companies of the Group.

The **net income (loss) related to continuing operations (Consumer) adjusted** amounted to euro 386.8 million (7.2% of revenues) compared to euro 296.6 million for the previous financial year (6.0% of revenues).

The **net income (loss) related to discontinued operations** includes the financial data for the first quarter of 2017 for the Industrial business, which no longer came under the scope of the Group due to the assignment, as well as the results for the twelve months, of some residual Industrial activities currently undergoing separation, and which were negative to the total amount of euro 87.6 million, mainly attributable the reversal to the Income Statement of translation losses matured at the date of the assignment of the Industrial perimetre to the amount of euro 80.2 million, mainly attributable to the Egyptian subsidiary.

The **net income attributable to Pirelli & C. S.p.A.** was positive to the amount of euro 176.4 million compared to the positive amount of euro 135.1 million for the previous financial year.

Equity went from euro 3,274.9 million at December 31, 2016 to euro 4,177.0 million at December 31, 2017.

Equity attributable to Pirelli & C. S.p.A. at December 31, 2017 amounted to euro 4,116.7 million compared to euro 3,134.1 million at December 31, 2016.

This change is analytically shown in the table below:

(In millions of euro)	**Group**	**Non-controlling interests**	**Total**
Equity at 12/31/2016	**3.134,1**	**140,8**	**3.274,9**
Translation differences	(86,2)	(0,4)	(86,6)
Share capital increase	1.189,4	-	1.189,4
Net income (loss)	176,4	(0,7)	175,7
Dividends approved	-	(7,4)	(7,4)
Disposal of 38% Pirelli Industrial to Cinda fund	1,5	264,5	266,0
Assignment of the Industrial business to Marco Polo	(289,4)	(326,7)	(616,1)
Acquisition of minority interests (Brazil)	(12,8)	(9,6)	(22,4)
Other	3,7	(0,2)	3,5
Total changes	**982,6**	**(80,5)**	**902,1**
Equity at 12/31/2017	**4.116,7**	**60,3**	**4.177,0**

The table shows the reconciliation between the equity of the Parent Company and the consolidated equity attributable to Shareholders of the Parent Company:

(in millions of euro)	**Share Capital**	**Treasury reserves**	**Net income (loss)**	**TOTAL**
Equity of Pirelli & C. S.p.A. at 12/31/2017	**1,904.4**	**2,163.1**	**170.9**	**4,238.4**
Net income (loss) of consolidated companies (before consolidation adjustments)	-	-	202.6	202.6
Share capital and reserves of consolidated companies (before consolidation adjustments)	-	4,260.8	-	4,260.8
Consolidation adjustments:				
- carrying amount of equity investments in consolidated companies	-	(4,571.4)	-	(4,571.4)
- intercompany dividends	-	200.3	(200.3)	-
- others	-	(16.9)	3.2	(13.7)
Consolidated equity of Group at 12/31/2017	**1,904.4**	**2,035.9**	**176.4**	**4,116.7**

The **net financial (liquidity)/debt position** was negative to the amount of euro 3,218.5 million compared to euro 4,912.8 million at December 31, 2016.

It was composed as follows:

(In millions of euro)	**12/31/2017**	**12/31/2016**
Current borrowings from banks and other financial institutions	559.2	642.1
Current derivative financial instruments	11.2	35.7
Non-Current borrowings from banks and other financial institutions	3,897.1	5,946.0
Non-Current derivative financial instruments	55.0	
Total gross debt	**4,522.5**	**6,623.8**
Cash and cash equivalents	(1,118.5)	(1,533.0)
Securities held for trading	(33.0)	(48.6)
Current financial receivables and other assets	(36.5)	(30.0)
Current derivative financial instruments	(21.4)	(3.7)
Net financial debt *	**3,313.1**	**5,008.5**
Non-current financial receivables and other assets	(94.6)	(95.7)
Total net financial (liquidity)/debt position	**3,218.5**	**4,912.8**

* Pursuant to Consob Notice of July 28, 2006 and in compliance with CESR recommendation of February 10, 2005 "Recommendations fot the consistent implementation of the European Commission regulation on Prospectuses".

The **structure of the gross financial debt**, which amounted to euro 4,522.5 million, was as follows:

(In millions of euro)	**12/31/2017**	**Maturity date** **2018**	**2019**	**2020**	**2021**	**2022 and beyond**
Use of senior facilities	3.277,5	-	-	1.627,4	-	1.650,1
Bond 1,750% - 2014/2019	596,3	-	596,3	-	-	-
EIB loans	30,0	20,0	10,0	-	-	-
Other loans	618,7	550,4	29,0	9,4	1,8	28,1
Total gross debt	**4.522,5**	**570,4**	**635,3**	**1.636,8**	**1,8**	**1.678,2**
		12,7%	14,0%	36,2%	0,0%	37,1%

At December 31, 2017, the Group had a liquidity margin equal to euro 1,851.5 million composed of euro 700.0 million in the form of a non-utilised nominal credit facility, and euro 1,151.5 million in cash and cash equivalents in addition to securities held for trading.

It is to be noted that on January 22, 2018, as part of the EMTN (Euro Medium Term Note) program approved at the end of 2017, Pirelli placed a bond loan with international institutional investors for a nominal amount of euro 600 million with a 5 year duration at a fixed rate. The issue, with a yield of 110 basis points on the benchmark rate, allowed for the debt to be optimised by lengthening maturities and reducing its cost. The effective yield at maturity is equal to 1.479%. The securities have been listed on the Luxembourg Stock Exchange.

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

(In millions of euro)	1 Q		2 Q		3 Q		4 Q		Cumulative at 12/31	
	2017	**2016 Restated**	**2017**	**2016 Restated**	**2017**	**2016 Restated**	**2017**	**2016 Restated**	**2017**	**2016 Restated**
Adjusted operating income (loss)	205,0	203,6	211,2	209,6	226,0	207,5	234,2	223,6	876,4	844,3
Amortisation and depreciation	65,4	57,9	64,8	58,8	63,9	64,0	67,2	57,3	261,3	238,0
Investments in property, plant and equipment and intangible	(98,3)	(70,0)	(117,4)	(77,8)	(111,9)	(74,1)	(161,8)	(120,4)	(489,4)	(342,3)
Change in working capital/other	(892,2)	(783,8)	123,9	70,1	(131,8)	(63,8)	1.023,9	809,0	123,8	31,5
Operating net cash flow	**(720,1)**	**(592,3)**	**282,5**	**260,7**	**46,2**	**133,6**	**1.163,5**	**969,5**	**772,1**	**771,5**
Financial income/(expenses)	(77,0)	(133,7)	(149,4)	(118,7)	(63,5)	(99,2)	(72,7)	(75,7)	(362,6)	(427,3)
Taxes paid	(45,7)	(26,7)	(6,1)	(33,2)	(65,1)	(35,6)	(18,6)	(8,9)	(135,5)	(104,4)
Financial (investments) / disinvestments	(1,7)	(5,2)	(0,8)	11,1	-	-	-	(12,6)	(2,5)	(6,7)
Disposal of real estate	-	-	-	-	-	16,1	-	75,0	-	91,1
Disposal of investments	-	-	-	-	-	-	25,7	109,0	25,7	109,0
Partial acquisition of minotiry interest Pneuac - Brazil	-	-	-	-	(15,4)	-	-	-	(15,4)	-
Dividends approved to non-controlling interests	-	-	-	-	(12,9)	-	-	-	(12,9)	-
Cash Out for non-recurring and restructuring expenses	(11,9)	(17,7)	(4,6)	(9,4)	(6,8)	(8,3)	(40,5)	(13,9)	(63,8)	(49,3)
Disposal of minority equity investments	(5,5)	-	-	-	-	-	-	-	(5,5)	-
Financial expenses included in the acquisition debt	-	-	-	122,2	-	-	-	-	-	122,2
Reversal of Bidco Facility costs post-merger / other adjustments of refinancing included in financial expenses/income	-	-	-	-	-	-	-	23,0	-	23,0
Differences from foreign currency translation/other	(19,8)	(62,7)	2,4	(25,7)	6,3	(1,1)	11,8	(103,4)	0,7	(192,9)
Net cash flow before extraordinary transactions	**(881,7)**	**(838,3)**	**124,0**	**207,0**	**(111,2)**	**5,5**	**1.069,2**	**962,0**	**200,3**	**336,2**
Industrial reorganization	269,3	59,3	35,3	37,9	-	21,5	-	(71,8)	304,6	46,9
Change NFP Bidco from 01/01 to 05/31	-	-	-	(134,3)	-	-	-	-	-	(134,3)
Proceeds from the disposal of 38% Pirelli Industrial to Cinda	-	-	-	-	-	-	-	266,0	-	266,0
Bidco Facility costs post-merger / adjustments of refinancing	-	-	-	-	-	-	-	(23,0)	-	(23,0)
Share capital increase subscribed by Marco Polo	-	-	1.189,4	-	-	-	-	-	1.189,4	-
Aeolus Car NFP impact	-	-	-	-	-	-	-	(73,6)	-	(73,6)
Net cash flow	**(612,4)**	**(779,0)**	**1.348,7**	**110,6**	**(111,2)**	**27,0**	**1.069,2**	**1.059,6**	**1.694,3**	**418,2**

More specifically, the **operating net cash flow** for the 2017 financial year was positive to the amount of euro 772.1 million (positive at euro 771.5 million for 2016), and reflected the higher investments of euro 147.1 million (euro 489.4 million compared to euro 342.3 million for 2016), which were offset by the improvement in the operating performance and by the careful management of the net working capital. Investments were primarily aimed at increasing the capacity of the High Value segment in Europe and the NAFTA area, as well as at the strategic reconversion of the capacity of the Standard segment into High-Value in Brazil (Bahia and Campinas), at the transformation of the production of Aeolus brand products into Pirelli brand products in the new manufacturing plant in Jiaozuo for the Car sector, and at the continuous improvement of the quality and mix in all manufacturing plants.

Net cash flow before extraordinary transactions was positive to the amount of euro 200.3 million compared to the positive result of euro 336.2 million recorded for 2016.

Net cash flow was positive to the amount of euro 1,694.3 million (positive to the amount of euro 418.2 million for 2016), and included the effect (euro +304.6 million) resulting from the continuation of the reorganisation of the Industrial business and the capital increase of euro 1,189.4 million subscribed to by Marco Polo International Italy S.p.A. in June 2017.

RESEARCH AND DEVELOPMENT ACTIVITIES

The research and development activities carried out by Pirelli constitute a central phase for the development of new products. Consequently, Pirelli dedicates a strong focus on technological innovation and continuously carries out research and development activities in relation to materials, products and production processes.

Research and development expenses for the 2017 financial year totalled euro 221.5 million, (4.1% of sales) of which euro 199.9 million was destined for High Value activites (6.5% of High Value revenues).

The Research and Development department counts approximately 1,800 personnel (equal to 5.9% of the Group's human resources) located at the Milan headquarters and in their 12 technology centres, which allows for a direct relationship with the major car manufacturers, facilitates the understanding of the needs of their markets, and helps to adapt the innovations and improvements gained at the Milan centre.

In order to develop new products specifically designed to meet the needs and technical specifications of customers, the Group has established long-lasting relationships with major Prestige and Premium car manufacturers. The development of the product together with these car manufacturers, supported by the testing and approval phases, is aimed at producing tyres that match the dynamic characteristics and electronics of the car (the so called *"perfect fit").* Pirelli is the absolute leader of the Prestige segment with a market share which aproximated 50% in the Original Equipment channel. Amongst the models which chose Pirelli for Orginal Equipment, there were many new announcements made at the last Frankfurt Motor Show: such as the Bentley Continental GT, the Audi RS5 Coupé and RS4 Avant, the new Porsche Cayenne (which for the winter season is fitted with Scorpion Winter tyres), the Lamborghini Aventador S Roadster and the McLaren 570s Spider. Also part of the record 110 August homologations were the Audi A8, the BMW X3, the BMW 6 Series Gran Turismo, the Jaguar eTrophy (the electric racing version of the I-Pace).

Pirelli's model for research and development implemented in accordance with the *"Open Innovation"* model, is completed with a series of collaborations with operators external to the Group, such as suppliers, universities and car manufacturers, in order to pre-empt technological innovations in the sector and to direct research and development activities towards meeting the needs of the final consumer.

Furthermore, the Group accompanies its traditional research and development activities with ever greater attention towards reducing the environmental impact of its activities and products. Pirelli is actively involved in the development of tyres with low environmental impact (safe for the planet), high performance (safe for people), which includes the so called Self-Sealing and Runflat tyres which incorporate electronic sensors and are able to interact with the vehicle's control systems for increased safety and reduction of fuel consumption (Cyber Tyre^{TM}).

PRODUCT INNOVATION

At the Geneva Motor Show in 2017, Pirelli presented two new products:

- the coloured editions of the P Zero™ and the Winter Sottozero™ tyres, for which Pirelli engineers developed innovative materials and finishes capable of ensuring brilliant and long lasting colours;

- Pirelli Connesso™ offers a digital platform which is integrated into the P Zero™ and Winter Sottozero™ tyres, available in black or coloured, which thanks to the sensor fixed to the inner wall of the tyre itself is connected to an App which is able to communicate with the motorist and provide information on certain fundamental parameters concerning the functioning of the tyre, and a range of other personalised services.

In January, the Pirelli Cinturato P1™ Verde received the praises of the curators of the ADAC Award, the German motoring association, who called it "an extremely balanced summer tyre, particularly reliable in the wet, wear-resistant and with a low noise impact on the inside of the passenger compartment." Thanks to its consistently high level of performance, the Pirelli Cinturato P1 Verde received a *"good"* rating and was ranked first.

The Cinturato P7™ Blue, Pirelli's champion of sustainability renews and extends the double A European rating to all the newly available sizes, thus marking a new record. This important result was achieved thanks to the technological evolution which in recent years render Pirelli the lead actor. The new generation Cinturato P7™ Blue has a very low rolling resistance, with consequent savings in fuel costs and a reduction of $C0_2$ emissions, all to the benefit of the environment. At the origin of this improvement is the Low Rolling Technology Package, which combines new construction processes especially in the area of the belt plus the use of the latest internal materials. The adoption of the new technology has led to an increase in mileage of approximately 10%.

In the field of motorcycles, Metzeler introduced its latest off-road product, the MC360™, the ideal equipment for the motorcycles of professional and amateur drivers alike who take part in various off-road disciplines.

The METZELER ROADTEC™ 01 was confirmed as the best Sport Touring tyre by the authoritative English magazine MCN, which decreed it the winner for 2017.

There were two new comers for motorcycle Pirelli brand:

- The DIABLO™ SUPERCORSA SP, now in its third generation and developed together with the Supersport and Superstock class of riders of the Motul FIM (International Motorcycling Federation) Superbike World Championship, it represents the homologated solution for the highest performance road use ever designed by Pirelli. Thanks to its innovative features, it has already been chosen by Ducati as Original Equipment of the new Panigale V4.

- The DIABLO ROSSO™ CORSA exploits the experience gained over 15 years as the Official Tyre Supplier for the MOTUL FIM Superbike World Championship which offers the best combination of performance and versatility, with a grip that sets a new benchmark on both wet and dry surfaces.

After decades of collaboration, Pirelli has been selected by MV Agusta to be the sole supplier of tyres.

As part of the Velo range, Pirelli launched a new line of tyres dedicated to bicycle racing on the road: the PZero™ Velo, whose tread is silver for Road Racing, red for the Crono tyre and blue for the Four Seasons. "Perfect balance" is one of the key characteristics of the new Pirelli bicycle tyres: tyres with optimum performance and balanced, in terms of rolling resistance, with grip on wet and grip on dry, handling, puncture resistance and durability (understood not only as a duration time, but above all as a consistent performance over time). In order to satisfy similar project requirements, Pirelli researchers worked on three fronts - the shape and construction of the tyre, the tread pattern and the compound, the development and patenting of new technologies deriving from F1® and the world of Superbike, as well as new compounds.

NEW MATERIALS

In the field of materials, the Group is active in the development of new polymers in order to improve the characteristics of tyres in terms of rolling resistance, low temperature performance, mileage and grip on the road. In addition, the Group's business focuses on the development of other non-polymeric materials, such as high dispersion silica for wet grip, rolling resistance, mileage; biomaterials such as silica from renewable sources, biofillers such as lignin and plasticisers/resins of vegetable origin; nanofillers for more stable compounds, lighter structures and linings with elevated waterproof qualities; new silica surfactants to ensure performance stability and processability; and, vulcanisers and stabilisers that allow for the development of tyres with low environmental impact and high performance.

The Group has entered into cooperation agreements with various international and national institutions and universities. These agreements include numerous research projects with the University of Milano-Bicocca, as part of the Consortium for Advanced Materials Research (CORIMAV), and through the Silvio Tronchetti Provera Foundation which allows for the development of innovative materials and solutions which are fundamental to the realisation of tyres with reduced environmental impact and high performance, and the Joint Labs agreement between Pirelli and the Politecnico di Milano formulated in 2011 and aimed at research and training in the tyre sector, in particular through the development of innovative materials and technologies for sustainable and increasingly safe mobility. The new phase of the agreement, with a three year duration, focuses on two main areas of research: the area of design for innovative materials and the area for product development and Cyber development.

PROCESS AND PRODUCTIVITY INNOVATION

In order to allow for the effective management of the variety of products in the factories, the Group has launched the *"Smart Manufacturing"* program. This program is based on the use of *"data"* through *"Big Data analytics"* techniques that flank the consolidated Lean Manufacturing programs to improve production and maintenance processes, machine productivity and product quality, also from a predictive perspective, despite a significant reduction in the size of production batches.

COMMITTENT TO MOTORSPORTS

Pirelli has been the sole official supplier of the Formula 1™® World Championship since the 2011 season, and renewed its three-year contract for the third time on June 17, 2016, until the 2019 season. This experience with the Formula 1™® World Championship has allowed Pirelli to develop new simulation models which allow for the further reduction of the time it takes to launch a product on the market, and to improve the quality of road product projects, rendering them better performing and compliant with the highest of requirements, as well as allowing for a better understanding of the behavior of materials according to temperatures when in use. In this context, the FIA and Pirelli, in collaboration with their teams, reached a major agreement resulting in changes to the technical regulations. In 2017 in fact, new technical regulations will enter into force which will include significant modifications to the chassis, with a significant increase in the aerodynamic load, and an increase in the tyre width of approximately 25% compared to previous years, with the aim of optimising the footprint on the ground, and thus favouring a strong increase in cornering speed. During the course of 2017, pole position was on average 2.450 seconds faster than for 2016, while the fastest lap in the race was on average faster by 2.968 seconds. For 2018 an even faster tyre has been developed, the Pink hypersoft. Each compound will be one grade softer than for the previous year. In the future this should help to increase speed and performance even further.

In 2017 Pirelli celebrated 110 years of commitment to Motorsports, which began in 1907 with the victory in the Beijing to Paris race. In the automotive field, in addition to F1®, Pirelli is now engaged in over 460 championships across all five continents. The different programs range from open competitions, in some cases with over 20 manufacturers represented, to the single brand trophies of world brands such as the Ferrari Challenge and the Lamborghini Super Trofeo. In order to understand the enormous commitment of Pirelli to Motorsport, just think that all these events translate into 1,170 races per year, all over the world, which employs approximately 1,000 people between engineers, track technicians and other personnel dedicated to Research and Development. Overall, in 2017 Pirelli was the protagonist of the most important international and national two-wheeled competitions, taking part in a total of 119 motorcycle championships across five continents, for some of them, as the sole tyre supplier and for others, in open competition with other tyre manufacturers. In the European Championships which foresees the participation of several tyre producers, Pirelli on average equips 70% of the motorcycles deployed on the grid, thereby confirming the excellent appreciation demonstrated by motorcycle riders around the world for the Pirelli brand.

PARENT COMPANY HIGHLIGHTS

The table below shows a summary of the main Income Statement and Statement of Financial Position figures.

(in millions of euro)	**12/31/2017**	**12/31/2016**
Operating Income (loss)	(50.9)	63.2
Financial income/(expenses)	(123.4)	(236.9)
Net income (loss) from equity investments	204.4	172.5
Income taxes	140.8	69.7
Net profit/(loss)	**170.9**	**68.5**
Financial assets	4,803.1	5,146.3
Net Equity	**4,238.4**	**3,206.2**
Net financial position	2,363.0	3,658.6

The **operating income (loss)** which was negative at euro 50.9 million compared to the positive result of euro 63.2 million for the previous financial year, and was impacted by **non-recurring and restructuring expenses** to the amount of euro 64.1 million mainly due to costs for advisors and fees relative to the IPO process, and lesser royalties paid by the Group's companies for the use of the Pirelli trademark.

The operating result of the previous financial year included gains on the disposal of buildings (euro 29.4 million) in Milan, Italy used for R&D of euro 27.2 million, and in San Donato Milanese, Italy of euro 2.2 million.

The **reduction in financial expenses** was mainly due to the decrease in the cost of debt resulting from the capital increase subscribed to by Marco Polo International Italy S.p.A. in June 2017, and the refinancing of the debt carried out at the end of the first half-year.

The item **net income (loss) from equity investments** mainly includes:

- dividends on the part of Pirelli Tyre S.p.A. (euro 200 million compared to euro 169 million for 2016);
- the capital gain on the disposal of the investment in Prelios S.p.A (euro 2.5 million).

Income taxes for the 2017 financial year mainly included corporate income tax (IRES) from the consolidated Financial Statement which was positive to the amount of euro 72.1 million, compared to euro 54.4 million for 2016, and benefited from the recognition of deferred tax assets on previous tax losses and other temporary differences for a total of euro 76.8 million, and was directly attributable to the revision of forecasts for the future taxable income of the companies participating in Italian tax consolidation.

The following is a summary of the values of the main financial assets:

(in millions of euro)	**12/31/2017**	**12/31/2016**
Investments in subsidiaries		
- Pirelli Tyre S.p.A.	4,521.8	4,521.8
- Pirelli Ltda	9.7	9.7
- Pirelli & C. Ambiente S.r.l.	2.0	-
- TP Industrial S.p.A. (formerly Pirelli Labs S.p.A.)	-	364.3
- Pirelli UK Ltd.	21.9	21.9
- Pirelli Group Reinsurance Company SA	6.3	6.3
- Pirelli Servizi Amministrazione e Tesoreria S.p.A.	3.2	3.2
- Other	3.4	3.5
Total investments in subsidiaries	**4,568.3**	**4,930.7**
Investments in associates and other financial assets		
- Eurostazioni S.p.A. - Rome	6.3	6.3
- Prelios S.p.A.	-	13.6
- Fenice S.r.l.	2.5	9.1
- Focus Investments S.p.A.	1.4	4.0
- Mediobanca S.p.A. - Milan	149.0	122.2
- RCS Mediagroup S.p.A. - Milan	30.2	19.3
- Fin. Priv S.r.l.	19.9	16.5
- Real Estate Investment Fund - Anastasia	15.3	14.6
- Istituto Europeo di Oncologia S.r.l.	6.6	6.2
- Other	3.6	3.8
Total investments in associates and other financial assets	**234.8**	**215.6**
Total financial assets	**4,803.1**	**5,146.3**

Equity increased from euro 3,206.2 million to euro 4,238.4 million due to the impacts of the following:

(in millions of euro)	
Equity at 12/31/2016	**3,206.2**
Net income (loss) for the financial year	170.9
Distribution of reserves assigned to TP Industrial	(364.3)
Share capital increase	1,189.4
Gains/(losses) recognised directly in Equity	36.2
Equity at 12/31/2017	**4,238.4**

The table below shows the composition of equity at **December 31, 2017 and the comparison with the previous financial year:**

(in millions of euro)	**12/31/2017**	**12/31/2016**
Share capital	1,904.4	1,342.3
Legal reserve	380.9	152.1
Reserve premium	630.4	
Concentration reserve	12.4	12.4
Other reserves	92.5	92.5
IAS Reserve	29.4	(12.6)
Reserve for cash flow hedges and relative tax effects	(5.4)	0.3
Retained earnings	-	305.4
Merger Reserves	1,022.9	1,245.3
Net income (loss) for the financial year	170.9	68.5
Total Equity	**4,238.4**	**3,206.2**

RISK FACTORS AND UNCERTAINTY

The volatility of the macroeconomic environment, the instability of the financial markets, the complexity of management processes and the continuous legislative and regulatory changes demands the capacity to protect and maximise the tangible and intangible sources of value that characterise the corporate business model. Pirelli has adopted a proactive risk governance model, which through the systematic identification, analysis and assessment of risk areas is able to provide the Board of Directors and Management with the instruments needed to anticipate and manage the effects of these risks. The Pirelli Risk Model systematically assesses three categories of risk:

1. **External risks**

   These are risks which occur outside the sphere of influence of the company. This category includes risks related to macroeconomic trends, to changes in demand, to competitor strategies, to technological innovation, to the introduction of new rules and regulations, and to country-specific risks (financial, security related, political and environmental risks) as well as the impacts linked to climate change.

2. **Strategic Risks**

   These are risks which are typical for a specific business sector of which the proper management is a source of competitive advantage, or on the contrary, the cause for the failure to achieve financial objectives. This category includes risks linked to markets, product innovation and development, human resources, raw material costs, production processes, financial risks and risks connected to merger and acquisition operations.

3. **Operational Risks**

   These are risks generated by the organisation and by corporate processes, whose occurrence does not necessarily result in any kind of competitive advantage. These types of risks include Information Technology, Business Interruption, Legal & Compliance, Health, Safety & Environment, and Security related risks.

At cross roads to the aforesaid risks are **corporate social responsibility risks, environmental and business ethics risks.**

These are risks associated with the non-compliance with local and international regulations and corporate policies regarding the respect for human and labour rights, and environmental and business ethics, and can be generated by the organisation either as part of the relative value chain or as part of the supply chain. These risks in turn can lead to reputational risks. Reputational risks are related to actions or events that could cause a negative perception of the company on the part of its major stakeholders. The main areas of risk in this category are, in addition to the aforementioned risks related to corporate social-environmental responsibility and to business ethics, as well as to the inherent risks of leadership, and the quality and level of product innovation.

EXTERNAL RISKS

Risks associated with general economic conditions and changing demand in the medium term

Pirelli expects an improvement in the growth prospects of the global economy during the course of 2018, in the wake of a probable consolidation of the current expansionary phase of the European and Chinese economies together with an acceleration of the US economy. Global growth should also show itself to be more balanced thanks to a contribution of growth from the main emerging markets which should benefit from a more stable currency market. Despite this favourable macroeconomic environment, there still persist however, elements of both a political risk nature (amongst others Brexit, the Italian parliamentary elections, the Brazilian presidential elections and the Catalan crisis) as well as macroeconomic risks. The latter are mainly linked to the current uncertainty that characterises the North American free trade area (NAFTA) as well as the possible increase in the volatility of the financial markets.

Country risk

Where appropriate, Pirelli has adopted a local-for-local strategy, creating a productive presence in rapidly developing countries in order to respond to the local demand with competitive industrial and logistical costs. This strategy is aimed at increasing the competitiveness of the Group, as well as allowing the Group to overcome potential protectionist measures (customs barriers or other measures such as technical prerequisites, product certification, and administrative costs related to import procedures, etc.) In the context of this strategy, Pirelli operates in countries (Argentina, Brazil, Mexico, Russia, China, Egypt, and Turkey) where the general economic and political situation and tax regimes may prove unstable in the future. For example, structural elements of political instability persist in the Latin American area (with particular reference to Brazil), which could lead to an alteration of the normal market dynamics and, more generally, of business operating conditions. To this scenario of uncertainty, there is the added recent socio-political instability in the Middle East where the medium-long term implications remain uncertain. The Group constantly monitors the changes in risks (political, economic/financial and security related) relative to the countries in which it operates in order to continue to adopt timely (and if possible advance) measures to mitigate the potential impacts of changes arising at local level. Moreover, in situations of under-utilisation of the capacity of some factories, the reallocation of production between Group plants is possible.

Risks related to changes in demand in the long term

Over the last few decades, certain social and technological trends have emerged that might potentially have a material impact in the medium-long term on the automotive sector, and indirectly on the tyre market. On the one hand, these are represented by the growing phenomena of urbanisation (according to the latest United Nation estimates, approximately 70% of the global population will live in urban areas by 2050) and on the other hand, by changes in the values and behaviour of younger generations (increase in the average age when a driver's license is obtained, loss of importance of owning a car, increased use of various types of car sharing).

Added to these factors is the increasing spread of information technologies which increasingly encourages the use of e-commerce and/or telecommuting along with frequent regulatory interventions, both in the mature as well as emerging economies, aimed at limiting the presence of polluting vehicles within and near metropolitan areas. These dynamics may give rise to a change in automotive sector demand (from changes to vehicle dimensions/engines which take different types of fuel/power supply, to the possible resizing of the car in accordance with the transportation preferences of citizens), with a potential impact on the dynamics of the tyre sector.

Pirelli constantly monitors the evolutionary changes in automotive sector demand by actively participating in working groups at international level, such as the SiMPlify and Future of Mobility projects sponsored by the World Business Council for Sustainable Development (WBCSD). The principal aim of such projects is in fact to study the possible long-term evolution of urban mobility and to promote solutions that might improve the social, environmental and financial well-being of the urban population.

Risks related to climate change

In the short-medium term, there were no significant risks in relation to production processes or the markets where Pirelli operates. On the other hand, as regards a medium-long term scenario, the tyre sector could be subject to a number of risks both of a physical nature (such as the increase in average temperatures and the more frequently occurring extreme weather events) as well as of a regulatory nature. Pirelli monitors these elements of uncertainty through sensitivity analyses. On the other hand, the situation also represents growth opportunities in sales for both Pirelli Green Performance tyres as well as products with a lower environmental impact.

Risks related to price trends and the availability of raw materials

Natural rubber, synthetic rubber and raw materials related to oil (in particular chemicals and carbon black) will continue to be a factor of uncertainty within the Group's cost structure, given the strong volatility recorded in recent years and their impact on the cost of the finished product.

For the main raw materials purchased by the Group, possible price scenarios are constantly simulated in relation to the historical volatility and/or the best information available on the market (e.g. forward prices). On the basis of the different scenarios, increases in sales prices and/or the different internal actions, for the recovery of cost efficiencies (use of alternative raw materials, reduction of the weight of the product, improvement of the processing quality and reduction of the levels of waste), necessary to guarantee the expected levels of profitability are identified.

STRATEGIC RISKS

Exchange rate risk

The diverse geographical distribution of Pirelli's productive and commercial activities entails the exposure to exchange rate risks such as transaction risk and translation risk.

Transaction risk is generated by transactions of a commercial and financial nature carried out in individual companies in currencies other than the functional currency, due to fluctuations in exchange rates between the time when the commercial/financial relationship originates and the time when the transaction is settled (collection/payment).

The Group's policy is to minimise the impact of transaction risk linked to volatility, and for this reason the Group's procedures provide that the Operating Units are responsible for collecting all the relevant information pertaining to positions subject to transaction risk (mainly represented by receivables and payables in foreign currency). Coverage is then provided in the form of forward contracts which are entered into where possible with the Group's Treasury.

The positions subject to exchange rate risk are mainly represented by receivables and payables in foreign currency. The Group's Treasury is responsible for hedging the resulting net position for each currency and, in accordance with the established guidelines and restrictions, it in turn provides for the closure of all risk positions by trading derivative hedging contracts on the market, typically forward contracts.

Furthermore, as part of the one year and three year planning process, the Group formulates exchange rate forecasts on the basis of the best available information on the market. Any fluctuation in an exchange rate between the time of planning and the time when a commercial or financial transaction originates, results in a translation risk on future transactions. From time to time the Group assesses the opportunity to engage in currency hedging on future transactions for which it typically makes use of either forward buy or sell operations, or optional operations such as risk reversal (for example; zero cost collars).

Pirelli owns controlling interests in companies that prepare their Financial Statements in currencies other than the Euro which is the currency used to prepare the consolidated Financial Statements. This exposes the Group to currency translation risk, due to the conversion into Euro of the assets and liabilities of subsidiaries operating in other currencies. The main exposures to currency translation risk are constantly monitored and at present it has been decided not to adopt specific hedging policies for these exposures. The 2017 financial year saw the US Dollar decline against the Euro as well as both the Brazilian Real and Russian Rouble. As regards instead the Chinese Renminbi, there was a partial reversal of direction (at least at a quarterly granularity level) during the course of 2017 with respect to the depreciation trend in evidence since 2013. According to the currently available forecasts, the 2018 financial year should repeat, at least in terms of annual trends, that which was seen during the previous financial year.

Liquidity risk

The principal instruments used by the Group to manage the risk of insufficient available financial resources to meet the financial and commercial obligations within the terms and deadlines established, are its one year and three year financial plans and its treasury plans, in order to allow for the complete and correct detection and measurement of incoming and outgoing cash flows. The differences between the plans and the final data are constantly analysed.

The Group has implemented a centralised system for the management of collections and payments in compliance with various local currency and tax regulations. Banking relationships are negotiated and managed centrally, in order to ensure coverage for short and medium-term financial needs at the lowest possible cost. Even the procurement of medium and long-term resources on the capital market is optimised through centralised management.

The prudent management of the aforementioned risk requires the maintenance of an adequate level of cash or cash equivalents and/or highly liquid short-term securities, plus the availability of funds obtainable through an adequate amount of committed credit facilities and/or recourse to the capital market.

In addition to the available portion of the committed credit facility (the Revolving Credit Facility) for a total of euro 700 million which at December 31, 2017 resulted as being completely unused, the Pirelli Group has resorted to the capital market to diversify both products and maturities in order to seize the best opportunities available from time to time.

Interest rate risk

Interest rate risk is represented by exposure to the variability of the fair value or of the future cash flows of financial assets or liabilities due to changes in market interest rates.

The group assesses, on the basis of the market circumstances, whether to enter into derivative contracts, typically interest rate swaps, for hedging purposes for which hedge accounting is activated when the conditions set forth in the IAS 39 are met.

Price risk associated with financial assets

The Group is exposed to price risk only regarding the volatility of financial assets such as listed and unlisted stocks and bonds, accounting for 2.1% of total assets of the Group. Derivatives are not normally set up to limit the volatility of these assets.

Credit risk

Credit risk represents the Group's exposure to potential losses resulting from the non-fulfilment of the commercial and financial obligations undertaken by counterparties. As regards these commercial counterparties, in order to limit this risk, Pirelli has implemented procedures to evaluate customer potential and financial creditworthiness, to monitor expected collection flows and to take credit recovery action if and when necessary. The aim of these procedures is to define customer credit limits, whereby in the event that those limits are exceeded, the rule to withhold further supplies is activated. In some cases customers are asked to provide guarantees. These mainly consist of bank guarantees issued by parties of the highest credit or personal standing. Less frequently, mortgage guarantees may be requested.

Other instruments used for commercial credit risk management is the taking out of insurance policies. As of January 2012, the company signed a master agreement which expired in December 2017, with a leading insurance company for worldwide coverage for credit risk mainly related to sales on the Replacement channel (with an approximate 68% acceptance rate at December 2017).

The insurance coverage has been extended to also cover 2018. During the course of 2017, the general situation for trade receivables remained essentially consistent with that at the closing of the previous financial year. The Group operates only with highly rated financial counterparties for the management of its temporary cash surpluses or for trading in derivative instruments. Pirelli does not hold public debt instruments from any European country, and constantly monitors its net credit exposure to the banking system, and does not show significant concentrations of credit risk.

Risks associated with human resources

The Group is exposed to the risk of loss of resources in key positions or in possession of "critical know how". To address this risk, the Group adopts remuneration policies periodically updated also based on changes in the general macroeconomic scenario as well as on the basis of salary benchmarks. Also planned are long-term incentive plans and specific non-competition agreements (also with retention effect) designed amongst other things, to fit the risk profiles of the activities related to the business. Finally, specific management policies have been adopted to motivate and retain talent.

OPERATIONAL RISKS

Risks related to environmental issues

The activities and products of the Pirelli Group are subject to numerous environmental laws that vary between the countries where the Group operates. These regulations have in common their tendency to evolve in an ever more restrictive manner, also due to the growing concern of the international community over the issue of environmental sustainability. Pirelli expects the gradual introduction of ever stricter laws in relation to the various environmental aspects on which companies may impact (atmospheric emissions, waste generation, impacts on soil and water use, etc.), by virtue of which the Group expects to have to continue to make investments and/or incur costs that may be significant.

Employee health and safety risks

The Pirelli Group, in carrying out its activities, incurs expenses and costs for the actions necessary to ensure full compliance with the obligations provided for by the regulations regarding health and safety in the workplace. Particularly in Italy the law relating to health and safety at work (Legislative Decree no. 81/08) and subsequent amendments (Legislative Decree no. 106/09) have introduced new obligations that have impacted on the management of activities at Pirelli sites, and on the models for allocating liabilities.

Failure to comply with current health and safety regulations entails criminal and/or civil penalties at the expense of those responsible, and in some cases, the penalties for the violation of regulations are borne by the Companies themselves in accordance with a European model of objective liability for companies incorporated in Italy (Legislative Decree no. 231/01).

Defective product risk

As with all manufacturers of goods for sale to the public, Pirelli is subject to potential liability claims related to any alleged defects of the materials sold or may be required to launch recall campaigns for products. Although in recent years there have been no significant cases and such events are however covered by an insurance point of view, any occurrence could have a negative impact on the reputation of the Pirelli brand. For this reason, the tyres manufactured by Pirelli are undergo a careful quality analysis before being placed on the market. The entire production process is subject to specific quality assurance procedures aimed at safety, as well as at constantly elevated performance.

Litigation risks

In carrying out its activities, Pirelli may become involved in legal, fiscal, trade or labour law disputes. The Group adopts the necessary measures to prevent and mitigate any penalties that may result from such proceedings.

Risks related to information systems and network infrastructure

The supporting role of ICT (Information and communication technology) systems for business processes, their evolution and development, and for the Group's operating activities was also confirmed during the course of the 2017 financial year as being fundamental to the achieving of results.

Pirelli has mainly worked towards the prevention and mitigation of risks connected to possible system malfunctions through high reliability solutions for the protection of the corporate information assets, through the enhancement of the security systems against unauthorised access, as well as of the business data management solutions.

Particular attention has been paid to the renewal of infrastructural componentry characterised by technological obsolescence which could entail a greater risk of breakdowns and incidents which could impact on the Group's activities.

In particular:

- High reliability solutions have been implemented for the data network, renewing the central devices which manage communications within the Company and the access to Internet services, in order to reduce the risk of possible disservices and to increase perimeter security.
- the work to bring the Server and Client environments into compliance continued with the progressive updating of the operating systems in order to reduce their vulnerabilities.
- the new Disaster Recovery solution was activated, which substantially reduces recovery times and limits any loss of data to a minimum.
- the central infrastructure of storage systems was strengthened with a view to Business Continuity, in compliance with the Group's architectural standards and security regulations.
- the infrastructures for saving corporate data resident on user PCs and on central systems were enhanced to reduce the risk of information loss.
- work continued on the segregation of the factory networks within the various locations of the Group, and with the implementation of protective solutions to the level of individual machinery.

Business Interruption risks

The territorial fragmentation of the operating activities of the Group and their interconnection, expose it to risk scenarios that could cause the interruption of business operations for more or less prolonged periods, with the consequent impact on the operational capabilities and results of the Group itself.

Risk scenarios related to natural events or accidents (fires, floods, earthquakes, etc.), to wilful misconduct (vandalism, sabotage, etc.), to breakdowns of the auxiliary plants or to the interruption of the supply of utilities can, in fact, cause significant property damage, and the reduction and/or interruption of production, particularly if the event concerns high volume or specific product (high-end) production sites. Pirelli monitors their vulnerability to catastrophic natural events (in particular flood, hurricane and earthquake) with estimates of any potential damage (based on the given probability of occurrence) for all the Group's production sites. The analyses confirm the adequate monitoring of business interruption risks, thanks to a complex series of security measures, systems of prevention of harmful events and the mitigation of potential impacts on the business, also in light of the current business continuity plans as well as the insurance policies in place to cover property damage and business interruption. Regarding earthquake risk, and specifically the facility in Turkey, any particularly significant seismic events could result in losses exceeding the insured limits resulting in a negative impact on the operating results. Even Pirelli's supply chain is subject to regular assessment concerning the potential risk of business interruption in the qualification phase of new Tier-1 suppliers.

Reputational risk and corporate social-environmental responsibility

Reputational risks

Pirelli has developed an ad hoc digital tool for the identification, measurement and management of reputational risk, which is measured in terms of the probability of occurrence and impact on reputation. Reputational risk is understood as a current or prospective risk that might result in a loss in gains and affect the propensity to buy due to a negative perception of the Company by one or more stakeholders. While on the one hand, reputational risk is construed as a possible consequence of the occurrence of an adverse event related to one of the three aforementioned macro-risk families, on the other hand it is managed as an independent event precisely because its scope depends on the expectations of the stakeholders concerned, as well as the impact of the negative event. The chosen methodology has led to the identification of a specific set of reputational risks. This mapping derives from an analysis of a series of internal and external drivers including: negative events with an impact on reputation which have occurred in the sector worldwide over the last ten years; interviews with external Key Opinion Leaders on sector trends, especially on aspects of mobility and sustainability; interviews with internal Key Opinion Leaders with particular reference to the analysis of the probability of the occurrence of the risks identified.

The risk events identified were then subjected to the qualitative-quantitative assessments of a sample representative of the general public in the five key Pirelli countries, which led to the definition of the governance and management structures and the preparation of mitigation and/or crisis management plans.

Risks in terms of corporate social and environmental responsibility, business ethics, and third-party audits.

Risk management at Pirelli is enterprise-wide and includes the identification, analysis and monitoring of environmental, social, economic/financial and business ethics risks that are directly or indirectly attributable to the company, through Pirelli affiliates or from within relations with them, such as the sustainability of the supply chain.

Before entering a specific market, ad hoc assessments are carried out in order to assess any political, financial, environmental and social risks, including those connected with human and labour rights. Together with constant centralised co-ordination and monitoring, the ongoing verification of the application of Pirelli's requirements regarding financial, social (especially human and labour rights) and environmental sustainability and business ethics, occurs through periodic audits commissioned by Pirelli from specialised independent firms, and through extensive internal audit activities.

Particular attention is dedicated to the sustainability of both Pirelli sites and sites belonging to suppliers operating in emerging countries. During 2017 Pirelli again commissioned third-party audits of its suppliers, in addition to continuing the internal monitoring through the activities of the Internal Audit Department.

SYSTEMS FOR RISK MANAGEMENT AND INTERNAL CONTROL RELATIVE TO THE FINANCIAL REPORTING PROCESS

Pirelli has also implemented a specific and articulated system of risk management and internal control, supported by a dedicated information technology application, with regard to the process of preparing the the half-year, annual, separate and consolidated Financial Statements, in order to safeguard the company's assets, its compliance with laws and regulations, the efficiency and effectiveness of corporate operations, as well as the reliability, accuracy and timeliness of financial reporting.

In particular, the process of preparing financial reports takes place through the appropriate administrative and accounting procedures that have been drawn up in accordance with criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organisations of the Tradeway Commission.

The administrative/accounting procedures for the preparation of Financial Statements and all other financial reports are prepared under the responsibility of the Chief Financial Officer, who periodically attests to (in any case, in the Financial Statements/consolidated Financial Statements) their adequacy and effective application.

In order to enable the attestation by the Chief Financial Officer, the companies and the relevant processes that feed and generate the data for the Income Statement, the Statement of Financial Position or the Financial Statements have been mapped. The identification of companies that belong to the Group and the relevant processes is carried out annually on the basis of quantitative and qualitative criteria. The quantitative criteria involves the identification of the Group companies which, in relation to the selected processes, represent an aggregate value which exceeds a certain threshold of materiality.

The qualitative criteria involve the examination of processes and companies which, in the opinion of the Chief Executive Officer may present potential areas of risk despite not falling within the aforesaid quantitative parameters.

For each selected process, the risk/control objectives associated with the preparation of the Financial Statements and any related disclosures, as well as to the effectiveness/efficiency of the internal control system in general, have been identified.

For each control objective, specific verification procedures have been implemented and specific responsibilities have been assigned.

A supervisory system has been implemented on the controls carried out by way of a mechanism of chain attestations. Any problems that emerge within the evaluation process are subject to action plans whose implementation is verified in subsequent closings.

The quarterly issue of a declaration of the reliability and accuracy of the data supplied for the purposes of preparing the Group's consolidated Financial Statements is also ultimately provided by the Chief Executive Officer and the Chief Financial Officer of each subsidiary.

In the lead up to the dates of the Board of Directors' Meeting which approve the consolidated data at June 30 and December 31st, the results of the verification procedures are discussed by the Chief Financial Officer of the Group companies and the Chief Financial Officer.

The Internal Audit Department performs regular audits aimed at verifying the adequacy of the design and effectiveness of the controls on the subsidiaries, as well as the sampling procedures, selected on the basis of materiality criteria.

OUTLOOK FOR 2018

The forecast data for 2018 are in line with the path of growth outlined in the 2017-2020 industrial plan, with a strategy centered on the further reinforcement of High Value and confirm the expected operational performances notwithstanding greater forex volatility.

(in millions of euro)	**2017**	**2018**
Revenues	5,352.30	≥+6% (a/a) ~+10% net forex
Weight of High Value on revenues	*57.50%*	*~ 60%*
Adjusted ebit before non-recurring and restructuring charges and start-up costs	926.6	>1.000
Weight of High Value on Adjusted Ebit	*~ 83%*	*≥ 83%*
Start-up costs	*50*	*~ 40*
Adjusted Ebit before non-recurring and restructuring charges and PPA amortization	876.4	~1.000
Net financial position / Adjusted Ebitda before non-recurring and restructuring charges and before start-up costs	2,7X	~2,3X
CapEx on revenues	9.10%	~8%

On the basis of 2017 data, Pirelli expects for the end of 2018 the following forecast data:

- Revenue growth equal to or higher than 6% compared with 5.352.3 billion euro in 2017, equal to about +10% excluding the effect of forex volatility, mainly in the euro-dollar exchange;
- Growing weight of the High Value component, which will be equal to about 60% of total revenues at the end of 2108 (57.5% in 2017);
- Adjusted Ebit before non-recurring and restructuring charges and before start-up costs expected to be above 1 billion euro, compared with 926.6 million euro in 2017, with the High Value accounting for 83% or above (about 83% in 2017);

- Start-up costs declining to about 40 million euro (50 million in 2017);
- Adjusted Ebit before non-recurring and restructuring charges and amortizations identified in the context of PPA expected at about 1 billion euro, compared with 876.4 million euro at the end of 2017;
- Ratio between net financial position and Adjusted Ebitda before non-recurring and restructuring charges and before start-up costs at about 2.3 times, compared with 2.7 times in 2017;
- CapEx at about 8% of revenues (9.1% in 2017).

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On **January 10, 2018** Pirelli launched the sale of the ordinary shares held in Mediobanca S.p.A. and reserved for "qualified investors" in Italy and institutional investors abroad, pursuant to Regulation S of the United States Securities Act of 1933 as subsequently amended, and in the United States of America limited to "Qualified Institutional Buyers" pursuant to Rule 144 A of the United States Securities Act of 1933, through an accelerated book-building procedure. On January 11, 2018 Pirelli announced that it had successfully completed the disposal – through the aforesaid procedure - of 15,753,367 ordinary shares held in Mediobanca - which corresponded to approximately 1.8% of the share capital with voting rights, and which represented the entire investment held directly by Pirelli in Mediobanca. The total net income for Pirelli derived from the operation amounted to approximately euro 152.8 million.

On **January 22, 2018** as part of the EMTN (Euro Medium Term Note) program approved at the end of 2017 and subscribed to on January 10, 2018, Pirelli placed a bond loan with international institutional investors for a nominal amount of euro 600 million with a five-year duration at a fixed rate. The issue, with a yield of 110 basis points based on the official reference rate, allowed for the debt to be optimised by lengthening maturities and reducing the cost of the debt. As evidence of investor confidence towards Pirelli, at closing, the loan saw the collection of orders amounting to euro 2.4 billion on the part of 280 international investors. The effective yield at maturity is set as equal to 1.479%. The securities have been listed on the Luxembourg Stock Exchange. Furthermore, during the course of the first weeks of January, Pirelli initiated an operation to ammend the financial terms and conditions of the Group's main banking facilities - regarding a total notional amount of euro 4.2 billion which includes a revolving credit facility of euro 700 million - which will see an applied reduction to the interest margin of 30 basis points.

On **February 23, 2018** Pirelli International Plc (a subsidiary of Pirelli) decided to exercise the option of early repayment and the subsequent cancellation of the *"Pirelli International Plc Euro 600,000,000 1.750 per cent. Guaranteed Notes due November 18, 2019"*, listed on the Luxembourg Stock Exchange and maturing on November 18, 2019 (the *"Notes 2019").* The early repayment, which will cover all of the 2019 Notes, and which responds to the objective announced for the constant optimisation of the Group's financial structure, will take place through the exercise of the *"Make Whole Issuer Call"* which is provided for by the current Terms and Conditions of the loan. The operation is expected to be finalised by March 31, 2018.

On **February 26, 2018** the Board of Directors of Pirelli, in line with that which was announced during the IPO, approved the adoption of a new 3-year 2018-2020 monetary incentive plan (LTI Plan) – destined to all management (about 290 people) – correlated to the targets for the period 2018/2020 contained in the 2017/2020 industrial plan.

The LTI (*Long Term Incentive*) Plan was approved – also in accordance with article 2389 of the civil code – at the proposal of the Remuneration Committee and with the favourable opinion of the Board of Statutory Auditors, in relation to the subjects for whom this opinion is requested. In the part linked to *Total Shareholder Return*, the LTI Plan will be submitted for approval at the Shareholders' meeting called to approve results for the 12 months ended on 31 December 2017.

The LTI Plan, in line with the mechanisms of variable retribution adopted at the international level, is also based on the performance of Pirelli shares (*Total Shareholder Return*) allowing in this way the alignment of management and shareholder interests.

The LTI Plan – as in the past totally self-financed, in so far as the relative charges are included in the economic figures of the industrial plan – includes an on/off condition, represented by the company's deleveraging (*Net Financial Position/Ebitda Adjusted* ratio below 2 times on 31 December 2020) and the following targets:

- Group Return on Sales (ROS), with a weight at target of 30% of the LTI premium;
- Group "absolute" Total Shareholder Return, with a weight at target of 40% of the LTI premium;
- Group "relative" Total Shareholder Return compared with a selected panel of peers, with a weight at target of 20% of the LTI premium;
- Position of Pirelli on the *Dow Jones Sustainability World Index* ATX Auto Components sector, with a weight at target of 10% of the LTI premium.

The LTI Plan terminates on 31 December 2020 and sets in the second quarter of 2021 the date of the eventual payment of the medium/long term incentive matured, on condition that, on 31 December 2020, the relationship as an employee of the participant has not ended. The participants in the LTI plan include, among others, the *Executive Vice Chairman and Chief Executive Officer* of Pirelli & C., Marco Tronchetti Provera, the *Executive Vice President and Chief Financial Officer*, Francesco Tanzi; the *Executive Vice President and Chief Planning and Controlling Officer*, Maurizio Sala; the *Executive Vice President and Strategic Advisor Technology*, Maurizio Boiocchi; the *Executive Vice President and Chief Commercial Officer* Roberto Righi; the *Senior Vice President Manufacturing*, Francesco Sala; the E*xecutive Vice President Business Unit Prestige & Motorsport & COO Region Europe*, Andrea Casaluci and the *Executive Vice President Pirelli Digital*, Luigi Staccoli. The LTI plan also applies to senior managers and Executives of the Group (including board member Giovanni Tronchetti Provera) and can be also extended to those who, during the course of the 3-year period, assume, either through internal career growth or new hiring, an Executive position.

The LTI Plan is also aimed at retention. In the event that the employee relationship ends before the end of the 3-year period, with the exception of natural circumstances, the recipient's ceases to participate in the LTI Plan and as a consequence the LTI premium will not be provided, not even pro-quota. In the case of Board Members holding particular roles to whom specific attributions are delegated (it is the case of the Executive Vice Chairman and Chief Executive Officer Mr. Marco Tronchetti Provera) who cease in the role because their mandate has been completed and are not subsequently nominated, not even as board members, pro-quota payment of the LTI premium is foreseen.

For further information on the functioning of the LTI Plan, one may refer to the Remuneration Report which will be submitted (for the part relative to Policy in relation to Pirelli remuneration for

2017) for a consultative vote of the Shareholders' meeting called to approve results for the year ended 31 December 2017, as well as the illustrative report and the information document relative to the LTI Plan which will be made available to the public, under the conditions and modes called for by prevailing law, and also regulation.

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:

- **EBITDA adjusted:** the (EBITDA adjusted) is equal to the EBIT and excludes the amortisation of intangible and depreciation of tangible assets as well as non-recurring and restructuring expenses;

- **EBITDA adjusted without start-up costs:** the EBITDA adjusted without start-up costs is equal to the EBITDA adjusted but excludes the contribution of the start-up costs (equal to a total amount of euro 37.4 million) represented by the Cyber™ and Velo activities, and by costs for the conversion of Aeolus brand Car products, as well as costs sustained for the digital transformation of the Company;

- **EBIT:** EBIT is an intermediate measure, which is derived from the net income but which excludes taxes, financial income, financial expenses and the results from investments;

- **EBIT adjusted:** the EBIT adjusted is an intermediate measure, which is derived from the EBIT and which excludes the amortisation of intangible assets relative to assets recognised as a consequence of Business Combinations, as well as operational costs attributable to non-recurring and restructuring expenses.

- **EBIT adjusted without start-up costs:** the EBIT adjusted without start-up costs is equal to the EBIT adjusted but excludes the contribution to the start-up costs (equal to the total amount of euro 50.2 million) represented of the Cyber and Velo activities, and by the costs for the conversion of Aeolus brand Car products, as well as the costs sustained for the digital transformation of the Company;

- **Net income (loss) related to continuing operations (Consumer) adjusted:** the adjusted net income related to continuing operations is calculated by adjusting the net income (loss) related to assets in operation for the following items:

    - 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;

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

    - non-recurring costs/income recognised under taxes, as well as the tax impact related to the adjustments referred to in the previous points;

The following table shows the calculation of the net income (loss) related to continuing operations (Consumer) adjusted:

(In millions of euro)	**2017**	**2016**
Net income (loss) related to continuing operations	**263.3**	**164.0**
Amortisation of intangible assets included in PPA	109.6	104.6
Non-recurring and restructuring expenses	93.2	53.2
Net financial expenses	61.2	25.4
Tax	(140.5)	(50.6)
Net income (loss) related to continuing operations adjusted	**386.8**	**296.6**

- **Fixed assets related to continuing operations:** this measure is constituted by the sum of the items *"Property, plant and equipment", "Intangible fixed assets", "Investments in associates and joint ventures"* and *"Other financial assets";*

- **Provisions:** this measure is constituted by the sum of *"Provisions for liabilities and charges (current and non-current)"*, *"Employee benefit obligations"* and *"Provisions for deferred taxes";*

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

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

- **Net financial (liquidity)/debt position:** this measure is represented by the gross financial debt less cash and cash equivalents as well as financial receivables.

OTHER INFORMATION

ROLE OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for the strategic guidance and supervision of the overall business activities, has 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, as well as to exercise the control and direction of Pirelli.

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

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

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

- Audit, Risk, Sustainability and Corporate Governance Committee
- Remuneration Committee
- Committee for Related Party Transactions
- Nominations and Successions Committee
- Strategies Committee

For more details reference should be made to the section of this present Report titled *"Report on Corporate Governance and Ownership Structure"*, included in the Financial Stataments and published in the Governance section of the Company's website *(www.pirelli.com).*

INFORMATION ON THE SHARE CAPITAL AND OWNERSHIP STRUCTURE

The information referred to in Article 123 bis of Legislative Decree 24 February 1998 n. 58 are reported in the specific section of this present Report titled *"Report on Corporate Governance and Ownership Structure"*, included in the Financial Stataments and published in the Governance section of the Company's website *(www.pirelli.com).*

DEROGATION OF THE PUBLICATION OF INFORMATION

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

FOREIGN SUBSIDIARIES NOT BELONGING TO THE EUROPEAN UNION (NON-EU COMPANIES)

Pirelli & C. S.p.A. directly or indirectly controls some companies based in countries which do not belong to the European Community (Extra-EU Companies) which hold particular significance pursuant to Article 15 of CONSOB Regulation no. 20249 of December 28th 2017 concerning markets.

With reference to the data at December 31, 2017, the Extra-EU Companies controlled, directly or indirectly, by Pirelli & C. S.p.A. which are of relevance pursuant to Article 15 of the Markets Regulation are:

Limited Liability Company Pirelli Tyre Russia (Russia); Pirelli Pneus Ltda (Brazil); Pirelli Comercial de Pneus Brasil Ltda (Brazil); Pirelli Tire LLC (USA); Pirelli Tyre Co. Ltd (Cina); Pirelli Otomobil Lastikleri A.S. (Turchia); Pirelli Neumaticos S.A.I.C. (Argentina); Pirelli Neumaticos S.A. de C.V. (Mexico); and Pirelli Asia Pte Ltd (Singapore).

Also pursuant to the same regulations, the Company has put in place a specific and appropriate *"Group Operating Regulation"* which ensures immediate, constant and full compliance with the provisions contained in the aforementioned CONSOB regulation. In particular, the competent company departments ensure the timely and regular identification and disclosure of the Extra-EU Companies of relevance to the provisions of the Markets Regulation, and - with the necessary and appropriate collaboration of the companies involved - guarantee the collection of data and information and the assessment of the circumstances referred to in the aforementioned Article 15, thus ensuring the availability of the information and data supplied by the subsidiaries in the event of a request by CONSOB. A regular flow of information is also required to ensure that the Board of Statutory Auditors of the Company carry out the requisite and appropriate verifications. Finally, the aforesaid *"Operating Regulation",* consistent with the regulatory provisions, governs the making available to the public of the financial statements (Statement of Financial Position and Income Statement) of the significant Extra-EU Companies, prepared for the purposes of compiling the consolidated Financial Statements of Pirelli & C. S.p.A.

It shall therefore be noted that the Company is fully compliant with the provisions of Article 15 of the aforementioned CONSOB Regulation no. 20249 of December 28, 2017 and the subsistence of the conditions required by the same.

RELATED-PARTY TRANSACTIONS

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

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

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

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Pursuant to Article 5 paragraph 8 of CONSOB Regulation no. 17221 of March 12, 2010 on Related Party Transactions, and the subsequent CONSOB Resolution no. 17389 of June 23, 2010, it shall be noted that during the 2017 financial year, that no transaction of significant importance as defined by article 3 paragraph 1, letter a) of the aforementioned Regulation was submitted to the the Board of Directors of Pirelli & C. S.p.A. for approval.

Moreover, there were no Related Party Transactions that significantly affected the financial position or results of the Group. For information purposes, it is to be noted that during the month of March 2017, the two business areas of Consumer and Industrial, were definitively separated through the assignment to sole shareholder Marco Polo International Italy S.p.A., of all the TP Industrial Holding S.p.A. shares previously held by Pirelli & C. S.p.A. TP Industrial Holding S.p.A. the company which holds 52% of the share capital of Pirelli Industrial S.r.l. (today called Pmrometeon Tyre Group S.p.l.), is the company into which Pirelli's Industrial assets were merged.

The information on related party transactions required by CONSOB Communication no. DEM/6064293 of July 28, 2006 is presented in the Financial Statements, and in the Note titled *"Related Party Transactions"* in the Annual Financial Statements at December 31, 2017.

Related party transactions, are neither unusual nor exceptional, but are part of the ordinary course of business for the Group companies and are carried out in the interest of the individual companies. Such transactions, when not settled under standard conditions, or dictated by specific regulatory conditions, are in any case regulated by conditions consistent with those of the market. In addition, their execution was carried out in compliance with the Procedure for Related Party Transactions (*"OPC Procedure"*).

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

UNUSUAL AND/OR ATYPICAL TRANSACTIONS

Pursuant to CONSOB Notice no. 6064293 of July 28, 2006, it should be noted that during 2017 the Company did not carry out any atypical and / or unusual transactions, as defined in the aforesaid communication.

SAFETY POLICY DOCUMENT

Although the Decree Law of February 9, 2012, No. 5 (containing the "Urgent Provisions on Simplification and Development") converted with amendments by Law April 4, 2012, No. 35, repealed the obligation to prepare/update the Security Policy Document, it is to be noted that Pirelli & C. S.p.A. did however update the aforesaid document for the year 2017, in order to allow for the efficient monitoring of the adoption and compliance of the safety measures.

The Board of Directors

Milan, February 26, 2018

REPORT ON RESPONSIBLE MANAGEMENT OF THE VALUE CHAIN

Consolidated Non-Financial Disclosure pursuant to Legislative Decree of December 30, 2016, n. 254

METHODOLOGICAL NOTE

This section of the Annual Report 2017, entitled “Report on Value Chain Responsible Management” (hereinafter “the Report”), constitutes the “Non Financial Statement” of the Company pursuant Legislative Decree of December 30, 2016, no. 254 and explores the Sustainable Management Model adopted by Pirelli, the governance tools to support maintenance and creation of values, relationships with Stakeholders and related connection with the development of financial, productive, intellectual, human, natural, social and relational capitals, which was mentioned in the “Presentation of 2017 Integrated Report”.

The Report reflects the integrated Business model adopted by the Group, inspired by the United Nations’ Global Compact, the principles of Stakeholder Engagement set forth by the AA1000, and the Guidelines of ISO 26000. The content of the report is prepared in accordance with the Guidelines of the Global Reporting Initiative (GRI) in the Standards version, Comprehensive option, following the process suggested by AA1000 APS principles (*materiality*, *inclusivity* and *responsiveness*), and considering the principles of integrated reporting contained in the Framework of the International Integrated Reporting Council (IIRC).

The set of indicators covered by the Report is wider than the list of specific material issues indicated in the materiality matrix, this in order to provide a more complete and transversal view on the Company’s performance, for the benefit of all stakeholders.

The report shows the sustainability performance of the Group in 2017 compared to 2016 and 2015, with respect to the targets set for 2018 and/or long-term targets envisaged in the Sustainability Plan.

Following the change in the industrial scope that took place in 2017, which saw the exit of the Industrial Business, the historical values of the indicators were recalculated following the principles set out by the GRI, in order to guarantee the comparability of the same on the previous two years, or in respect to 2016.

The Report is published annually (the previous Pirelli Annual Report was published in March 2017 with reference to the year 2016) and is approved by the Group Board of Directors. It covers the entire perimeter of the Group Consolidated Financial Statements.

The information systems that contribute to collect the data accounted in the Report are: CSR-DM (Corporate Social Responsibility Data Management), HSE-DM (Health, Safety and Environment Data Management), SAP HR (SAP Human Resources) and HFM (Hyperion Financial Management).

The sustainability performance and GHG Emissions data accounted in the Report are subject to limited assurance by an independent firm (PWC S.p.A.) in accordance with the criteria indicated in the principle *International Standard on Assurance Engagements 3000 - Assurance Engagements other than Audits or Reviews of Historical Financial Information (ISAE 3000)*, issued by the *International Auditing and Assurance Standards Board*.

For further information, reference is made to the related Assurance Letter provided at the end of the Annual Report. Data on GHG emissions have also been subjected to a specific limited assurance as part of the communication process to the Carbon Disclosure Project (CDP).

The Report is structured into four main areas:

- an introductory section related to the sustainable management Model adopted by the Company, related Policies and activities of Governance and Compliance, Stakeholder Engagement, long-term planning;
- an "Economic Dimension", in which the distribution of added value is detailed along with the management and performance relating to customers and suppliers;
- an "Environmental Dimension", which describes the management of environmental aspects and impacts throughout the entire product cycle;
- a "Social Dimension", which brings together the paragraphs dedicated to: governance of human rights, the internal community and the external community.

At the end of the Annual Report 2017, before the third-party Audit Report mentioned above, the following summary Tables are available:

- a GRI Content Index, which shows the full list of indicators accounted based on the comprehensive GRI Standards option, indicating the relative page in the Annual Report 2017;
- a table of correlation between indicators accounted based on the comprehensive GRI Standards option and the United Nations' Global Compact Principles;
- a table of correlation between the performance/targets of the Group and the Sustainable Development Goals of the United Nations that the aforementioned performance and Targets impact on;
- a table of correlation between the information reported in the Annual Report and the topics indicated by the legislative decree no.254/2016.

For any clarifications and further information on the content of the Report, reference is made to the "Contacts" page of the section "Sustainability" of the website www.pirelli.com.

MANAGEMENT MODEL

The Sustainability Model adopted by Pirelli is inspired by the United Nations' Global Compact, the principles of Stakeholder Engagement set forth by the AA1000 and the Guidelines of ISO 26000.

Responsible management by Pirelli runs through the entire value chain. Every operating unit integrates economic, social and environmental responsibility in its own activity, while cooperating constantly with the other units, implementing the Group strategic guidelines.

The main management systems adopted by Pirelli include ISO 9001, IATF 16949, ISO/IEC 17025 in terms of Quality Management, SA8000® for the management of Social Responsibility at its subsidiaries and along the supply chain, OHSAS 18001 for the management of Occupational Health and Safety, ISO 14001 for environmental management, ISO14064 for the quantification and reporting of greenhouse gas emissions (GHG), the ISO 14040 family rules for the methodology for calculating the environmental footprint of the product and the Organization and specifically, ISO-TS 14067 and ISO 14046 for the determination of the carbon footprint and water resources (Carbon Footprint and Water Footprint). In February 2018 the Company has also obtained independent certification (from SGS Italia S.p.A.) regarding the compliance of its Sustainable Purchasing Management Model based on the ISO 20400 Standard and the independent certification (from RINA Services S.p.A.) of its system of rules and controls aimed at preventing corruption based on the ISO 37001.

Details on the coverage of these certifications and methodological reference tools have been given in the “Customers”, “Suppliers”, “Environmental Dimension”, “Industrial Relations” and “Occupational Health, Safety and Hygiene” sections of this report.

With reference to the Group Sustainability Governance, the Board of Directors of Pirelli & C. S.p.A., supported in its activities by the Audit, Risks, Sustainability and Corporate Governance Committee, approves the objectives and targets for sustainable management integrated in the Company Plan. The Board of Directors also approves Pirelli’s Annual Report, including the Non-Financial Statement, which is in turn subject to the supervision of the Board of Statutory Auditors within the terms established by legislative decree December 30, 2016, no. 254.

The strategic evolution of Group Sustainability is entrusted to the Sustainability Steering Committee, a body appointed in 2004, chaired by the CEO and composed of the Company’s Top Management representing all the organizational and functional responsibilities. The Committee meets ordinarily at least once a year.

The organisational structure is thus made up of Group Sustainability and Risk Governance Department that has oversight of the management at a Group level and proposes plans for sustainable development to the Sustainability Steering Committee. Sustainability Department receives support from the Country Sustainability Managers for overseeing activities covering all affiliates of the Group. The role of the Country Sustainability Manager is currently held by country CEOs, who are supported by their direct subordinates in operational management of country plans.

SUSTAINABILITY PLANNING

Specific operational steps aimed at continuous improvement in performance characterise the process of sustainable planning: evaluation of the context by benchmarks, dialogue with stakeholders, needs raised by internal functions, identification of risks and opportunities for growth, definition of projects and targets, implementation, monitoring and reporting.

The long-term sustainability objectives integrate the Industrial Plan and support the sustainable development thereof.

The Pirelli Sustainability Plan was updated in 2017, in full alignment with the Company's evolution and the related "High Value" development strategy (for further details, refer to the Investor Relations section of the Pirelli website).

The new 2017-2020 with selected targets for 2025 Plan replaces the 2013-2017 Plan with selected targets for 2020. In order to allow the appreciation of numerical trends in the long term, the base reference year for the environmental quantitative targets continues to be 2009 also in the new Plan.

The Plan has been developed in accordance with the "Value Driver" model drawn up by the UN PRI (United Nations Principles for Responsible Investment) and UN Global Compact and sets targets that combine growth, productivity, governance and risk management.

The targets and related performance (for extensive discussion of which reference is made to the related sections in this report) foresee, among other things:

- growth in Green Performance tyre revenues with 2020 target >50% of total sales and >65% of High Value products' sales;
- improvement of product performances in 2020:
    - car products (compared with 2009): reduction of average rolling resistance by 20% and by 14% for High Value products; improved of performance on wet surfaces by 15% and noise reduction by 15%;
    - moto products (compared with 2009): reduction of average rolling resistance by 10%, improved of 40% of performance on wet surfaces and 30% for mileage;
    - velo products (compared with 2017 - year of product launch): braking performance +5% and on wet surfaces +10%;
- process and product digital innovation;
- research and development of raw materials with low environmental impact: for specific product segments it is foreseen, by 2025 and compared with 2017, the doubling of the

weight of renewable materials used and the reduction by 30% of raw materials derived from fossils;

- reduction in the accident frequency index by 87% by 2020 compared to 2009;
- reduction of 17% in CO_2 specific emissions of 19% in specific energy consumption and 66% in specific water withdrawal by 2020 compared to the 2009 figure;
- zero waste to landfill;
- investment in employee training of at least an average of 7 man days;
- strengthening digital and cross-functional culture within the Company;
- adopting models that are ever more advanced for managing economic, social and environmental responsibility of the supply chain with particular attention to the indirect supply chain;
- implementation of the new Pirelli Policy on sustainable management of the natural rubber supply chain.

A presentation published on the Company's website (www.pirelli.com) is dedicated to the new Pirelli Sustainability Plan.

All Countries where the Group is present with commercial and industrial affiliates also have a Country Sustainability Plan with specific targets identified to align to the Group's sustainability objectives.

The targets of the Country Plans, transversal to management, include the constant monitoring of Compliance with the SA8000® Standard, the specific reduction in the accident frequency index, the specific reduction (weighted on the total finished product) in energy consumption and water withdrawal, the increase in waste recovery, control of the sustainability of the supply chain, dissemination and local implementation of Group Policies and engagement with stakeholders.

The performance of the Sustainability Plan of each Country is included in the Performance Management objectives of the related CEOs.

UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDGs)

The targets of the Sustainability Plan 2017-2020 with selected targets for 2025 contribute to the global effort to achieve the Sustainable Development Goals (SDGs) presented by the United Nations in September 2015 and intended to accompany the activities of sustainable companies until 2030.

In particular, it is possible to note the strong connection between the targets mentioned in the previous paragraph and the following SDGs:

- 3 - Good Health and Well-being;
- 4 - Quality Education;
- 6 - Clean Water and Sanitation;
- 7 - Affordable and Clean Energy;
- 9 - Industry, Innovation and Infrastructure;
- 12 - Responsible Consumption and Production;
- 13 - Climate Action

The Sustainable Objectives listed above are not the only ones in which the Company is engaged; in addition to the above, this Report describes initiatives and activities that refer to other SDGs:

- 1 - No Poverty, in the paragraphs on “Company Initiatives for the External Community”;
- 8 - Decent Work and Economic Growth, in the paragraphs dedicated to the Internal Community and in the paragraph “Our Suppliers”;
- 10 - Reduced Inequalities, in the paragraph “Diversity Management”;
- 11 - Sustainable Cities and Communities, in the paragraph “WBCSD” with reference to the “SiMPlify project”;
- 17 - Partnerships for the Goals, in the paragraphs “Road Safety”, with reference to the partnership with FIA, “Sustainability in the natural rubber chain”, with reference to the partnership with Kirana Megatara, and “WBCSD”, with reference to the “SiMPlify project”.

It is noted that the sub-paragraphs relating to “Corporate Initiatives for the External Community” indicate from time to time the main SDGs that the projects and initiatives described impact directly.

STAKEHOLDER ENGAGEMENT

The role of Pirelli in an economic and social context is tied to its capacity to create value through a multi-stakeholder approach, i.e. by sustainable and lasting growth that can reconcile the interests and expectations of all those with whom the Company interacts and especially;

- customers, since the Pirelli way of doing business is based on customer satisfaction;

- employees, who make up the knowledge asset and driving force of the Group;
- shareholders, investors and the financial community;
- suppliers, with which it shares a responsible approach to business;
- competitors, because improved customer service and market position depend on fair competition;
- the environment, institutions, government and non-government bodies;
- the communities of the various Countries where the Group operates on a stable basis, while being aware of its global responsibilities as a Corporate Global Citizen.

To the stakeholders mentioned, a paragraph is devoted within this report, to which reference is made for further qualitative and quantitative study.

The interactions that take place between stakeholders are informed by the AA1000 Model adopted by the Company and are analysed in detail in order to manage relations with them effectively and create sustainable and shared value.

Dialogue, interaction and involvement are calibrated to meet the needs for consultation with the various types of stakeholder and include meetings, interviews, surveys, joint analyses, roadshows and focus groups.

During 2017, particular importance was given to the consultation of the relevant Stakeholders in order to issue the Pirelli Policy on the sustainable management of natural rubber. The draft version of the Policy was presented to stakeholders in a consultation session held in Milan in September 2017, attended by international NGOs, Pirelli's main natural rubber suppliers, traders and farmers in the supply chain, automotive customers, international multilateral organizations. The Policy was then issued and the dialogue and consultation will continue in 2018 in order to draw up the Policy Implementation Manual (for more details on the sustainable management of natural rubber refer to the dedicated paragraph in this report).

Again in 2017, consultation meetings were held for the relevant national and regional Stakeholders in Russia and Argentina, in order to share the results and objectives of the sustainability plans of the affiliates and listened the expectations of stakeholders on the management of issues deemed relevant for the development of the Affiliate in the medium to long term. Similarly, in 2016 meetings were held with the relevant Stakeholders in Romania, Mexico and Germany. Among the issues discussed in the various countries are energy management, technical training and the availability of adequate skills in the population, road safety, circular economy, models of engagement of human capital, the environmental sustainability of cities, water and waste management.

The consultation of national and regional stakeholders will continue in 2018 in other countries where Pirelli operates.

Local feedback received from stakeholders contributed to the corporate evaluation of the priorities for action by influencing the development strategy set out in the Corporate Plan and in the Group materiality mapping, already the subject of the Global Stakeholder Dialogue held by Pirelli in Brussels in 2016. On that occasion, Pirelli consulted international Stakeholders of the Company including Suppliers, Customers, leaders of the economic and financial, academic, institutional and non-governmental world.

MATERIALITY ANALYSIS AND MAPPING

In 2016, Pirelli initiated and completed the process of updating the materiality mapping elaborated in 2013.

The materiality mapping stems from thorough Stakeholder Engagement activities that in 2016 led to compare the expectations of key stakeholders on a panel of sustainability issues with the importance that they play in the success of the business depending on the experience and expectations of the Top Management and Sustainability Managers that support the Top Management in the various Countries where Pirelli operates.

Given the complexity and the international extent of corporate stakeholders and the variety of their expectations, the panel of stakeholders of the Company from which feedback was requested included:

- the biggest original equipment customers;
- 1,800 end customers belonging to the most representative markets;
- the most important dealers;
- numerous employees in the various countries where the Group is present:
- several Group suppliers;
- the leading financial analysts;
- national and supranational institutions and public administrations;
- journalists from domestic and international newspapers;
- international and local NGOs present in the various Countries in which Pirelli has production activities;
- universities that have collaborations with the Group.

The stakeholders were involved through a request, in local language, for attribution of priorities for action on a selection of ESG (Environmental, Social, Governance) issues relevant to the global and sustainable development of the automotive and auto components sectors. The issues were pre-selected considering the risks and opportunities arising from regulatory developments, the expectations of the communities, government and other institutions, and financial markets. For this reason it shall be underlined that all the ESG elements pre-identified through the aforementioned analysis are relevant for the development of Pirelli, with higher or lower priority (evident from the position of the different elements inside the matrix), defined considering the results of the interviews to the Stakeholders and Management.

The topics submitted for evaluation by stakeholders are the following:

- **Product eco-innovation**: research & innovation commitment to improve product impact on the environment (e.g. by reducing the tyre rolling resistance in the use phase allowing for fuel saving and thus CO_2 emissions reduction, more mileage);

- **Product performance & safety innovation**: research & innovation commitment to improve product performance/safety for the driver (e.g. tyre performance in wet conditions, reduction of braking distance.);

- **Service to customers**: grant full “customer delight” with the most qualitative and innovative services, offer “the future” to today’s customers;

- **Raw materials eco and safety innovation**: research & innovation commitment to identify new materials that, compared to traditional ones, are impacting less on the environment while increasing safety during product manufacturing, use and disposal;

- **Circular economy/end of life tyres (ELT)**: commitment to responsibly manage resources and end of life tyres with the aim of maximising a safe reuse and recycling;

- **Disclosure and transparency**: company transparency in reporting economic, social and environmental performances, goals and challenges;

- **Business integrity**: company compliance with local and international laws, regulations, universal principles of fairness, morality and justice;

- **Responsible use of natural resources**: commitment to protect biodiversity and natural capital along the product life cycle, reducing water withdrawal, energy consumption, air and water emissions and increasing waste recovery;

- **Road safety**: commitment to spread road safety culture through training, awareness-raising campaigns and innovative technological solutions for sustainable mobility;

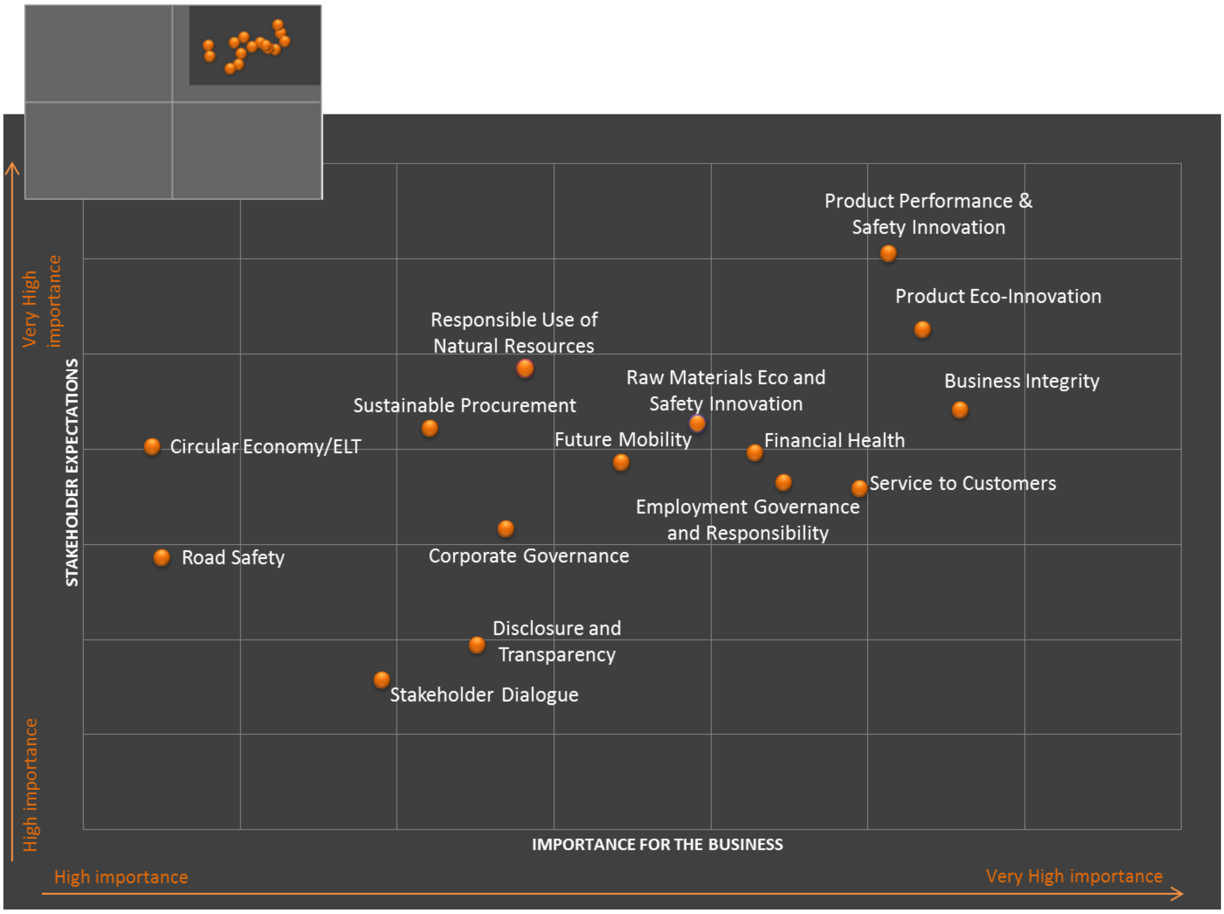
- **Employment governance and responsibility**: commitment to safeguard and continuously improve workplace environment, with a strong focus on health and safety, employees’ welfare & work-life balance, training & development, engagement and adequate remuneration, ensuring equal opportunities in the workplace while exploiting diversity as a business asset;

- **Future mobility**: company capability to setting a long-term vision, anticipating market expectations and adapting its business model to contribute to sustainable mobility evolution;
- **Stakeholder dialogue**: engage in a pro-active dialogue with company Stakeholders, from employees to communities, clients, end-consumers, suppliers, institutions and non-governmental organizations, to integrate their expectations into Company development Strategy;
- **Financial health**: ensure economic and financial stability in the medium-long term;
- **Corporate governance**: ensure a solid, sound governance aligned with international best practices;
- **Sustainable procurement**: align group supply chain to Pirelli's social, economic and environmental responsibility expectations, with a partnership approach aimed at creating shared innovation and value.

The priorities expressed by Pirelli and stakeholders on the aforementioned topics have been represented in a materiality matrix setting out, on the vertical axis, the expectations of several external and internal stakeholders, while on the horizontal one, the importance that the Management attributes to individual business success factors. The result of such consolidation was presented and approved at the Sustainability Steering Committee held in January 2017 and is outlined below.

Lastly, it shall be specified that consolidation of the materiality matrix at a Group level tends by its very nature to vary strongly from the materiality matrix made at single country level. Sustainability elements located in an area of low materiality in the Group level matrix may be found to be highly material for a number of Countries and specific stakeholders who are more directly involved.

The reporting of material issues, related risks and opportunities to these topics and the methods for managing them are outlined in this Report, in the paragraph "Operational Risks" (Directors' Report on Operations), as well as in the dedicated paragraphs below.



The expectations expressed by the stakeholders involved in defining the materiality matrix have been considered in the definition of the Group Sustainability Plan.

MAIN POLICIES

The Sustainable Management Model throughout the value chain is reflected in the main Group Policies, published on Pirelli's website in multiple languages and communicated to all employees in their local language.

In particular, the following Policies are recalled:

- the "Ethical Code";
- the "Code of Conduct";
- the "Anti-Corruption" Program;
- the "Global Antitrust and fair competition" Policy;
- the Group "Equal Opportunities Statement";

- the “Health, Safety and Environment” Policy;
- the “Global Human Rights” Policy;
- the “Product Stewardship” Policy;
- the “Global Quality” Policy;
- the “Green Sourcing” Policy;
- the “Social Responsibility for Occupational Health, Safety and Rights, and Environment” Policy;
- the “Global Tax” Policy;
- the “Institutional Relations - Corporate Lobbying” Policy;
- the “Global Personal Data Protection” Policy;
- the “Group Whistleblowing - Group Reporting Procedure” Policy;
- the “Sustainable Natural Rubber Policy”;
- the “Pirelli Intellectual Property (or IPR)” Policy.

The contents of the aforementioned Policies and the related methods for implementation are addressed in the sections of this report that deal with the related issues.

A focus on programs of Compliance “231”, “Anti-corruption”, “Privacy”, “Antitrust” and on the “Whistleblowing Policy follows.

Programs of Compliance 231, Anti-corruption, Privacy and Antitrust

With regard to the administrative responsibility of companies and bodies as provided for by Legislative Decree 231/2001 (hereinafter also the “Decree”), Pirelli has adopted an Organization and Management Model structured in a General Part, which includes a review of the regulations contained in the Decree, of the relevant crimes for the Italian companies of the Group and of the methods for adoption and implementation of the Model, and in a Special Part, which indicates the company processes and the corresponding sensitive activities for the Group’s Italian companies pursuant to the Decree, as well as the internal control principles and schemes to oversee these activities.

In August 2017, in response to the new types of crime introduced by the legislator and the organizational changes that have occurred, the risk analysis and the 231 Organizational Model were updated in order to guarantee the respect of the reference framework. Similarly, during 2017, training and communication activities on the current Organizational Model were completed for the entire population of the Group's Italian companies.

The process of analyzing and implementing the Group Anti-Corruption Program continued in 2017 in the main countries in which Pirelli operates. The Program, available in twenty-two different languages on the Pirelli website, is the corporate reference for the prevention of corruptive practices and represents a collection of principles and rules aimed at preventing or reducing the risk of corruption.

In the document, the Pirelli principles already set out in the Ethical Code and the Code of Conduct, including zero tolerance of "*will not tolerate corruption of public officials, or any other party, in any guise or form, or in any jurisdiction, or even in places where such activity is admissible in practice, tolerated, or not challenged in the courts*" are restated. Among the provisions of the Group Anti-Corruption Program are a prohibition in respect of recipients of the Ethical Code from offering gifts and other utilities that might meet conditions of a breach of rules, or which are in conflict with the Ethical Code, or may, if made public, constitute prejudice even only to the image of Pirelli. Additionally, "*defends and protects its corporate assets, and shall procure the means for preventing acts of embezzlement, theft, and fraud against the Group*" and "*condemns the pursuit of personal interest and/or that of third parties to the detriment of social interests*".

The quality of the system of rules and controls aimed at preventing corruption was confirmed by the obtainment of the ISO 37001 Certification on the Anti-Corruption Management System of Pirelli & C. S.p.A and Pirelli Tyre S.p.A, developed through the Group "Compliance Program-Anti Corruption" and integrated in the Organizational Model 231.

Pirelli analyses profiles of corruption risk in the main Countries where it is present (Italy and the Countries where it has an industrial presence), assessing compliance with local laws in force, verifying the adequacy of corporate oversight updating the risk analysis where there is a change in the perimeter due to the "entry" of Countries of "high risk" (on the basis of the Transparency International index) and defining training and awareness programs where fitting.

More especially, the analysis of risk profiles is implemented by Pirelli considering:

- the perceived risks deriving from a combination of a level of perceived corruption, associated with the Corruption Perception Index calculated by Transparency International, with the perception of Management as to the level of risk in each country;

- the adequacy of safeguards against vulnerability derived from combination of the guaranteed protection in areas deemed to be exposed to contingent corruption risks associated with the benchmark provided by the Internal Audit Function on the Internal Control System.

In 2018, the extension of the control activities on anti-corruption aspects will continue, as well as the implementation of specific training activities, with regard to some of the Pirelli Group's most important countries, considered priority in receiving such training due to the specificities of local regulations.

Referring to the contribution made to the External Community, Pirelli has for many years adopted internal procedures defining the roles and responsibilities of the function involved, and the operational process of planning, achieving, monitoring and control of results of initiatives supported. The Pirelli procedure specifies that initiatives may not be promoted for the benefit of beneficiaries in respect of whom there is direct or indirect evidence of failure to abide by the human rights, workers, the environment, or business ethics. The "Pirelli Values and Ethical Code" set forth in their turn that the Company "*does not provide contributions, advantages, or other benefits to political parties or trade union organizations, or to their representatives or candidates, this without prejudice to its compliance with any relevant legislation*".

Concerning institutional relations of the Group, and especially activities of corporate lobbying, Pirelli has adopted a Corporate Lobbying Policy for ensuring this is done in abidance with principles ratified by the Ethical Code and the Group Anti-corruption Program, in line with the principles of the International Corporate Governance Network and in compliance with laws and regulations current in countries where Pirelli operates.

In terms of prevention and control, the audits carried out by Internal Audit Department at Group affiliates include monitoring of crime risks, among which also the risk of corruption and fraud figure.

In this regard, it should be noted that, with reference to 2017, on the basis of the reports received via the whistleblowing reporting channel, 4 cases of fraud to the detriment of the company were ascertained. There were no cases of public legal action against the company concerning corruption practices.

During the course of 2017, implementing also proceeded of the Functional Segregation model (so-called *Segregation of Duties*) aimed at strengthening the system of internal controls and preventing the committing of fraud.

Also in 2017, Pirelli supported the activities of Transparency International, and which Pirelli subscribes to as a supporter in the areas of projects in the matter of education aimed at promoting an active role of civic and moral education in strengthening civil society against crime and corruption, believing that it is only through proactive and firm actions of value promotion can a general improvement in the quality of life be achieved.

With reference to *Privacy and protection of personal data*, in 2017 and in compliance with the new EU Regulation 2016/679 on personal data protection ("GDPR"), Pirelli initiated the necessary adaptation activities required by the new regulatory requirements, governing the model of personal data management at Group level and coordinating the development of activities in the individual European countries in which it operates.

In line with the provisions of its Global Antitrust and Fair Competition Policy, Pirelli operates in accordance with fair and proper competition for the purpose of development of the company and at the same time, the market. In this context, Pirelli constantly updates the Group's Antitrust Program in line with international best practices.

In 2017, Pirelli continued to implement the Antitrust Program in the various countries in which it operates: online training activities were carried out, as well as continuous business assistance activities to facilitate the management of antitrust issues in the daily conduct of business activities or relations with other operators.

In 2017, Pirelli was not involved in any antitrust proceedings or investigations as participants in anti-competitive conduct.

Focus: Reporting Procedure - Whistleblowing Policy

The Group Whistleblowing Policy, supporting the Group internal compliance and control systems, was revised in 2017. It is directed both towards employees and external stakeholders. Notified to all employees in local language and made available to the External Community on the Pirelli Internet website, the Policy governs the manner of reporting breaches, suspected breaches and inducement to breaches in the matter of law and regulations, principles ratified by the Ethical Code, including, obviously, equal opportunities, principles of internal auditing, rules, corporate policies and procedures, and any other behaviour of commission or omission that might directly or indirectly lead to economic-equity detriment, or even one of image, for the Group and/or its companies.

The Whistleblowing reporting channel is also expressly referred to by the Sustainability Clauses included in each order/supply contract as well as by the Group Policies published on the Company's website.

Reports may be made also in an anonymous form and protection of utmost confidentiality is at all times restated, as too is zero tolerance in respect of acts of reprisal of any kind with respect to those who report or who are the subject of reporting.

Reports may concern directors, auditors, management, employees of the Company and, in general, anyone operating in Italy or abroad for Pirelli or engaging in business relations with the Group, including partners, customers, suppliers, consultants, collaborators, auditing companies, institutions and public entities.

The e-mail ethics@pirelli.com is made available to anyone wishing to proceed with reporting, which is valid for all Group affiliates, as well as for the External Community, and is centrally managed by the Group Internal Audit function which at the Pirelli organization, functionally reports to the Audit, Risks, Sustainability and Corporate Governance Committee, composed of only independent directors, and to the Board of Statutory Auditors of Pirelli & C. S.p.A.

Internal Audit Department has the task of analysing all reports received, even involving corporate functions felt to be concerned for the activities necessary of verification, in addition to scheduling a specific action plans. In the event of a report being found to be grounded, adopting fitting disciplinary and/or legal actions is foreseen for the protection of the Company.

In respect of reports received in the 2017, 2016 and 2015 years, here below is a summary table and then a further study of reports from 2017[15].

	2017	2016	2015
Total reports	34	38	17
Of which anonymous	7	7	4
Of which filed closed being absolutely generic.	1	5	1
Of which grounded	9	23	4
Countries of provenance of the reports ascertained	Brazil, Chile, Spain, United States and UK	Brazil, Italy, Argentina, Chile, Saudi Arabia, India	Brazil, Argentina, Peru, Germany
Matter alleged in the reports ascertained	Violation of the Ethical Code and/or company procedures, fraud to the detriment of the Company, claims by employees, discrimination.	Irregular conduct of employees, cases of poor service to customers and challenges with suppliers (a case of late payment and a case of non-payment of services not requested by the company).	Irregular behaviour of employees, one case of inefficiency towards customers
Outcome of cases investigated	Review and integration of processes where deemed fitting, orders by the functions concerned and *Human Resources* Department.	Review and process integration where deemed fitting, orders by the functions concerned and Human Resources Department, actions to satisfy customers and suppliers.	Review and integration of processes where deemed fitting, orders by the functions concerned and *Human Resources* Department, actions to satisfy customers.

During the course of 2017 the Whistleblowing procedure was activated 34 times. In particular:

- the 34 reports were from 10 different Countries (Brazil, Italy, Argentina, Chile, Russia, Turkey, Germany, Spain, South Africa, United States and UK);
- 76% of the reports (26 cases) were forwarded using the email address ethics@pirelli.com provided, whereas 24% (8 cases) by sending a letter to management which dealt with informing Internal Audit Department as per corporate rules;
- 79% of the reports (27 cases) were signed whereas the remaining 21% (7 cases) were received in anonymous form;
- among the reports signed, 9 were activated by external stakeholders, 5 are related to violations of the Ethical Code and/or company procedures, 3 cases attributable to fraud to the detriment of the Company, 1 case relating to reports on product quality. It is objectively

[15] The data reported is related only to the consolidated scope of the Consumer business. Furthermore, with regard to the 4 reports that were still underway at the reporting date of the 2016 Annual Report, it should be noted that following the conclusion of the verification activities, 2 cases were filed for absolute generality and for the remaining 2 cases there were no objective elements of a finding such as to consider the facts alleged to be truthful.

impossible to confirm that there were, in absolute terms, no further reports from external stakeholders received as a number of reports were, as specified, anonymous.

Of the 34 reports received during the 2017 year, at the beginning of 2018, 7 were found to be at the verification and in-depth investigation stage, whereas 27 were found to have been concluded. In respect of these latter, specific activities of verification involving, where necessary, the corporate functions concerned were conducted.

With regard to the 27 reports for which the checks were completed, based on the analyzes carried out and the documentation made available during the assessment, it emerged that:

- in 18 cases objective corroborating evidence was detected such as to hold the facts contended in the reports received to be true;
- in the remaining 9 cases, the substantial truthfulness of the facts attributed was found, in particular, 4 cases concerned fraud to the detriment of the Company, 2 cases were related to discriminatory attitudes, 2 cases were related to claims by employees and 1 case was concerning violations of the Ethical Code and/or company procedures. The Company has taken action for all cases, intervening with disciplinary sanctions (warnings and/or dismissals) and with actions aimed at removing the causes of the complaints and/or aimed at improving the internal control system.

The Internal Audit Department periodically reported the reports received and the progress of the analyses carried out to the competent corporate bodies of Pirelli & C. S.p.A.

ECONOMIC DIMENSION

SHARING OF ADDED VALUE

The Values and Ethical Code of Pirelli ratify the undertaking of the Company to operate to ensure responsible development over the long term, while being aware the bonds and interactions that apply between economic, social and environmental dimensions. This is to wed the creation of value, progress of the company, the attention given to stakeholders and raising standards of living and quality of the environment.

Added value means the wealth created over a given reporting period, calculated as the difference between the revenues generated and the external costs sustained in the period. Distribution of added value among stakeholders allows the relations there are between Pirelli and its main stakeholders to be expressed by focusing attention on the socio-economic system in which the Group operates.

Distribution of added value (in thousands of Euro)

		2017		***2016***	
	GROSS GLOBAL ADDED VALUE	**2,079,628**		**2,002,436**	
A	Remuneration of personnel	(1,034,647)	49.8%	(986,308)	49.3%
B	Remuneration of Public Administration	(40,848)	2.0%	(75,256)	3.8%
C	Remuneration of borrowed capital	(362,610)	17.4%	(427,190)	21.3%
D	Remuneration of risk capital	-	0.0%	-	0.0%
E	Remuneration of the company	(634,727)	30.5%	(506,571)	25.3%
F	Contributions for the benefit of the external community	(6,796)	0.3%	(7,111)	0.4%

The added value created in 2017 recorded an increase of 3.9% over 2016. In particular, the change was affected by the reduction of the remuneration of credit capital and the reduction of the remuneration of Public Administration. Trends in the items determining gross global added value as shown above, are set out in the Consolidated Financial statements of this report, to which reference is made for further fitting study.

Contributions to the external community

The impact of expenses for corporate initiatives in 2017 for the external community on the net result of the Group amounted to 3.9% (4.8% in 2016). Below are the expenses incurred in 2017 and 2016.

Contributions for the external community (in thousands of Euro)

	2017	*2016*
Training and research	877	806
Social-cultural initiatives	4,877	4,859
Sports and solidarity	1,042	1,446
Total contributions for the external community	**6,796**	**7,111**

For further study of the main initiatives supported by the grants indicated above and relating to the model of governance, please refer to the paragraphs in this report devoted to “Company Initiatives for the External Community”.

In line with what is set forth in the Ethical Code, Pirelli “*does not provide contributions, advantages, or other benefits to political parties or trade union organizations, or to their representatives or candidates, this without prejudice to its compliance with any relevant legislation*”.

LOANS AND CONTRIBUTIONS RECEIVED FROM THE PUBLIC ADMINISTRATION

Romania. In March 2012 the European Investment Bank (EIB) disbursed Euro 10 million to Pirelli Tyres Romania S.r.l. as last tranche of a financing agreement for a total of Euro 50 million signed in 2009, granted to expand the Pirelli plant in Slatina, Romania, for the production of car tyres and light commercial vehicles. This financing sits alongside a similar one granted in 2007 and fully reimbursed at the end of the 2013 accounting period and received to support the construction of the same production site. The first tranche of the financing signed in 2009, amounting to Euro 20 million, was repaid in May 2017.

Also reported is: S.C. Pirelli Tyres Romania S.r.l. received Euro 54.8 million in the aggregate from the Romanian state by way of incentive for local investment and of which 8.7 million was in 2017.

Italy. In 2017, Pirelli Tyre S.p.A. received from the M.I.U.R. – Ministry of Education, University and Research - a contribution of Euro 1 million as an incentive for the development of an R&D project for the development of innovative materials in the tyre construction process.

Mexico. Since 2012 Pirelli Neumaticos S.A. de C.V. (Mexico) has received grant contributions from the Government of the State of Guanajuato (Mexico) for investments and generation of employment for Euro 12.5 million in the aggregate The company also received grant contributions from the Mexican Federal Government for investments and generation of employment related to the ProMéxico project totalling Euro 8.8 million, of which 0.7 million received during 2016 (the incentives were paid starting 2012). During the course of 2017 no further government contributions were received.

RELATIONS WITH INVESTORS

Pirelli considers financial communication to be of strategic importance as a fundamental tool for building relations of trust with the financial community. In accordance with what is set out in the Values and Ethical Code of the Group, Pirelli keeps a constant dialogue going with Shareholders, Bondholders, Institutional and individual investors, Analysts via the Investor Relations function and Group Top Management in order to promote communication that is between equals transparent, timely and accurate.

The company returned to the stock market on October 4, 2017, just two years after the public tender offer promoted by ChemChina with Camfin shareholders, following a reorganization process that led to the separation of the Industrial business and the focus on the Consumer business, enriched with new skills also through the creation of new business functions (Consumer Marketing, Digital, Data Science, Cyber™ and Bike).

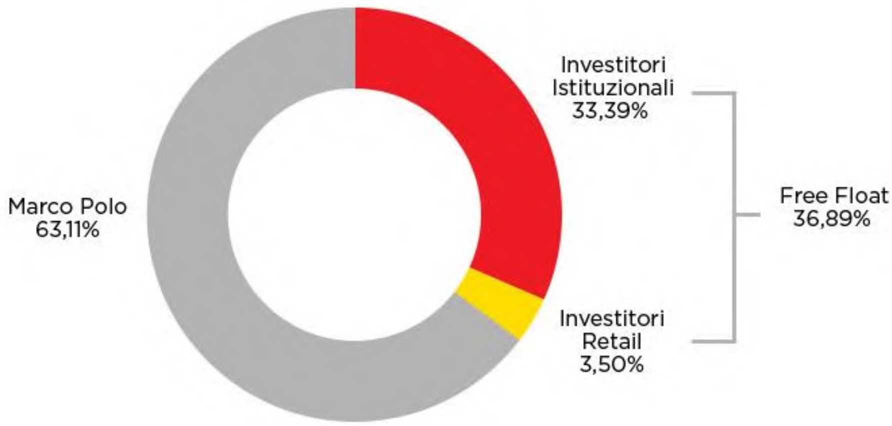
During these 2 years, the company, although not listed, has kept the dialogue open with the financial market through a continuous update on the transformation process, on the evolution of the business, on the financial results and related to sustainable performance, on the occasion of the publication of annual and infra-annual financial results.

The Financial Communication activity intensified during 2017 in view of the company's return to the stock market. There have been numerous opportunities to meet with the main institutional investors in Europe (Milan, London, Paris, Frankfurt) and in North America (New York, Boston, San Francisco, Los Angeles, Toronto). Moreover, particular importance was attributed to digital communication with the enrichment of the "Investors" section of the website of more information on business positioning and on Pirelli's strategy compared to its competitors.

The success of the IPO is evidenced by the high demand from investors:

- 2.4 times the maximum amount reserved for the Institutional Placement (90% of the Sale Offer);
- 1.4 times the amount allocated to Individual investors.

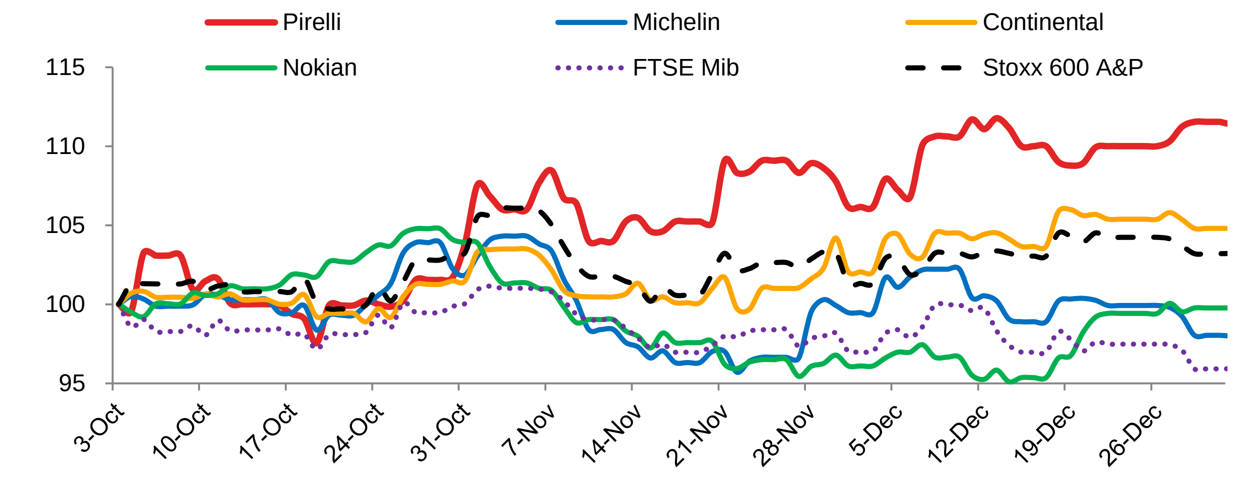
Following the IPO, the Pirelli float is equal to 37%, divided as shown in the following table.



Investitori Istituzionali	Institutional Investors
Investitori Retail	Retail Investors

The interest of the financial community towards Pirelli is proven by the broad coverage of the stock by 15 of the main national and international investment banks and by the inclusion of the company in the FTSE MIB, Dow Jones 600 A&P indices and in the most recent FTSE Italian Brands index. The assessment (Target Price) and analysts' estimates (Consensus) are published on the company website and updated periodically.

Pirelli closed 2017 with a market value of Euro 7.13 billion (average market capitalization in December), increasing its value by more than 12% from its listing, outperforming the Italian stock market index (FTSE MIB -2.7%), the sector (EU A&P 1.9%) and peers in the same period.



Source: Bloomberg

In January 2018, Pirelli was declared the world's Sustainability Leader in the Auto Components sector, and Gold Class Company in the prestigious Sustainability Yearbook 2018 published by RobecoSAM, the Company responsible for assessments for inclusion in the Dow Jones Sustainability Index. Pirelli obtained Auto Components worldwide leadership, with a score of 83 vs. industry average of 42. The RobecoSAM analysis was conducted in 2017 and involved 2,479 companies belonging to 60 different industrial sectors.

ROBECOSAM
Sustainability Award
Gold Class 2018

For further information, reference is made to the Investors section of the Pirelli website, which offers a comprehensive and constantly updated source of information on matters of interest to shareholders and the financial community.

OUR CUSTOMERS

Pirelli is the only global tyre manufacturer entirely dedicated to the Consumer market, which includes **tyres for cars, motorcycles and bikes**. The company is focused on the **High Value market** and engaged in the development of innovative tyres and **Specialties** and **Superspecialties** at the service of an extensive product portfolio.

Sales channels include:

- Original Equipment, addressed directly to the world's leading car makers;
- Replacement, for the replacement of tyres on vehicles already in circulation.

Within Original Equipment for Cars, SUV and light commercial vehicles, in Europe Pirelli can count on a market share of Premium customers of 23%.

In Original Equipment, Prestige segment, which is the highest of the range, Pirelli exceeds 45%, an increase compared to 39% in 2011.

As part of Replacement, there are two broad types of customers: Specialised Resellers and Distributors. Specialised Resellers are tyre specialists operating on the market in the role of independent businesses; specialised dealers constitute a fundamental point of contact between the Group and the end consumer. Particular attention is devoted to specialised dealers in terms of shared development to enhance the product offering integrated with a high quality level of service, in compliance with Pirelli values and consumer expectations. In 2017, Pirelli can count on about 14,600 Loyal Resellers globally, with a particular concentration in Europe, Asia-Pacific and South America (about 75% of the total points of sale). The degree of affiliation varies according to the market and the very presence of Pirelli, ranging from a softer loyalty (fidelity Club), which has as main objective for Pirelli territorial coverage and for the dealer sales support; to franchise programs, in which through the exclusive of the partnership there is strong focus on business development point of sale overall; up to the maximum degree of affiliation, represented by the presence of points of sale owned by Pirelli (303 points of sale worldwide).

"Distributors" are partners who are fundamental to guaranteeing continuity in the supply of tyres to other specialised and non-specialised resellers. They do so by offering local delivery and distribution services throughout the entire territory.

High Value approach to future mobility

Pirelli carefully monitors the evolution of the automotive market and more generally the evolution of mobility. Future mobility trends such as digitization, electrification, management of shared transport and driving automation, are gaining more and more momentum and will lead to an evolution of the mobility sector whose speed is unprecedented in the sector.

The centrality of the Customer, historically fundamental value for Pirelli, follows the future trends and sees the Company enrich its product offer in line with its High Value development strategy.

This is the case of the launch, in 2017, of the PIRELLI CONNESSO™ concept, the sensorized tyre able to update the user in real time on the wear, pressure and temperature conditions and to enable services, whose commercialization is expected in 2018 (starting from the United States and followed by the main European countries).

Pirelli has also returned to the cycling world, thanks to the launch in 2017 of the new line of tyres dedicated to road racing bikes: PZero™ Velo™ (available from September 2017) and with CYCL-e™, the urban tyre from 2018. In addition to the traditional distribution channel and specialized dealers, Pirelli immediately oriented itself to the online channel, in line with the strong propensity to purchase online by end consumers. In addition to the presence on the main sales platforms for cycling products, Pirelli created its own eCommerce channel international from the outset and dedicated to bike tyres, to offer its own range of products and exclusive editions *beyond the tyre.*

Pirelli also innovates in terms of product customization. In 2017, Pirelli presented the concept of colored tyres, in anticipation of sales that will take place in 2018. Pirelli Color Edition offers the exclusive ability to customize tyres to make your car unique by choosing from hundreds of colors. Thanks to the experience gained in F1® competitions, Pirelli has developed an innovative labelling process that guarantees quality, resistance and stability of the color applied to the side. The colored tyres also present innovative technologies with dedicated compounds, combining not only high performance but also style and design, to enhance the sporty character and uniqueness of each tyre.

Pirelli Color Edition marks a turning point not only in terms of the product customization offer, but also in terms of how tyres are purchased. A B2B approach is now accompanied by a B2C approach, with the possibility for the end customer to purchase colored tyres directly from the consumer platform created for this purpose. The range available initially covers the main models of Prestige car manufacturers, and interested users have the opportunity to enter pre-orders pending the official opening of sales that will take place in 2018.

The centrality of future mobility in the High Value strategy saw the introduction in 2017 of a specific figure in this sense in the company organizational framework, the Future Mobility Manager, which has the task, within the Sustainability and Risk Management Department, to monitor these trends in the sector and to coordinate the related business activities accordingly.

Customer Focus

Customer focus is a central element of the Group "Values" and "Ethical Code" and the Quality Policy and Product Stewardship Policy of Pirelli. These documents outline the company positioning and are therefore communicated to all employees in the local language and are available in many languages on the Pirelli website.

Among the essential elements of the Pirelli approach, the following are highlighted:

- consideration of the impact of its actions and behaviour on the customer;
- exploitation of every opportunity offered by doing business to satisfy the customer's needs;
- anticipation of customer needs;
- safety, reliability, high performance of products and services offered, in accordance with local regulations and more developed national and international standards applicable, as well as excellence of production systems and processes;
- information to customers and end users to guarantee an adequate understanding of the environmental impacts and safety features of Pirelli products, as well as of the safest ways of using the product.

Pirelli also adopted a clear procedure to grant a feedback to any customer claim, which involves immediate intervention with respect to the interlocutor.

The "General Conditions of Supply" applied by the Group companies are informed in accordance with the principles mentioned above.

Transparency in communication to the customer

In the context of advertising communication, Pirelli has defined a traceable and transparent process for all decisions relating to advertising campaigns and related media planning, both in the case of promotional activities managed centrally and locally with central supervision.

In terms of production of advertising campaigns and media planning, Pirelli uses specific auditing and certification structures that place the Company at the highest levels in terms of transparency and traceability in its advertising investment strategies.

The Pirelli Group endorses the IAB (Interactive Advertising Bureau) and is associated with the UPA (Associated Advertising Users), among other things dedicating ongoing commitment to support the Advertising Code of Corporate Governance of the association. Through the UPA, Pirelli is a member of the World Federation of Advertisers (WFA), which commits participating firms to pursue honest, truthful and fair competition and communication in compliance with the code of conduct and self-regulation to which they adhere. Consumer protection is also guaranteed by the choice of suppliers in the communication sector (creative agencies, media centres, production companies) that in turn belong to business and professional associations governed by ethical codes regarding communication.

Compliance

Also in 2017:

- no cases emerged of non-compliance with regulations or voluntary codes concerning marketing activities, including advertising, promotion and sponsorship;
- no significant final penalties were levied and/or paid relating to infringement of laws or regulations, including those relating to the supply and use of the Group's products and/or services;
- no cases emerged of non-compliance with regulations or voluntary codes concerning information and labelling of products/services;
- no cases of non-compliance with regulations or voluntary codes concerning health and safety impacts of products/services during their life cycle;
- there were no documented complaints concerning both violation of privacy and/or the loss of consumers' data;
- no sales of any of the products sold by Pirelli were not banned or disputed.

Information to Customers

Pirelli provides information to customer-distributors and end customers on a continual basis. This information concerns both the product and related initiatives, and is disseminated in a variety of ways, including online communication, and this is complemented by information distributed in hard copy format, as well as the range of off-line and online training activities. In the general scenario, online is confirmed as a key touchpoint in the process of searching and buying tyres. There are 43 product sites located by language (25 different languages), offer and promotional activities, which aim to inform and direct the consumer to the points of sale (about 63,500 dealers inside the dealer locator) where to buy the tyres, in all the countries in which Pirelli commercializes its products. In 2017, these sites attracted 8.5 million users over 11 million sessions, for a total of about 37 million pages visited.

In 2017, Pirelli continued to inform its customers with a digital newsletter, Paddock News, the main objective of which is to provide an additional means of communication and contact with the trade, consisting of an international edition, coordinated centrally from the headquarters, and local-language edition for each market in which Pirelli operates. Paddock News features a gallery of new products and news from the Company and its Business Units: Car, Motorcycle, Motorsport and Bike. In terms of paper publications, the company magazines "*Pirelli World*" and, for Brazil, "*Giro*", continue to play a key role.

Of particular relevance in terms of communication on product developments is participation in the main Autoshow events.

At the Geneva Motor Show 2017, Pirelli launched the *Colored Edition* tyres in addition to the PIRELLI CONNESSO™ concept. Also in 2017, Pirelli took part in the most important events and *Consumer Prestige*, such as the *Salon Privé* (England) and the *Pebble Beach Concours D'elegance* (California).

Again in 2017, by officially introducing its entry into the world of bikes, Pirelli took part in *Eurobike*, the main international cycle fair, where it presented the newest range of Road Racing PZero™ Velo products.

The training of customers on the product even in 2017 was intense in all markets, both at the points of sale and at the Pirelli sites with visits to the factory, R&D laboratories, and simulations of tyre performance. During the year, more than 18,000 dealers of the 22 main markets participated in classroom training courses on Pirelli products, technology and tyre sales; some course included visits to the plants in Settimo Torinese (Italy) and Izmit (Turkey) in addition to the circuit in Vizzola (Italy) and the R&D Center in Milan. Information and training are therefore conducted with a 360º approach.

In 2017, the new online training site TYRE-CAMPUS™ "The road to Success" was launched, which now covers 23 markets in 16 different languages. The new site currently includes about 11,800 points of sale registered for a total of over 12,000 active users. Product training is provided in an engaging and customized manner on the various types of distribution channel, however maintaining a homogeneous approach; thus, no longer a single path that leads to the final objective of certification, but several paths linked to individual product families.

In order to support the product trainers, a library of technical content was developed for classroom courses and the instrument "TYRE CAMPUS™ Houses", which aims to concretely demonstrate the characteristics of Pirelli tyres, the raw materials used for their manufacturing and the differences between the different tread. With these tools, Pirelli trainers around the world have concrete and innovative support that allows customers to personally understand and verify the key characteristics and advanced technology of Pirelli products.

Pirelli also continues to certify all its dealers who complete the product training successfully. The certificate is then indicated in the dealer locator with a plaque placed at the point of sale. This way, consumers can recognize which dealers are the most specialized and qualified on the technical features and benefits of all the products of the Pirelli range. The launch project in the various markets of the new platform is at an advanced stage, during 2018, it is planned to complete the launch.

Listening and exchanging ideas with Customers as sources for continual improvement

Customer relationships are managed by Pirelli principally through two channels:

- the local sales organization, which has direct contact with the customer network and which, thanks to advanced information management systems, is able to process and respond to all information requirements of the interlocutor on site.

- the Pirelli Tyre Contact Centers, about 30 worldwide with more than 150 employees, performing business operations in IT support and order management (inbound), telemarketing and teleselling (outbound).

In 2017, all the major social media channels of Pirelli have seen a significant increase in the fan-base. Pirelli's presence on Facebook has reached over 2.2 million followers, with a growth of 11% over the previous year. Also on Twitter, Pirelli accounts saw an increase in followers, reaching over 240,000 people, over 13% more than in 2016. The leap forward on Instagram is very important, where Pirelli channels reach over 371,000 followers, with an increase, year on year, of 42%. Finally, Pirelli has more than 14,550 followers on the leading online video platform, YouTube.

The success is also confirmed of the www.pirelli.com website, the digital Pirelli magazine launched in late 2015. In 2017, on the new digital communication platform, Pirelli has published more than 400 articles - regarding product, motorsport, culture and sustainability -, with nearly 5 million visits, of which nearly half attracted through social networks and about 3.3 million unique users, with an increase of 48% compared to 2016.

As for the Motorcycle world, the digital projects of the Metzeler and Pirelli brands are especially important. For Metzeler, in addition to the website present in 10 countries worldwide since 2012, a page with about 386,600 fans is active on Facebook, which since 2015 has been converted into a Global Page comprising 11 local pages dedicated to the various countries with contents in the relevant local languages. To keep relations with consumers active, the @metzelermoto channels on Twitter, Instagram and Youtube have been active for years, as well as Facebook, with more than 886,700 fans connected to the Global Page, which includes 11 local pages. Special attention is given to the Asian countries in which Pirelli is developing its presence on social media. The Diablo Super Biker mobile application is also of great importance, currently accounting for more than 502,000 downloads, and is greatly appreciated by the biker community.

The CRM project, in turn, has a priority position considering the passion for the Pirelli product of the community of registered motorcyclists: about 316,000 for Pirelli Motorcycle and about 53,800 for Metzeler.

Pirelli Velo has inaugurated its entry into the bike market with a dedicated web magazine named *Velo World,* which constitutes inspirational source of information and stories about cycling and new trends. Immediately active on Instagram and Facebook, Pirelli Velo bases its communication on digital activation in line with the propensities of its target consumer. In 2018, specific digital channels will be activated to further share the cycling passion with users.

Also in 2017, the end customer direct listening activity was performed through the Brand Tracking survey in the Top Ten Markets of Pirelli (Italy, Germany, Spain, France, United Kingdom, Brazil, China, United States, Turkey and Russia). The ongoing changes made to this study over the years have made it possible to refine and improve the precision of business insights into the brand role, image profile and characteristics of the different touchpoints that influence the end customer's purchase decision.

In terms of monitoring its competitive positioning and its brand image among end consumers, there are two reference documents for brand positioning. One is the *Brand Pyramid*, which summarises the values, personality and distinctive features of the Brand. The other is the *Brand Key*, a work scheme created with the aim of giving unity to product communication in terms of emotional benefits, functional benefits, reason to believe, differential elements, target of reference. In terms of performance indicators, Pirelli considers *Top of Mind*, *Brand Awareness* and *Brand Consideration*.

The analysis carried out in 2017 saw Pirelli position itself in the European *Top Three* of the most popular tyre brands: in first place for Top of Mind and Brand Awareness in Italy, second in the United Kingdom and in Spain, third in Germany, and in France it ranked fifth for Top of Mind and third for Brand Awareness. With regard to the *Brand Consideration* indicator, i.e. consideration of the brand for the purchase, Pirelli is in second place in the ranking in Italy and Spain, third in the United Kingdom and fourth in Germany.

Outside Europe, Pirelli in Brazil confirms its first place for every KPI brand, while it is third in China. In the USA, there are growing trends especially for Brand Consideration. In Russia, Pirelli maintains its fourth position for Top of Mind and Brand Awareness, while in Turkey it is ranked fifth in all KPIs.

Pirelli performance is even more positive – in line with the *High Value* positioning of the product - at the *Key Target 18" Up* represented by car owners who can mount tyres with rim equal to or greater than 18 inches. For these target consumers, the values of Brand Awareness and Brand Consideration are higher, with: particularly significant increases for both KPIs in Italy, Germany, France, China, Russia and Turkey and, for Brand Consideration, in the USA.

Quality and product certification

ISO 9001: since 1970, the Group has had its own Quality Management System introduced gradually at all Plants and, since 1993, Pirelli has obtained and maintained certification of said system under the ISO 9001 standard in force. Starting from May 2017, Pirelli has been implementing the transition plan of its Plants and the Headquarters to certification according to the new ISO 9001:2015, which will end in March 2018. At the end of 2017, the Headquarters and 75% of the Pirelli plants achieved the Quality Management System certification according to ISO 9001:2015, while the remaining 25% is certified according to ISO 9001:2008.

ISO/TS 16949:2009 – IATF 16949:2016: In 1999, the Group obtained certification for its Quality Management System in compliance with ISO/TS 16949 and it has since maintained compliance with the standard as currently applicable. Following the evolution of the ISO 9001:2015 standard and the new IATF 16949:2016 (Automotive Scheme that became private), Pirelli has achieved the certification of the Quality Management System in 75% of its Plants, which are eligible as of 31/12/2017, while the remaining 25% is certified according to ISO/TS 16949:2009. The completion of the transition plan is expected by May 2018.

ISO/IEC 17025: Since 1993 the Materials and Experimentation Laboratory of the Group and since 1996 the Experimentation Laboratory of Pirelli Pneus (Latin America) hold the Quality Management System, and have been accredited under the ISO/IEC 17025 standard. This system is maintained in accordance with the standard in force and the ability of the laboratories to perform accredited tests is evaluated annually. The labs participate in proficiency tests organised by the International Standard Organisation, by ETRTO or by international circuits organised by auto manufacturers. Specifically in regard to car tyres, the focus on quality is confirmed by Pirelli's supremacy in numerous product tests. It is also guaranteed by its collaboration on product development and experimentation with the most prestigious partners (auto manufacturers, specialised magazines, driving schools, etc.).

The Product Certifications, which allow the commercialization of the same in the various markets in accordance with the regulations laid down by the different countries, are regularly managed by a department dedicated to the area of Research & Development. The prevailing certifications, obtained in the Pirelli Group, concern the markets of Europe, NAFTA (North America Free Trade Agreement), South America, China, Gulf Countries, India, Taiwan, Indonesia, South Korea, Japan and Australia, and involve all Pirelli plants. These Certifications periodically require factory audits by ministerial bodies of the countries concerned or bodies delegated by them, with the aim of verifying product compliance at the Pirelli production sites.

Focus on human health and the environment

Also in 2017, the evaluation continued of new raw materials and new auxiliary products prior to their use by the operating units of the Group, in order to identify potentially critical issues for human health of workers and/or the environment.

The aforementioned assessment is only performed on a centralised basis and the results are extended to all Countries where Pirelli operates, taking account not only of the requirements imposed by restrictive European regulations concerning the management of hazardous substances, but also standards and know-how currently available internationally (specifications, databases, etc.), thereby fully implementing as stated in the specific Health, Safety and Environment Policy.

In 2017, the monitoring of the producers and suppliers of raw materials used by the Group continued, above all with a view to the activities specifically envisaged by Regulation (EC) no. 1907/2006, also known as “REACH Regulation”.

Product safety, performance and eco-sustainability

Safety combined with environmental efficiency of the Pirelli product are key features of the product portfolio offered. In this regard, in 2017, the company has taken important steps forward: with new compounds, new processes, new tread patterns that have made it possible to record a general improvement in the values of rolling resistance, wet braking and noise.

These innovations have a direct impact in terms of lower fuel consumption, which means lower CO_2 emissions, greater road safety thanks to the reduced braking distance required in unfavourable weather conditions, and reduction of noise pollution due to tyre contact with asphalt, thanks to innovative tread design solutions.

In mid-2017, Pirelli presented a new generation of CINTURATO P7™ Blue, a sustainability champion touring tyre, which has been renewed and has extended the double A of the European label (in rolling resistance and wet braking) to all new sizes, thus marking a new record, boasting the greatest tyre with double-A measures. Already in 2012, in fact, just launched on the market, the P7™ Blue was the first tyre in the world to get top marks on the label for energy efficiency and safety on some measures.

Also in 2017, Pirelli introduced the CINTURATO™ *All Season Plus* on the European market, an evolution of the CINTURATO™ *All Season*, a product mainly dedicated to drivers in urban areas and is looking for an innovative and alternative mobility solution. The CINTURATO™ *All Season Plus* presents a new tread compound that leads to an improvement in performance in both winter and summer conditions, with special attention to snow and wet conditions, increasing driving safety, any road surface conditions occur along the way. The main measures are characterized by the presence of Seal Inside, a Pirelli technology that allows continuing driving without air loss even if a tyre has been punctured, covering almost 85% of possible accidental causes of pressure loss.

During the year, Pirelli also developed the CINTURATO P7™ (KS), an evolution of the CINTURATO P7™, for mid-segment cars and sedans on the Chinese market. The new KS marked CINTURATO P7™ measures have an improvement in terms of external noise, rolling resistance and therefore environmental efficiency, and road safety, thanks to greater wet grip and external noise.

Product safety, performance and eco-sustainability are also key elements of the development partnerships between Pirelli and prestigious car manufacturers. Pirelli meets the challenge of customization required by car manufacturers by investing resources in research and development, in order to offer more innovative products in terms of materials, technologies and processes, for a perfect synergy between tyres and vehicle. This led, in 2017, to the launch of the new SCORPION ZERO™ *All Season*, an Ultra High Performance All Season product developed for premium and prestige SUV manufacturers created in response to the market demand for a new high-performance all-season product that could be mounted on modern SUVs. The tyre SCORPION ZERO™ *All Season* is characterized by a reduced rolling resistance, improved thanks to the new compound and the new mixing process, and excellent performance in terms of dry and wet grip. This product, which boasts a constantly expanding range of approvals, will equip car manufacturers like Jaguar, Land Rover, Volvo and Volkswagen. It is also available for some sizes in the *Pirelli Noise Canceling System (PNCS™)* version.

The Pirelli Noise Canceling System innovation is decisive for reducing the noise inside the passenger compartment, caused by the rolling of the tyres on the asphalt. The reduction in noise pollution guaranteed by Pirelli PNCS™ technology substantially improves driving comfort and this has been decidedly appreciated by the market, so much so that the number of Pirelli products with PNCS™ technology, doubled between 2016 and 2017, has resulted in tripled sales between original equipment and spare parts channel within a year.

Determinants for customer safety are also the tread technologies, which see Pirelli in the forefront with the *Seal Inside* technology. Seal Inside prevents air from leaking when punctured, allowing continued mobility despite the loss of air pressure. This, in terms of road safety, results in two substantial benefits for the driver, who can control the vehicle in case of puncture as if nothing had happened and, at the same time, avoid dangerous roadside stops to replace the tyre. It is no coincidence that sales of Pirelli products with seal inside technology have increased by 30% between 2016 and 2017.

Road safety culture and international initiatives

International initiatives and commitments are discussed in the paragraphs “Company Initiatives for the External Community”.

OUR SUPPLIERS

Supply chain sustainable management system

The management model of the supply chain adopted by Pirelli fully complies with the provisions of the international guidelines for sustainable procurement ISO 20400, as certified at the beginning of 2018 by a third party (SGS Italia S.p.A.) following a thorough evaluation. The analysis embraced the entire purchasing function of Pirelli, confirming that the requirements of the ISO standard were fully satisfied, both in terms of company policies and strategies, and regarding the management of the internal processes necessary to implement the sustainability requirements in the dynamics of procurement, and at a more operational level in the direct management of suppliers' ethical performance. The ISO 20400 document "Sustainable Procurement Guidance", officially announced in April 2017, is an innovative tool that aims to promote sustainable purchasing practices within any public or private organization, regardless of size or geographical location, including through the integration of the sustainability principles enshrined in the ISO 26000 social responsibility guidelines.

The Group's relations with suppliers and external collaborators are based on loyalty, impartiality and respect for equal opportunities for all the subjects involved in the purchasing processes, as required by the Group Ethical Code.

There are also many policies adopted by Pirelli, which highlight the full integration of the sustainable supply chain.

The sustainable management of the supply chain is also the subject of the *Green Sourcing* Policy as well as an integral part of the "Social Responsibility for Occupational Health, Safety and Rights and Environment" Policy, the *Global Health, Safety and Environment* Policy, the *Global Human Rights* Policy, the *Quality* Policy*,* the *Product Stewardship* Policy, the Group's "Sustainable Natural Rubber" Policy. In all the documents cited, with reference to the specific social and environmental issues covered, Pirelli undertakes to establish and maintain the procedures necessary to evaluate and select its suppliers on the basis of their level of social and environmental responsibility, as well as to request their suppliers to implement a similar management model, in order to strengthen responsible management in the supply chain that extends beyond its direct supplier.

The Policies mentioned are available in many languages on the Pirelli website, Sustainability Section, to which reference is here made for full details.

In line with its "High Value" development strategy, Pirelli does not limit its assessments of products and services offered to the mere cost proposed, paying utmost attention instead to the value proposed, thereby including innovation, internationality, flexibility, economic, social and environmental responsibility and business ethics.

The social, environmental and business ethics responsibilities of Pirelli suppliers are assessed together with the economic and product or service quality to be supplied, right from the selection as potential supplier stage.

Analysis of ESG performance (Environment, Social, Governance) continues through the qualification stage of the future supplier pre-analysed at the assessment phase, and then is "contract bound" though the Sustainability and business ethics Clauses included in every contract/purchase order.

After the supply agreement has been made, the sustainability performance of the supplier is audited by an independent third party.

The aforementioned Management Model and the related documentation are available on the institutional Pirelli website, in the "Suppliers Area" (Pirelli.com/suppliers), section devoted to the world of supply and accessible to current and potential Pirelli suppliers, as well as anyone with an interest in knowing the approach and procedures adopted by the Company in the areas of purchases of good and service around the world. The communication channel is aimed at the utmost clarity and sharing of Values, Guidelines, documentation and standards adopted by the Company in relations with suppliers, in terms of the web also in the individual Countries in which Pirelli operates.

ESG elements analysed in the purchasing process

Pirelli uses the same ESG performance assessment approach throughout the entire process of interactions with a supplier, although in different ways among them, consistently with the intensity of the interactions characterising the specific procedural instances.

During a first phase of **selection** (or sourcing), and thus assessment of possible offers for good or services in the marketplace, a buyer who has been adequately trained is able to gain a first impression of possible abidance or otherwise by the requirements of the product and ESG by the potential supplier. This allows any who are clearly in possible breach of Pirelli expectations to be eliminated from the roster of potential suppliers.

Pirelli asks suppliers who gain access to the **qualification** (or on-boarding) phase to use the portal available in local language. By accessing it, the supplier views and simultaneously accepts Pirelli's requests in terms of economic, social, environment and business ethics responsibilities (in case of non-acceptance, the qualification process cannot initiate), to then proceed to fill multiple questionnaire concerning respect for fundamental Human and Labour Rights, considered key by the Company and such that the absence of just one of them will not allow the continuation of the qualification process. These questions require the potential supplier to attest that its company: checks workers' ages before hiring them, and it ascertains that all of its employees satisfy the minimum legal working age; uses workers provided with a written labour contract and who work on a voluntary basis exclusively; abides by workers' rights of freedom of association and participation in trade-union activities; pays wages that meet the minimum legal standards; manages disciplinary practices, if any, abiding by the law; abides by and applies at least legislative/contract provisions in the matter of work schedules, overtime and rest periods. The process continues with the request to include quality, environmental and health and safety certifications; to document their approach to responsible management by attaching their Policies and Codes; to provide data in respect of the rate of accidents at work; to attest to compliance with labour laws as set forth above and an litigation there may be. Information is also requested relating to loss prevention, key elements not only to prevent future cases of “business interruption”, but also closely related to the safety of workers employed at the supplier’s site.

For all potential **new suppliers and/or facilities of raw material and/or high value added (HVA) Parts**, which by their nature can become development or however long-term partners for the Company, and which are also attributed much of the spending of purchases, Pirelli conducts a third-party preliminary audit from the qualification phase to verify the level of compliance of the potential supplier with respect to the principal national and international regulations on Work, Environment and business ethics. The non-acceptance of the audit and/or not entering into a reinstatement plan of any non-compliance shall block the supplier’s qualification.

With regard to the **contractual stage**, for ten years now, the Sustainability and Business Ethics Clauses (including anti-corruption) have been included systematically in contracts and orders for the purchase of goods and/or services and/or works, both with private suppliers and with the Public Administration (or institutes/enterprises under public control), and in agreements with NGOs, worldwide.

In particular, the clauses;

- require awareness on the part of suppliers of the principles, commitments and values contained in Pirelli’s Sustainability documents, being “Values and the Ethical Code”; the Code of Conduct”, the “Global Human Rights Policy”, the “Health, Safety and Environment Policy”, the “Anti-Corruption Program” and the “Product Stewardship Policy”, published and accessible on the web and which ratify the principles that inform the management of Pirelli in its activities and relations with third parties, contractually and otherwise;
- require that Suppliers confirm their commitment to:
    - not using or supporting the use of child labour and forced labour;
    - ensuring equal opportunity, freedom of association and promotion of the development of each individual;
    - opposing the use of corporal punishment, mental or physical coercion, or verbal abuse;
    - complying with the laws and industry standards concerning working hours and ensuring that waves are sufficient to cover the basic needs of personnel;
    - not tolerating any type or bribery in any form or manner and in any legal jurisdiction, even where such practices are effectively permitted, tolerated, or not subject to prosecution;

    - assessing and reducing the environmental impact of their own products and services throughout their entire life cycle;

    - using resources responsibly with the aim of achieving sustainable development in compliance with the principles of respect for the environment and the rights of future generations;

    - establishing and maintaining the necessary procedures to evaluate and select suppliers and sub-suppliers on the basis of their commitments to social and environmental responsibility, regular overseeing compliance with this obligation on the part of the same;

- specifying that Pirelli reserves the right to verify at any time through activities of audit, either directly or through third parties, that fulfilment of the duties taken on by a supplier has been achieved (see further details in the next paragraph).

The Sustainability Clauses have been translated into 21 languages to ensure maximum clarity and transparency vis-à-vis a supplier in the matter of the contract duties that they assume, not only in respect of the Company itself, but also at their own site in relations with their own suppliers.

From the standpoint of utmost assurance suppliers of the Pirelli Group have available the **Whistleblowing** Reporting Procedure (ethics@pirelli.com), which has been indicated expressly in the clauses and by means of which any breach or suspected breach they discern in relations with Pirelli referring to the contents of the following can be reported in total confidentiality: "Values and Ethical Code", the "Code of Conduct", the Group policies "Global Human Rights", "Health, Safety and Environment", "Anti-Corruption Program" and "Product Stewardship".

In 2017, among the reports signed, none were sent by Suppliers. It is objectively impossible to confirm that there were, in absolute terms, no further reports from suppliers received as a number of reports were, as specified, anonymous, as is specified in the paragraph "Group Procedure for reporting – Whistleblowing", to which reference is made for further details.

Sustainability of the natural rubber supply chain

With global demand for natural rubber expected to increase, sustainable management of the related supply chain is essential to preserve forests, biodiversity and to enable sustainable development for local communities and economies.

The economic, social and environmental sustainability of the natural rubber supply chain is among the priorities of Pirelli, with the full awareness that the origins of its rubber supply chain impact in forestry terms.

The natural rubber supply chain – from the upstream to the downstream level - includes producers/growers, traders, processing plants, distribution companies and manufacturing facilities.

Pirelli is at the end of the chain, as a tyre manufacturer that does not own its own plantations or natural rubber processing plants. Pirelli intends to play an active role in the aforementioned context, contributing to the efforts that are globally dedicated to the sustainable management of natural rubber.

In October 2017, Pirelli issued its *Policy on Sustainable Natural Rubber*, after a long elaboration process based on consultation with key stakeholders and companies that have historical experience in terms of sustainable procurement of materials. The draft of the Policy was presented and discussed with key stakeholders in a consultation session held in September 2017, attended by international NGOs, Pirelli's main natural rubber suppliers, traders and farmers in the supply chain, automotive customers, international organizations multilateral.

As stated in the Policy, Pirelli undertakes to promote, develop and implement sustainable and responsible procurement and use of natural rubber throughout its entire value chain. In particular, the Policy explodes the positioning of the Company in terms of:

- defence of Human Rights and promotion of decent working conditions;
- promotion of the development of local communities and prevention of conflicts related to land ownership;
- protection of ecosystems, flora and fauna;
- no to deforestation, no to the exploitation of the peat bogs, no to the use of fire, and adoption of the methodologies "High Conservation Value (HCV)" and "High Carbon Stock (HCS)";
- efficient use of resources;
- ethics and anti-corruption;
- traceability and mapping of social-environmental risks along the supply chain (risk-based approach);
- clear indication of the governance model envisaged by the policy, and consideration of the risks identified in the definition of the purchasing strategies;
- encouragement of its suppliers and sub-suppliers to the adoption of solid certification systems, internationally recognized and verified by third parties, at all levels of the supply chain;
- promotion, support for the Company's active participation in cooperation initiatives at sector level and among stakeholders that play an important role in the value chain, in the belief that, in addition to the individual commitment of companies, a shared effort can accelerate and strengthen the path towards sustainable development of the global natural rubber supply chain;

- activities aimed at the implementation of the Policy;
- commitment to reporting on the results achieved;
- making available the Reporting Procedure for any violations of the Policy.

During 2018, the Company will draw up a Policy Implementation Manual, which will again see the involvement and consultation of stakeholders as essential elements for the best definition of content, as well as the applicability of the manual itself.

At the same time, Pirelli will continue the mapping and traceability of the supply chain, through partnerships with its suppliers and with the aid of advanced mapping systems (including digital). The results of on-site audits carried out by third parties at the suppliers' sites (natural rubber processors) will also be capitalized in 2016 and 2017, aimed at assessing the level of sustainable performance at the transformation sites, and at understanding the capacity of Suppliers in terms of direct/indirect control of their supply chain, up to the identification of the supplying plantations.

In 2017, the partnership that has tied Pirelli to Kirana Megatara since 2014 continued. Kirana Megatara, among the largest natural rubber processors in Indonesia, is one of the leading suppliers of natural rubber of Pirelli.

The Project of Kirana and Pirelli aims to support small local producers in Indonesia through training on the most effective methods to improve the productivity of plantations and through scholarships for their children. This will be in addition to, starting from 2018, support to the activities of replanting rubber trees to further strengthen the development of plantations on territories already dedicated to natural rubber without putting and avoiding risks of deforestation.

Increasing the productivity of plantations is in fact a key factor: it allows farmers to increase their income while decreasing the risk of deforestation resulting from the abandonment of unproductive plantations. Training on production quality, including the provision of origin plants controlled by agronomist specialists, takes place constantly throughout the year at the farmer communities involved in the project, 110 stably and continuously.

Each year, Pirelli and Kirana Megatara organize an event called tapping competition, which sees the best "carvers" of the place in a friendly challenge on the best carving methods in a day of celebration for the community that is also an important opportunity for training and spreading awareness among farmers present regarding the best growing and carving techniques, necessary to obtain an increasingly purer product, free from contamination and therefore characterized by its high level of quality, necessary to increase the earnings of families and simultaneously reduce the impacts of deforestation. In the evening, the three best tappers are then chosen who, thanks to perfect carving, are awarded prizes for themselves and their families. Even in 2017, about 298 farmers and their families attended the event, which was held in the south of the island of Sumatra.

Also in 2017 was the award ceremony of scholarships by Pirelli and Kirana Megatara in favour of the children of local producers. The ceremony was held in Muara Enim Regency in the South of Sumatra Island and 65 scholarships were awarded, with the aim of trying to ensure adequate education, in the belief that the future sustainability of the natural rubber business cannot absolutely disregard the adequate training and development of the new generations, and their right to study.

The "Green Sourcing" Policy

As at December 2012 Pirelli drew up and issued the "Green Sourcing" Policy with the aim of stimulating and incentivising an environmental conscience along the entire supply chain and encouraging choices that might reduce the impact on the environment of provisioning activity by Pirelli of goods and services. The Green Sourcing Policy implementation system was defined in 2013, both inside Pirelli and in supplier relationships. It is organised as follows:

- Pirelli Green Sourcing Manual, an internal document containing operating Guidelines, intended to guide the activities of the Pirelli functions involved in the Green Sourcing process;
- Pirelli Green Purchasing Guidelines, a document intended for Pirelli suppliers as part of the Contract for supply and based on the Green Sourcing Manual containing the KPIs (Key Performance Indicators) for assessing the Green Performance of these suppliers;
- integration of Green Performance in the traditional process of measuring supplier performance (vendor rating).

The Pirelli Green Sourcing Manual defines four areas of Green Sourcing: Materials, Capex, Opex and Logistics. Interdepartmental working groups, comprised of Purchasing, R&D, Quality, HSE and Sustainability analysed the Green Sourcing process associated with the merchandise categories falling within the four areas mentioned above. Green Engineering Guidelines were also defined for the Materials and Capex areas, where the design component (what is conceived in-house) is material to the Pirelli core business.

For the Opex and Logistic areas characterised by goods categories in respect of which the design component is not equally significant, Green Operating Guidelines have in any vent been defined by referring to internationally recognised best practices.

Therefore, the Green Sourcing Manual is a unique document that contains:

- the general part on Green Sourcing issues;
- the Green Engineering Guidelines (Materials, Capex);
- the Green Operating Guidelines (Opex, Logistics).

The Green Sourcing Manual will also be adopted by the Pirelli Training Academy for training purposes by the functions involved in the process of Green Sourcing.

In 2014, and on the basis of the Guide Lines of the Green Sourcing Manual, the Pirelli Green Purchasing Guidelines were published on the website www.pirelli.com thus making them available both to Pirelli suppliers and to other stakeholders In China, Mexico, the United States, Russia and Italy, by-invitation seminars have been held at Pirelli offices on the Green Sourcing Guidelines for local suppliers so as to inform and receive direct feedback on the way they work.

In 2015, Pirelli also developed an IT platform to support the launch of a campaign to measure the Green Performance of Pirelli Suppliers through an electronic questionnaire that can be completed via the web, a campaign implemented in April 2016 and which saw high participation by Suppliers of Raw Materials (Response Rate equal to 77%) justified by the “engagement” activities of these Suppliers by R&D, Quality and Sustainability, actively involved in the supply chain and tyre innovation.

In 2017, Pirelli updated the IT platform to support the measurement of the Green Performance of Pirelli Suppliers with the aim of including the Logistics Services Providers.

In December 2017, a campaign was launched to measure the Green Performance of these Suppliers, whose results will be available from the first quarter of 2018.

Policy on Conflict Minerals

The concept of Conflict Minerals was introduced by Section 1502 of the Dodd-Frank Act, a federal United Sates law, in 2010. By “conflict minerals” is meant gold, columbite-tantalite (conltan) cassiterite, wolframite and their derivates like tantalum, tin and tungsten that come from (or are extracted in) the Democratic Republic of Congo and/or bordering Countries.

The objective of the rules in respect of Conflict Minerals (Conflict Mineral Rules) is to discourage the use of minerals whose sale might finance violent conflicts in Central Africa where grave violations of human rights have been recorded for many years. Under Conflict Mineral Rules, listed companies in the United States are required to perform reasonable due diligence in tracing the provenance of these materials and reporting the findings to the SEC and publishing them on their website, with the first report to be published by 31 May 2014 (in respect of 2013) and updated subsequently each year.

In turn, in May 2017, the European institutions approved the 2017/821 Regulation “establishing obligations regarding due diligence in the supply chain for EU importers of tin, tantalum and tungsten, their minerals and gold, originating from areas of conflict or at high-risk”. The new provisions will apply from January 2021.

Pirelli expresses its position on the management of the issue in a paragraph dedicated to it in its Global Human Rights Policy, where it is stated that the Company “*requires that its suppliers conduct proper due diligence within their supply chain in order to certify that the products and materials supplied to Pirelli are “conflict free” throughout the whole supply chain (i.e. not coming from mines or smelters operating in conflict zones identified as such in the relevant conflict* *minerals regulations, unless they are certified as "conflict free"). Pirelli reserves the right to terminate relations with suppliers in cases where there is clear evidence of supplying conflict minerals and however in case of any violation of Human Rights*".

The Policy is published in multiple foreign languages in the Sustainability section of the pirelli.com website.

In 2017, Pirelli also strengthened its management model, introducing the request for the following documentation among the qualification requirements of suppliers that can be associated with the possible use of conflict minerals:

- conflict Minerals Reporting Template (CMRT);
- policy on Conflict Minerals if present;
- description of the "Due Diligence" system to identify and trace the presence of 3T+G minerals.

The management model then extends to the contractual phase, through the inclusion of a Conflict Minerals clause that recalls the supplier's commitment to providing the Conflict Minerals Reporting Template on an annual basis and to maintain the results achieved in terms of chain transparency, in addition to reporting the further progress pursued and expected.

To give an idea of the scale of the phenomenon for Pirelli, it is worthwhile stating that the impact is very limited: the volume of minerals (3T+G) used by Pirelli Tyre in one year in fact weighs less than a ton, a quantity less than one millionth of the volume of raw materials used annually by the Company and which is equally distributed among most of the tyres produced. To give an example, a tyre weighing 10 kg contains about 10 mg (milligrams) equivalent of tin, in the extremely low concertation of 1ppm (one part per million).

With a view to procurement covering only minerals that are "conflict free", Pirelli has conducted a comprehensive investigation on its supply chain, in order to have full visibility up to the mines or foundries in order to identify the existence of any "conflict minerals". The Company has asked its suppliers to complete the CFSI-CMRT (Conflict-Free Sourcing Initiative – Conflict Minerals Reporting Template), developed by EICC (Electronic Industry Citizenship Coalition) and GeSI (Global e-Sustainability Initiative).

The suppliers polled cover 100% of the "conflict minerals" risk tied to Group products. More than 90% of suppliers polled have already given precise indications concerning the source of the materials in question and listing foundries as required by the procedure and there was no evidence of the presence of conflict minerals. At the end of 2017, a minimum number of suppliers, corresponding to 0.01% of spending of Pirelli purchasing, are still investigating their chain.

Monitoring of ESG performance

Supplier performance is monitored by using the Vendor Rating system, aimed at defining the quality level of supplies, the quality of the commercial relationship, the technical-scientific collaboration and, through on-site audits by third parties, verifying performance in relation to human and labour rights, health and safety, environmental management and business ethics, followed by the periodic monitoring of the progress of the actions set down in any improvement plans signed with the supplier. The Vendor Rating and monitoring of sustainability of suppliers cover all the goods and geographical purchasing areas and utilized as an integral part of commercial negotiations.

The results of the Audits are analyzed by the Purchasing Department and the Sustainability and Risk Governance Department, commented and discussed to identify eventual corrective actions or to improve performance along with suppliers.

At methodological level, the Purchasing Department and the Sustainability and Risk Governance Department of the Group define the Guidelines for the selection of suppliers to be audited, supporting the Purchasing Managers and Sustainability Managers that locally coordinate the auditing activities. Since 2009, in fact, Buyers and local Sustainability Mangers are asked to identify a roster of suppliers who, on the basis of the findings of proper Risk Assessment, they feel to be worthwhile submitting to audit by a third party at the time of the Annual Audit Campaign. The risk assessment and thus the “criticality” of suppliers envisage an assessment based on the following guiding parameters:

- the supplier is bound to Pirelli by multi-year contracts;
- the replacement of the supplier and/or related product may be complex;
- the economic burden of the purchase is significant and for this reason it is felt that verification in loco of the compliance of the supplier with Pirelli ESG expectations, and that the supplier sign up to at the contract stage, is worthwhile via an audit by a third party commissioned by Pirelli;
- the supplier operates in a Country at ESG risk;
- the supplier has not yet undergone an ESG audit by Pirelli or special criticalities have been detected in previous audits;
- there is information, a perception or doubt concerning possible breaches on the part of the supplier in the matter of social, environmental and/or business ethics responsibilities.

The external auditors carry out verification on the basis of a checklist of parameters of sustainability deriving from the Pirelli Ethical Code, the SA8000® standard (a tool of reference officially adopted by the Group for managing social responsibility since 2004) and the “Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment” of the Pirelli Group (in its turn consistently with the areas of social, environmental and governance sustainability dictated by Global Compact of the United Nations), the "Social Responsibility for Occupational Health, Safety and Rights, and Environment" Policy, the Global Health, Safety and Environment Policy and the Global Human Rights Policy.

Third-party audits concern suppliers belonging to all product categories such as raw materials, machinery, logistics services, industrial services, general services and components. Each audit has an average duration of two days on-site and includes a factory visit, interviews with workers, management and trade union representatives.

External audits have been carried out since 2009 and continued in 2017, specifically:

Year	Number of Audits
2009-2010	72
2010-2011	56
2012-2013	62
2014	78
2015	93
2016	64[16]
2017	83[17]

In 2017, in most cases audits involved suppliers of Pirelli operating in Countries where the company is present at an industrial level, i.e. Argentina, Brazil, China, Germany, Indonesia, Italy, Mexico, United Kingdom, Romania, Russia, United States, Turkey or suppliers in countries from which Pirelli buys raw materials, such as Japan, Malaysia, Singapore, Thailand and Vietnam, Brazil.

On the basis of audit findings, where necessary and fitting and given also the specific actions to remedy suggested by the independent Auditor, the supplier signs off on a plan for righting aimed at preventing, mitigating or remedying any non-compliances detected. The plan foresees specific actions to be implemented by precise deadlines in addition to clear identification of the responsibilities for the action at the supplier company and the method of follow-up (documentary or new audit in situ) that will be followed by the auditor to verify resolution taking place of the non-compliances detected during the audit. The process of monitoring the implementation status of plans of righting of suppliers, especially, is a dual one; on the one hand the third-party auditor verifies the status of implementation of the plan of righting, and on the other Internal Audit Management of the Group verifies the adequacy of management and alignment on the part of local functions dealing with this (Sustainability and Purchases).

[16] of which 9 on potential new suppliers of raw materials

[17] of which 14 on potential new suppliers of raw materials

The results of the audits carried out during the 2017 annual campaign include:

- 38% of suppliers without non-conformities;
- a total number of non-conformities found on-site decreased by 16% compared to 2016.

The non-conformities registered in 2017 are substantially linked to health and safety management processes, the use of overtime and the correct implementation of environmental management systems.

In 2017, following the permanence of non-conformities found in the audits of the previous campaign, processes were initiated for the disqualification of Suppliers deemed not appropriate for the continuation of the relationship with Pirelli.

Materiality of ESG impacts along the supply chain

Considering the life cycle of the Pirelli Product (which is specified in the "Environmental Dimension" chapter of this report), the environmental impacts of the supply chain are found prevalently in the category of raw materials, in terms of direct emissions and impact on indirect emissions of Pirelli, as well as on the capacity of the material to affect the emission impact of the production process and the energy efficiency of the Pirelli product. With reference to the water footprint along the life cycle of the Pirelli product, the impacts are prevalent in the natural rubber processing activity. Downstream of the natural rubber supply chain is also the risk of deforestation and damage to biodiversity.

Social type impact (human and labour rights in particular) are evidenced on the other hand in all categories of purchases in respect of suppliers operating in Countries considered to be more greatly at risk as compared to others from the standpoint of compliance with domestic and international labour legislation.

Pirelli mitigates the risks mentioned through the management model adopted and described so far, which is completed with the engagement activities of suppliers outlined below.

Engagement

Pirelli believes that activities involving suppliers are essential from the viewpoint of creating environmental and social value, and are inseparably tied to the creation of shared economic value.

There are many activities operated by the Company to that effect.

R&D Partnerships

Pirelli has established several partnerships with strategic suppliers and universities for the development of innovative materials with low environmental impact (materials described in the paragraphs dedicated to environmental management of products of this report). As part of the development of new nanofillers, for example, pursued since the early 2000s through research contracts with universities and collaborations with suppliers, Pirelli has started to industrially introduce materials of mineral origin in partial replacement of precipitated Silica and Carbon Black. Compared to the production processes of the raw materials replaced, the aforementioned innovations have guaranteed water savings, as well as a reduction of CO_2 emissions of more than 75%, saving respectively 1,000 tons of water and 450 tons of CO_2.

This innovation results in economic benefits related directly to the material for about Euro 150,000 per year, although the real sustainable business driver is the performance that the product acquires, thus becoming more competitive.

CDP Supply Chain

For years, Pirelli has participated in Climate Change and Water programs promoted by the Carbon Disclosure Project (CDP). Implementing its Green Sourcing Policy since 2014 Pirelli has in its turn decided to extend the request for CDP assessment to its own key suppliers at a Group level, identified in accordance with criteria of environmental and economic materiality. In 2017, the selection concerned the suppliers with the most impact on the Carbon Footprint of the Group in the Raw Materials, Logistics and Energy categories.

The CDP Supply Chain supports Pirelli in monitoring Scope 3 emissions from its supply chain and ensures adequate awareness of suppliers in matters relating to climate change so as to identify and activate all possible opportunities for reducing emissions of climate-altering gases. In 2017, all the emission reduction actions implemented by Pirelli suppliers made it possible to avoid the global emission of about 77 million tons of CO_2 equivalent in the atmosphere, combined with estimated savings of 2.3 billion dollars.

First company among tyre manufacturers to have globally introduced the CDP Supply Chain in its own supply chain, Pirelli aims to increase the response rate of suppliers of Raw Materials, from 71% in 2017 to 90% in 2020.

Training of suppliers on sustainability issues

Since 2012, Pirelli has provided training on issues of environmental and social responsibility and business ethics to its suppliers, identifying from year to year the reference participants based on strategic issues, spending value, operations of suppliers in countries considered at risk.

In 2017, *e-learning* training was provided to strategic suppliers of auxiliary materials, raw materials, waste management, Facility property management, industrial services, Utilities. The training activity aims to support suppliers in understanding the Pirelli sustainability model and the related social, environmental and business ethics requirements that must be respected in order to guarantee a sustainable business relationship with the Company. Specifically, training in 2017 focused on the following topics:

- Pirelli “Health, Safety and Environment” Policy;
- Safety and ergonomics management system;
- Chemical substance management;
- Environmental management system.

Training involved 190 suppliers from Argentina, Brazil, China, Germany, Indonesia, Italy, Mexico, United Kingdom, Romania, Russia, United States, Turkey, Venezuela, and was carried out in local language.

The tool used for training was a platform specifically developed for this purpose by the Pirelli Group. After receiving a personal ID and password, the supplier could connect with the online platform and participate in training activities at any time. The course included many practical examples and allowed participants to verify the levels of compliance by their own organisations with the various elements of ESG. To verify the clarity and effectiveness of e-learning, a questionnaire was prepared that participants filled out at the end of the training session.

Supplier Award

The Pirelli Supplier Award, which is assigned each year to suppliers of excellence, aims to constantly improve relations with parties from the standpoint of shared development.

The 2017 edition of the Supplier Award a was held at the Pirelli headquarters at the Bicocca with the Pirelli CEO present and who gave the prizes to nine suppliers operating in China, Germany, Japan, Italy, Romania, United States and Thailand, which had distinguished themselves in quality, innovation, speed, sustainable performance, global presence, and level of service.

A specific accolade was granted to sustainable performance to acknowledge the importance of strategies of “responsibility” that really make a difference, by bringing benefits to the entire value chain. In 2017, the Sustainability Award was awarded to a mould supplier, which in recent years has shown a strong and growing engagement on sustainability issues, with excellent results in terms of innovation and recycling of materials.

Trend of purchases

The Pirelli Tyre Core Business in 2017 accounts for 96% of Group purchases. The following tables show the value of purchases made by Pirelli Tyre and the percentage of the relative suppliers divided by geographic area. These figures show that the value of purchases is slightly higher in OECD area with respect to non-OECD areas, as well as the number of suppliers. 67% of suppliers (vs. 65% in 2016) (excluding suppliers of raw materials as they generally operate where Pirelli does not have facilities), operate locally with respect to the Pirelli Tyre affiliates supplied, according to a logic of local-for-local supply.

Value of purchases by geographic area

		2017	2016
OECD COUNTRIES	**Europe**	49%	52%
	North America	4%	5%
	Others	5%	4%
NON-OECD COUNTRIES	**Latin America**	16%	15%
	Asia	15%	14%
	Africa	0%	0%
	Others	11%	10%

Number of suppliers by geographic area

		2017	2016
OECD COUNTRIES	**Europe**	56%	55%
	North America	5%	5%
	Others	4%	4%
NON-OECD COUNTRIES	**Latin America**	26%	27%
	Asia	5%	4%
	Africa	0%	0%
	Others	4%	5%

The following table shows the breakdown in percentage of the value of Pirelli Tyre purchases by type. It is clear that the most relevant and significant purchasing category concerns raw materials, with a weight equal to 46% of the total.

Value of purchases by type

	2017	2016
Raw Materials	46%	46%
Consumable Materials	5%	5%
Services	36%	38%
Capital goods	13%	11%
Total	100%	100%

With reference to the percentage of Pirelli Tyre suppliers by type in the table below, it is noted that suppliers of consumables and services weigh more than 80% of total suppliers despite the weight on the total value of purchases is lower with respect, for example, to that of the purchases of raw materials that see, on the contrary a substantial concentration on a few operators.

Number of suppliers

	2017	2016
Raw Materials	3%	3%
Consumable Materials	23%	25%
Services	64%	62%
Capital goods	10%	10%
Total	100%	100%

The following table represents the percentage composition in the value of the mix of raw materials purchased by Pirelli Tyre in 2017 and 2016. The volume of raw materials utilised for the production of tyres in 2017 amounted to approximately 900 thousand tons, of which approximately 4% derives from recycled materials, in line with the previous year.

Mix of raw materials purchased (value)

	2017	2016
Natural Rubber	15%	13%
Synthetic Rubber	29%	28%
Carbon black	9%	8%
Chemicals	21%	22%
Textile	16%	18%
Steel	10%	11%

Objectives

2018:

- Sustainability of the Natural Rubber supply chain: consultation of the relevant stakeholders in the value chain to support the drafting of the Pirelli Policy Implementation Manual; start of training activities on the implementation of the manual;

- new version of the sustainability contract clause for natural rubber Suppliers;

- new training campaign dedicated to the ISO 20400 standard.

2020:

- CDP Supply Chain: increase in the response rate of suppliers of Raw Materials from 71% in 2017 to 90% in 2020.

ENVIRONMENTAL DIMENSION

The Pirelli Group considers environmental protection as a fundamental value in the exercise and development of its activities.

The Pirelli approach to environmental management is inspired by the United Nations Global Compact, in which Pirelli has participated since 2004 (in addition to having a seat on the Steering Committee of the LEAD Global Compact), and the "Rio Declaration on Environment and Development".

The Pirelli Values and Ethical Code states that "*key consideration in investment and business decisions is environmental sustainability, with the Group supporting eco-compatible growth, not least through the adoption of special technologies and production methods (where this is operationally feasible and economically viable) that allow for the reduction of the environmental impact of Group operations, in some cases even below statutory limits*".

The environmental management model adopted is detailed in the Group Policies: "Health, Safety and Environment" Policy, "Product Stewardship" Policy, "Quality" Policy, "Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment", "Green Sourcing" Policy, based on which Pirelli undertakes to:

- assess and reduce the environmental impact of its own products and services throughout their entire life cycle, as of products and services purchased;
- develop products and production processes that are safe and designed to minimize polluting emissions, waste generation, consumption of natural resources available and the causes of climate change, in order to preserve the environment, biodiversity and ecosystems;
- manage its environmental activities in full compliance with applicable laws and in compliance with the highest international standards;
- monitor and communicate to its stakeholders the environmental performance associated with processes, products and services throughout the entire life cycle, promoting its culture of environmental protection;
- monitor the environmental impacts of its suppliers by requesting them to adopt the same business model along the related supply chain;
- support customers and end consumers in understanding the environmental impacts of its products, informing them of the safest use and disposal methods, facilitating recycling or re-use where possible;
- empower and train its workers in order to extend adequate culture of environmental capital conservation.

All the documents mentioned above are communicated to the Group's employees in the local language and published in the Sustainability section of the pirelli.com website, available to the external community, in multiple languages.

THE PIRELLI GROUP ENVIRONMENTAL STRATEGY

Management of environmental issues has always played a key role in Pirelli business strategy. With a view to long-term management, Pirelli monitors the Carbon Footprint and Water Footprint of its entire organisation and is committed to the progressive reduction of the related impacts on resources, climate and ecosystems.

The Group has set up a control and monitoring system that allows the identification of the materiality of environmental impacts throughout the life cycle of the product: the infographic on the following pages shows Pirelli's approach to environmental management and the specific long-term targets defined in the Sustainability Plan, the 2017 performance of which is reported below in this report. In 2017, following the change in the corporate scope, the Pirelli Group's Footprint was updated with respect to the new structure.

As is readily apparent, the materiality of environmental impacts is concentrated in the use phase of the tyre. As part of the Carbon Footprint, the use phase weighs 91.5% of total impacts along the entire life cycle of the tyre, compared to a production phase that weighs 2.5% of total impacts.

With regard to the impact on the water sector, the production phase of raw materials is the most relevant (46.8% of the impact), followed by the product use phase (38.3% of the total).

The graph can be read either horizontally, following the stages of life of a tyre one by one, or vertically, thus being able to appreciate the objectives of reducing the impacts that the Company has defined for each of the different stages of life, which will be explored later in this chapter.

From a methodological point of view, these life cycle phases have been analysed using the Life Cycle Assessment, as defined by the ISO 14040 family of standards. This method is capable of validating the results and strategic decisions related to it as objectively as possible. Moreover, reporting of the emissions impacts also complies with the provisions of the GHG Protocol and GRI Standards Guidelines. All impacts listed by the standards that are not mentioned, both upstream and downstream of the industrial activity of Pirelli, either do not apply or are not significant. The values are shown as a percentage, as the objective of this infographic is to show the difference in materiality between the various life stages. To determine the Carbon Footprint and Water Footprint, Pirelli's calculation model is respectively inspired by the technical specification ISO-TS 14067 and ISO 14046 standard.

The main environmental impacts are generated by various activities related to the different stages of the Life Cycle. In the case of raw materials procurement, the main impact derives from the related production and distribution. In the case of tyre production, the main impact is related to the consumption of electricity and natural gas: in particular the main pressure in terms of emissions into the atmosphere and water consumption is attributed to the production of the latter. In the case of the distribution of new tyres and their use by customers, the impact derives from the fuel consumption of vehicles (only the fuel consumption related to the power absorbed by the rolling resistance of the tyres is allocated to the customers). Finally, in the last phase of life considered, the impact derives from the preparation of end-of-life products for recovery thereof as energy or recycled raw material. With reference to the Carbon Footprint, the infographic (see the "Driver" part) also includes a breakdown of emissions in the three Scope categories provided by the GHG Protocol.

The central part of the infographic shows the actual quantification, in percentage terms, of the Carbon Footprint and Water Footprint.

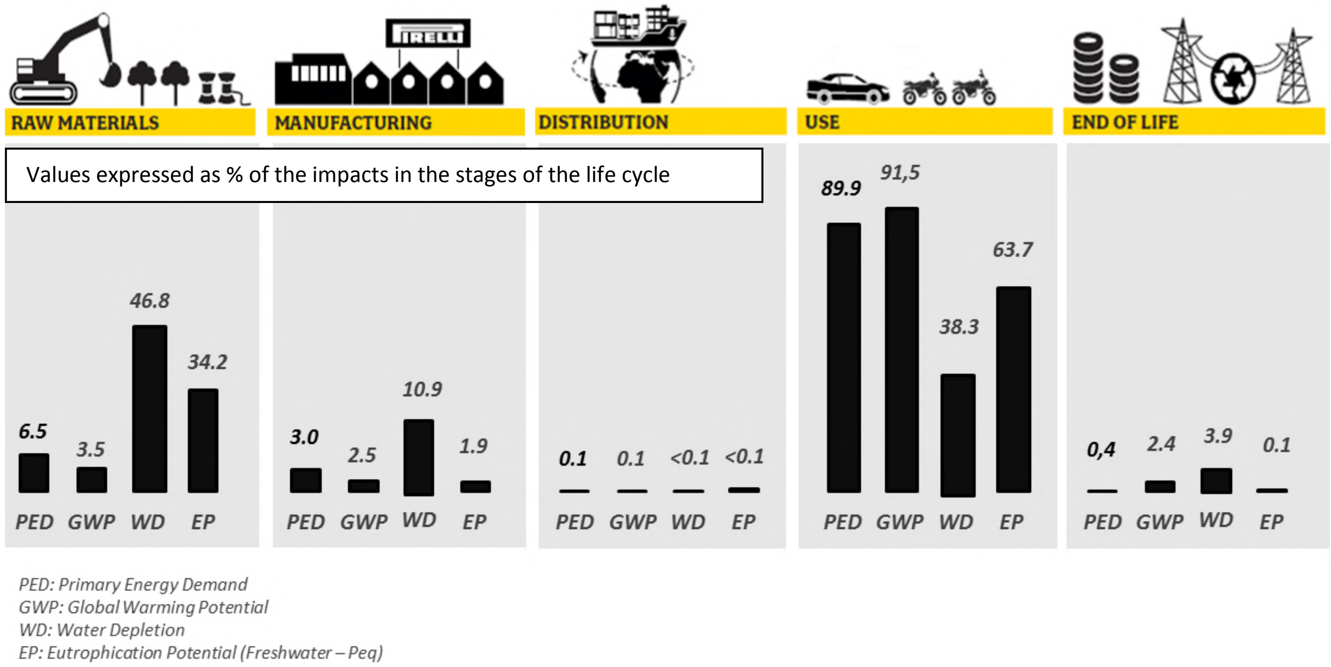
These two aspects are summarised by four principal indicators: Primary Energy Demand (PED), Global Warming Potential (GWP), Water Depletion (WD) and Eutrophication Potential (EP). The values are calculated in GJ of energy, tons of CO_2 equivalent, cubic meters of water and kilograms of phosphate equivalents. Primary Energy Demand refers to the quantity of renewable or non-renewable energy that is taken directly from the hydrosphere, the atmosphere or the geosphere.

The Global Warming Potential concerns the effect on the climate of anthropic activities and is calculated, as mentioned, in tons of CO_2 equivalent (the greenhouse effect potential of the gas considered is assessed in relation to $CO_{2,}$ considering a residence time in the atmosphere of 100 years).

Water Depletion, based on the Swiss model for ecological scarcity, represents the volume of water used, related to the availability of water resources locally, with the aim of giving greater weight to the volumes of water taken from areas characterized by a greater scarcity of this resource.

Eutrophication Potential is the enrichment of nutrients in a specific, aquatic or terrestrial ecosystem: air pollution, emissions into water and agricultural fertilizers all contribute to eutrophication. The result in aquatic systems is accelerated growth of algae, which does not allow sunlight to penetrate the surface of the water basins. This reduces photosynthesis and thus reduces the production of oxygen. Low concentrations of oxygen may cause mass death of fish and anaerobic decomposition of organic material, seriously compromising the entire ecosystem.

In terms of environmental materiality, the use phase of the tyre is overall the most prevalent. In terms of economic materiality, instead, the amount of corporate spending in the manufacturing phase is the most relevant, which results in the opportunity to reduce impacts through investments in energy efficiency. In its response strategy, which may be consulted in the lower part of the infographic and corresponding to what is also stated in the Sustainability Plan, Pirelli has adopted adequate management models for the monitoring and managing of environmental issues, and has also voluntarily adopted specific targets to reduce its impact in each phase of the product life cycle.



DRIVERS				
Suppliers	Pirelli	Suppliers	Customers	Waste Recovery Players
Raw materials production and transport: the impact is due to resources use by suppliers' plants.	Tyre manufacturing: at Pirelli's plants the impact comes mainly from electricity and natural gas consumption	Production and use of fuel by trucks and ships of logistics suppliers, delivering Pirelli tires worldwide	Production and consumption of the fuel of customers' vehicles due to rolling resistance	End of Life tyre management: old tyres are prepared by specialized companies to be reused as energy or as regenerated raw material
--> Scope 3	--> Scope 1+2+3	--> Scope 3	--> Scope 3	--> Scope 3

MATERIALITY				
Economic: HIGH	Economic: HIGH	Economic: MEDIUM	Economic: HIGH	Economic: LOW
Environmental: MEDIUM	Environmental: MEDIUM	Environmental: LOW	Environmental: HIGH	Environmental: LOW
RESPONSE STRATEGY				
→ RAW MATERIALS INNOVATION • Progressive introduction of new materials from renewable source • Biomaterials, such as high performance silica from renewable sources, biofillers such as lignin and plasticisers/resins of plant origin • Natural Rubber: search for alternative sources • Functionalized Polymers: research on innovative polymers that guarantee reduced environmental impact, improved driving safety and improved production efficiency → GREEN PURCHASING GUIDELINES/GREEN SOURCING POLICY → CDP SUPPLY CHAIN (2020 target: 90% response rate suppliers of Raw Materials) → THIRD-PARTY AUDIT ON CRITICAL SUPPLIERS	→ PROCESS EFFICIENCY Targets 2020 vs 2009: • Specific withdrawal of water -66% • Specific consumption of energy -19% • Specific CO_2 emissions -17% • Waste Recovery >95% → ISO 14001 AT ALL PRODUCTION PLANTS → SCRAP REDUCTION PROGRAM	→ GREEN SOURCING POLICY • Green Logistic Procedure • Engagement to reduce Supply chain Carbon & Water Footprint	→ PRODUCT INNOVATION Targets 2020 vs 2009: • Rolling Resistance CAR -20% (-14% High Value Products*) • Rolling Resistance MOTORCYCLE -10% → GREEN PERFORMANCE REVENUES • Car Products >50% of total revenues by 2020 (>65% High Value Products*) → CYBER TECHNOLOGIES DEVELOPMENT • Pirelli Connesso™: an aftermarket platform that provides "connected" tyres to improve safety, monitor tyre status, create direct contact between Pirelli, the end user and the sales network, improving the quality of service. • OE platforms: thanks to the interaction with the car, the information that the tyre provides can influence its behaviour, improving safety and performance. • Cyber Fleet: modular solutions dedicated to fleet management. ** High Value products are determined by rims equal or greater than 18 inches and, in addition, include all "Specialties" products (Run Flat, Self-Sealing, Noise Cancellation System).*	→ PRESENCE ON THE MAIN INTERNATIONAL WORKING TABLES (WBCSD, ETRMA) to spread the culture of recovery → REGENERATED RAW MATERIALS Research projects with universities in order to improve the quality of regenerated materials, with the aim of increasing their percentage portion of the new compounds

RESEARCH AND DEVELOPMENT OF RAW MATERIALS

The research and development of innovative materials are key to the design and fabrication of ever-more sustainable tyres that guarantee reduced environmental impact, during the use and end-of-life phases, greater driving safety and production efficiency.

Pirelli has activated several Joint Development Agreements with leading suppliers for the study of new polymers that are able to further improve the characteristics of tyres for rolling resistance, low temperature performance, mileage and road grip.

In this regard, Pirelli Research & Development focuses, among other things, on:

- high-dispersion silica for wet grip, rolling resistance and durability;
- biomaterials, such as silica from renewable sources, biofillers such as lignin and plasticisers/resins of plant origin;
- textile reinforcements with fibres from renewable sources;
- nanofillers for more stable compounds, lighter structures and highly impermeable liners;
- new silica surfactants to guarantee performance stability and processability;
- vulcanisation agents and stabilisers with reduced environmental impact.

The Joint Labs agreement (2017-2020) between Pirelli and Politecnico of Milan, aimed at research and training in the tyre industry covers nanotechnology, the development of new synthetic polymers, new bifunctional chemicals and new biopolymers.

Research continues aimed at diversifying the potential supply sources of natural rubber, to reduce pressure on biodiversity in producer Countries and allow the Company to manage the potential scarcity of raw materials with greater flexibility, with further focus on raw material sustainability certified by globally recognized organizations.

Remaining in the field of biomaterials, Pirelli also focused on silica derived from rice husk. Rice husk is the outer shell of wheat and constitutes 20% of raw rice by weight, which is the main waste of this crop and is available in extremely important quantities in many areas of the world where it is still not valued but burned in the open without exploiting its full potential. Thanks to a partnership with various producers, Pirelli is evaluating the diversified procurement of high performance silica from processes that start from rice husk as feedstock. The combustion of the carbonaceous part of husk allows a reduction of more than 90% of the quantity of CO_2 emitted per kg of silica compared to the conventional process, which instead exploits fossil energy sources.

Resins and plasticizers from renewable sources have been introduced and the current grades are gradually extended to other segments of tyres while the search for new grades continues.

Specific projects have been launched for the development of new materials from renewable sources focused mainly on the use of waste feedstock as is done through the framework agreement CORIMAV (Consortium for Research on Advanced Materials) signed with the Bicocca University, which allows the evaluation of new oils from waste biomass.

As part of new nanofillers, Pirelli has started to industrially introduce materials of mineral origin in partial replacement of precipitated Silica and Carbon Black. Compared to the production processes of the raw materials replaced, the aforementioned innovations have guaranteed water savings and more than 75% of reduction in CO_2 emissions, saving respectively 1,000 tons of water and 450 tons of CO_2.

In addition, in collaboration with Università degli Studi of Milan Bicocca and Politecnico of Milan, Pirelli is developing Silica particles with an elongated shape that will allow to further reduce fuel consumption.

On research and development of raw materials with low environmental impact, the Sustainability Plan foresees, for specific product segments, the doubling of the weight of renewable materials used and the reduction by 30% of raw materials derived from fossils by 2025 and compared with 2017.

Further information on Pirelli's Research & Development activities can be found in the "Directors' Report on Operations" of this Annual Report.

PRODUCT AND USE PHASE: GREEN PERFORMANCE TARGETS

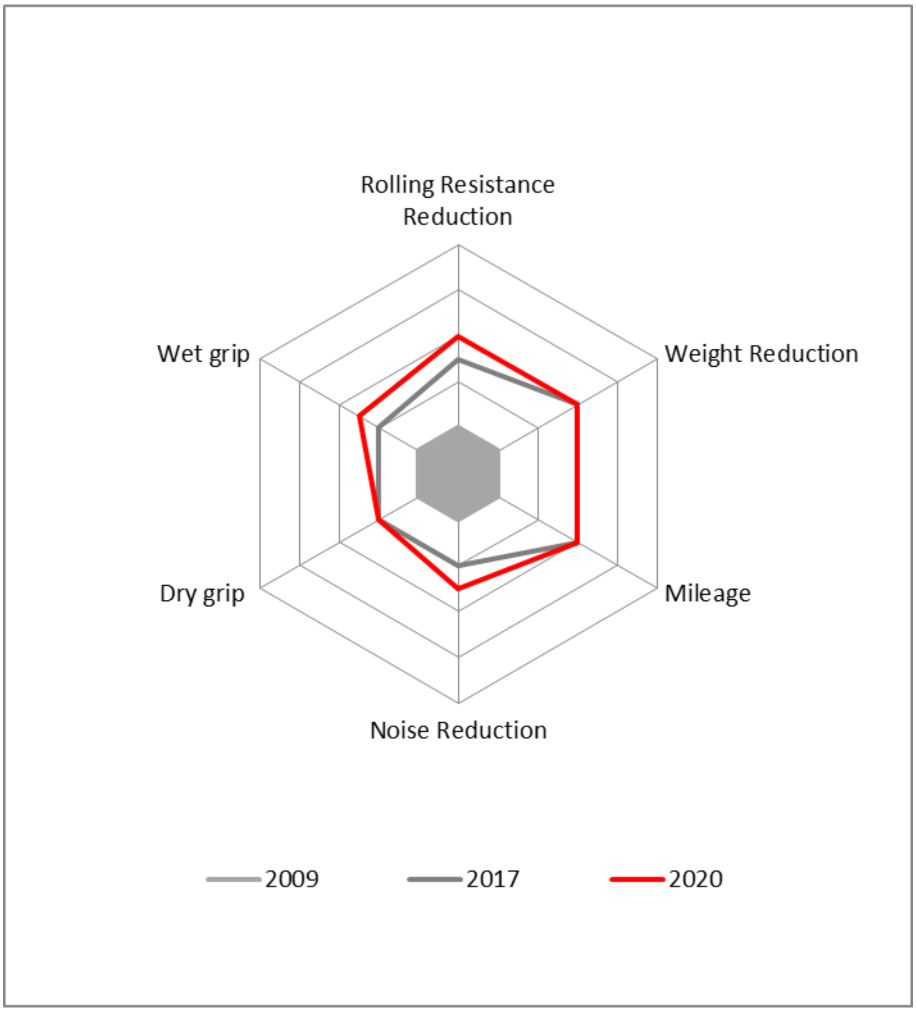
In line with its position in the Premium and Prestige segments, Pirelli develops and introduces increasingly sophisticated products on the market, responding to a macroeconomic scenario in constant and rapid evolution. The major corporate investment in research and development on compounds, structures and tread patterns allows Pirelli products to achieve extremely high performance in terms of braking in dry and wet conditions and, at the same time, improved environmental performance such as:

- less rolling resistance – lower CO_2 emissions;
- less noise – reduced noise pollution;
- increased mileage – lengthening of tyre life and reduced exploitation of resources;
- reduced weight – less use of raw materials and lower impact on natural resources.

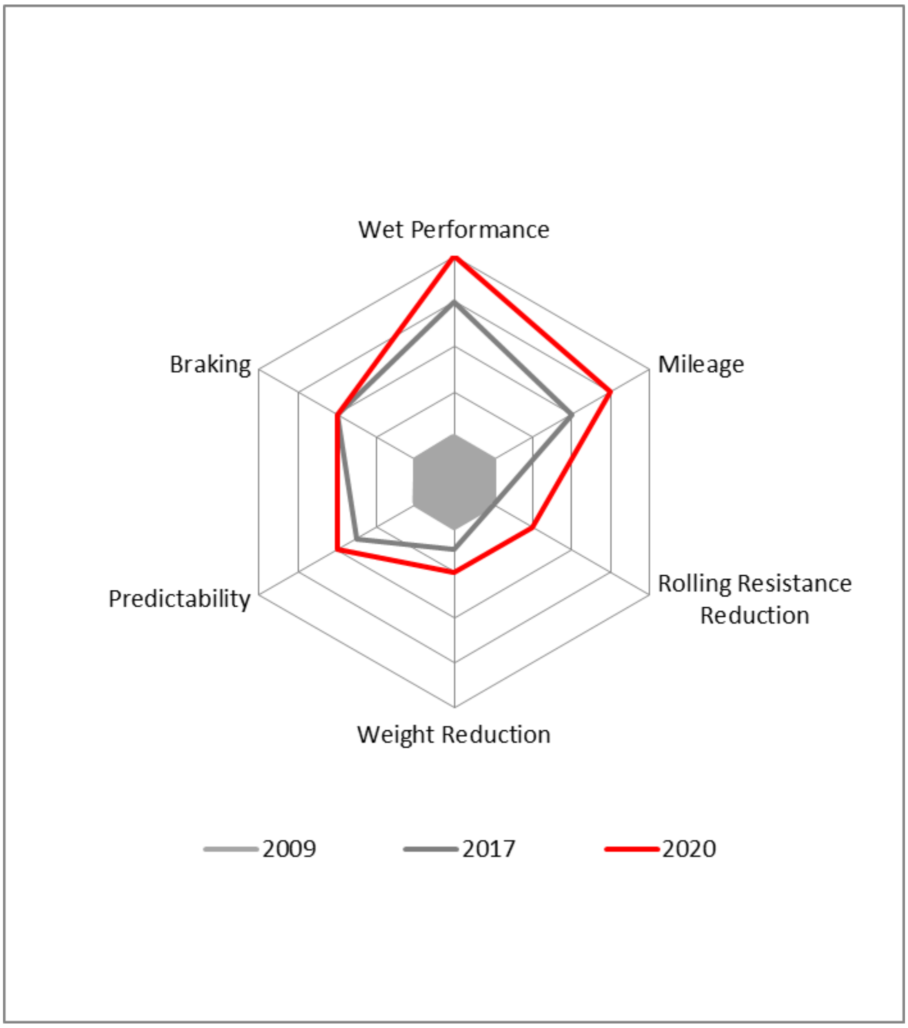
Pirelli has adopted targets for improvement of the environmental performance of its products in an objective, measurable and transparent manner. In terms of materiality regarding the entire life cycle of the product, it was seen that the rolling resistance related to the use phase of the tyre constitutes by far the factor with most impact in environmental terms. In this regard, Pirelli has committed to reduce by 2020, compared to the 2009 average, the average weighted rolling resistance of its products by 20% with regard to Car tyres and 10% for Motorcycle products, as shown in the graphs below.

At the end of 2017 the average rolling resistance of CAR products shows a reduction of 15% compared to the average 2009.

CAR



MOTORCYCLE



Green Performance[18] products include the CINTURATO P7™ Blue, with this solution Pirelli was the first manufacturer in the world present on the market with a tyre that, in some measurements, boasts the double A in the Eurolabel scale. This product is available, depending on the measurements, both in double A class and in B class of rolling however always maintaining A for wet grip. On average, the CINTURATO P7™ Blue guarantees 23% less rolling resistance than the Pirelli reference (class C of rolling resistance) and therefore, lower fuel consumption and less harmful emissions. A vehicle with CINTURATO P7™ tyres that runs 15,000 km a year consumes 5.1% less fuel (equivalent to 52 litres), and reduces greenhouse gas emissions of 123.5 kilograms of CO_2 and has a braking distance on wet 9% lower compared to Pirelli reference (class B of wet grip) of the same segment. Comparative tests of TÜV SÜD showed that, at a speed of 80 km/h on wet surface, the tyre CINTURATO P7™ Blue reduces braking by 2.6 meters compared to a tyre classified B. The CINTURATO P7™ Blue was developed for medium-high cylinder capacity cars,

[18] Green Performance products identify the tyres that Pirelli produces throughout the world and that fall exclusively under rolling resistance and wet skid resistance classes A, B, C according to the labelling parameters set by European legislation.

as a further evolution of the CINTURATO P7™, famous Pirelli Green Performance tyre presented in 2009.

In 2017, Pirelli presented a new generation of CINTURATO P7™ Blue. Thanks to this evolution, the CINTURATO P7™ Blue is the world's tyre with the highest number of measures that boast double A of the European label. This important result was achieved thanks to the technological evolution that in recent years has seen it protagonist. In fact, the new tyre CINTURATO P7™ Blue has the characteristics of success of the previous generation and improves some performance, in line also with the development of the car sector, increasingly sensitive to sustainability issues. The new generation of the CINTURATO P7™ Blue has a very low Rolling Resistance, resulting in savings in fuel costs and reduced CO_2 emissions, with benefit for the environment. At the origin of this improvement is the Low Rolling Technology Package: a package that combines new construction processes in the area especially of the belt and the use of the latest internal materials. This package, developed at Pirelli's most technologically advanced plant of Settimo Torinese, is mainly based on a new control system for the various phases of vulcanization, which allows measuring the ideal thermal input for the different materials, and on optimization of the area of 0 degrees and of the belt, for a better distribution of pressure, which guarantees high performance and braking safety in all conditions. One of the great results achieved by Pirelli engineers was to reduce Rolling Resistance, through the adoption of a new generation of patented internal materials, while maintaining high performance in terms of dry and wet grip and ensuring a high level of driving safety. The previous generation of the tyre CINTURATO P7™ Blue has become a reference point for mid-high cylinder capacity sedan and coupè owners, earning 11 podiums in 14 tests in the international press (including 3 first places).

The year 2017 also saw the approval for the new electric SUV Jaguar e-Trophy (electric racing version of the I-Pace) presented at the last Frankfurt Motor Show.

Also in the field of high performance cars, attention to the environment has become a discriminating element with the challenge of reducing Rolling Resistance while maintaining performance at the level expected for this segment.

As for motorcycles, we note the new METZELER ROADTEC™ 01 product line dedicated to the sport touring segment which, in the motorcycle market, is among the most significant and demanding in terms of sales volumes and performance expectations, based on a very wide range of use from commuting to long-distance tourist cruising to the most sporty applications of users who wish to broaden the spectrum of seasonal and environmental use of their vehicle.

The focus of the new ROADTEC™ 01 product is mainly in the drainage and wet grip areas, with important wet braking performance, especially on low grip surfaces: performance that we consider rewarding for its significant connotation with respect to safety margins in emergency manoeuvring such as panic braking.

The internal tests indicated an improvement of up to 10% in low-grip braking spaces (friction coefficient less than 0.5) compared to the predecessor product ROADTEC™ Z8 INTERACT™.

The main independent press tests confirmed the performance leadership of the new product compared to its competitors.

Pirelli has also launched a new line of tyres dedicated to bikes: PZero™ Velo. “Perfect balance” is one of the key characteristics of the new tyres, characterized by optimal and balanced performance, in terms of rolling resistance and wet grip, dry grip, manageability, puncture resistance and durability (intended not only as time durability, but above all as constant performance over time). To meet similar design requirements, Pirelli researchers worked on three fronts - the shape and construction of the tyre, the tread pattern and the compound - developing F1® and Superbike derivation technologies as in the case of the design, or elaborating exclusive and innovative patents, as in the case of the compound. Pirelli has in fact developed a new patent dedicated to the bike world: SMARTNET™ Silica, a hi-tech molecule that allows maximum performance, balanced on all fronts. It has been developed by Pirelli chemical laboratories for exclusive cycling use.

In 2017, Pirelli reorganized its CYBER™ technologies which, based on the introduction of sensors inside the tyre, will contribute in the future to providing information aimed at increasing the safety or performance of vehicles, including monitoring the state of health of the tyre which, if maintained at the correct inflation pressure, can have a positive influence on fuel consumption and vehicle emissions.

CYBER™ technologies are divided into products dedicated to replacement (PIRELLI CONNESSO™), original equipment (CYBER CAR™ and CYBER TYRE™) as well as platforms developed for fleet management (CYBER™ Fleet); some of these solutions are expected to enter the market as early as 2018.

Among the Open Innovation initiatives, we highlight the Joint Labs agreement between Pirelli and the Politecnico of Milan, created in 2011, aimed at research and training in the tyre sector, in particular through the development of innovative materials and technologies for sustainable and increasingly safe mobility. The new phase of the three-year agreement (2017-2020) focuses on two research macro-areas: the area of design of innovative materials and the area of product development and CYBER™. In particular, the following are the thematic areas on which researchers will focus:

- New Materials: modification of polymers; nanofillers; protective materials for the tyre; new materials with low environmental impact; molecular dynamics;

- Area of product development and CYBER™: noise; aquaplaning; aerodynamics of the tyre; development of mathematical models that allow the chip contained in the CYBER TYRE™ to extract useful information for intelligent vehicle control and the development of value-added services.

Even before its renewal, the agreement led to important results in terms of tyre performance, safety and sustainability, thanks to the use of advanced materials. Research over the past three years has focused mainly on the production and functionalisation of carbonaceous fillers (from graphene, to nanotubes to carbon black); on the preparation of modified silicate fibers; on the study of alternative natural rubber sources up to the synthesis of innovative polymers and self-repairing materials. Attention has also been paid to the disciplinary field of mechanics, where, since 2011, 12 research contracts have been activated in the CYBER TYRE™ and in the F1® field, with the study of tyre-asphalt interaction. One area of particular interest was the study of low-noise tyres (Silent Tyre project). In fact, innovative test methods have been applied for the indoor measurement of the acoustic field generated by the rolling tyre.

MANAGEMENT OF END-OF-LIFE TYRES

In terms of materiality, the end-of-life phase of the product has a low proportion of the total impact of the tyre on the environment, as already highlighted in the infographic related to the Group's environmental strategy.

In Europe, about 95% of end-of-life tyres (ELTs) are recovered (Source ETRMA 2015 ELT Management figures 2015), in Japan the value is 92% (source: JATMA - Tyre Industry of Japan 2017), while in the US the amount of recovered tyres comes to 88% (source: RMA - 2015 US Scrap Tyre Management).

For years, Pirelli has been engaged in the management of ELTs. The Company actively collaborates with the main reference entities at national and international level, promoting the identification and development of solutions to enhance and promote the sustainable recovery of ELTs, shared with the various stakeholders and based on the Circular Economy model.

In particular, Pirelli is active in the Tyre Industry Project (TIPG) of the World Business Council for Sustainable Development (WBCSD), in the ELT working group of ETRMA (European Tyres and Rubber Manufacturers' Association) and, at national and local level, it interacts directly with leading organisations active in the recovery and recycling of ELTs.

As a member of TIPG, Pirelli Tyre has collaborated on the publication of a report on the management of ELTs, taking a proactive approach to raising the awareness both within emerging Countries and those that do not yet have a system for recycling ELTs, in order to promote their recycling and reuse according to defined management models, which have already been launched successfully.

The tyre is a mixture of many valuable materials that at end-of-life allow two paths of recovery: recovery of material or energy. In the recovery of material, the reclaimed rubber is already reused by Pirelli in the compounds for new tyres, thus contributing to the reduction of the related environmental impact. In order to increase this recovery rate, research activities continue aimed at improving the quality of recovered materials in terms of affinity with the other ingredients present in the compounds.

ENVIRONMENTAL IMPACT OF PIRELLI'S PRODUCTION SYSTEM

ENVIRONMENTAL MANAGEMENT SYSTEM AND FACTORY'S PERFORMANCE MONITORING

All the production sites of Pirelli Tyre, except for the plant in Jiaozuo and the tyre testing field in Vizzola Ticino, have Environmental Management Systems and are certified under International Standard ISO 14001. The International Standard ISO 14001 was adopted by Pirelli as a reference in 1997, and since 2014, all the certificates have been issued with international accreditation ANAB (ANSI-ASQ National Accreditation Board: accrediting entity of the United States).

In 2017, the Pirelli Tyre production sites began the transition process of their Environmental Management System from ISO 14001:2004 to the 2015 version. In the same year, for the Jiaozuo plant, activities were started for the implementation and certification of the Environmental Management System according to the aforementioned ISO standard.

Group policy mandates implementation and certification in accordance with ISO 14001. As such, it is also applied to new facilities. The certification activity, together with control and maintenance of previously implemented and certified systems, is coordinated on a centralised basis by the Health, Safety and Environment Department.

The environmental, health and safety performance of every tyre manufacturing site is monitored with the web-based Health, Safety and Environment Data Management (HSE-DM) system, which is processed and managed centrally by the Health, Safety and Environment Department. Pirelli has also developed the CSR-DM (Corporate Social Responsibility Data Management), an IT system for managing Group Sustainability information, which is used to consolidate the environmental and social performance of all Group business units worldwide. Both systems support consolidation of the performance accounted for in this report.

SCOPE OF REPORTING

The performances described concern the three years 2015-2016-2017 and cover the same scope of Group consolidation.

Following the change in the industrial scope that took place in 2017, which saw the exit of the Industrial Business Unit, the historical values of the environmental indicators reported below for the years 2015 and 2016 were recalculated following the principles set out by the GRI in order to guarantee the comparability of the data.

The amount of finished product in 2017 was approximately 786,700 tons.

As noted above, the performance reported below in this chapter include the impacts of all the units of the Pirelli Group: from industrial realities to commercial and administrative sites.

TREND IN ENVIRONMENTAL PERFORMANCE INDICES

In terms of materiality of environmental impacts (Carbon and Water Footprint) of the tyre along the entire life cycle, the production phase accounts for 2.5% of total emission impacts and for 10.9% of total water consumption.

The year 2017 saw a growth in production volumes: tons of finished product increased by around 4% compared to the previous year (value calculated on a comparable basis).

The 2017 environmental performance indicators, calculated on tons of finished product, show a general improvement of all specific indices reported: energy consumption, waste recovery, water withdrawal and greenhouse gas emissions. The same positive result of the indicators is also recorded for the indices referring to the operating result (compared to the value of EBIT Adjusted).

It is noted that the trend of the above indices will be significantly impacted by the production focus adopted. Pirelli production is focused on Premium and Prestige tyres, and production processes are characterized by higher energy intensity, more stringent quality specifications, more complex processing and smaller production batches compared to production processes for medium-low end tyres. In the aforementioned context, the reduction in indices is of strong environmental and economic value, in terms of consumption and emissions avoided, unused resources, and avoided costs.

Energy Management

Pirelli monitors, manages and reports its energy consumption through three main indicators:

- absolute consumption, measured in GJ, which includes the total consumption of electrical energy, thermal energy, natural gas and petroleum derivatives (fuel oil, gasoline, diesel, and LPG);
- specific consumption, measured in GJ per ton of finished product, which indicates the energy used to produce one ton of finished product;
- specific consumption, as measured in GJ per euro of Operating Income.

The Sustainability Plan provides for a reduction of 19% of specific energy consumption by 2020 compared to 2009 values.

In the course of 2017, the energy efficiency plan continued at all Group plants, already initiated in recent years and characterised by actions aimed at:

- improving energy management systems, through measurement consumption and a daily focus on technical indicators;
- optimizing the procurement of energy resources, direct or indirect;
- improving the quality of energy transformation;
- improving the efficiency of distribution plants;
- improving the efficiency of production plants;
- recovering energy for secondary uses;
- applying targeted maintenance plans in order to reduce energy waste.

With a view to Life Cycle Assessment, the specific consumption of each production machinery is also mapped to increase the standard indicators of reference, compare similar machinery families and assess in detail the energy content of the different families of products and sub-products.

In terms of “compliance”, every industrial facility completely fulfils the indications of law regarding energy consumption and management. The legislative situation affecting the Company includes the introduction of periodic audit mechanisms on energy management and use, as well as possible tariff incentives. In this regard, there were no critical elements or non-conformities.

Actions and investments for energy efficiency are alongside the assessment of environmental impacts to economic sustainability criteria normally applied to all Pirelli projects. The areas for technical action both concern the traditional themes applied to each industrial area, such as modernisation of thermal insulation, maintenance of distribution plants, use of technologies using inverters, and special projects assessed according to the needs of each manufacturing site.

In 2017, various interventions were made. In particular, the installation continues of LED lighting systems (Light Emitting Diode) to replace less efficient systems. To speed up the replacement plan, Pirelli also uses “Light Service” contracts, which guarantee both energy savings of more than 50% and the quality of light achieved. Great attention was placed to efficiency in the transformation of thermal energy and the recovery of thermal waste for heating of premises. Excellent results were achieved in reducing compressed air and steam losses both on machinery and on distribution lines, also as a result of energy audit activities. In addition, the electrical absorption measurements carried out on the individual equipment have made it possible to correlate the specific consumption to production in greater detail, in order to optimize the operating conditions.

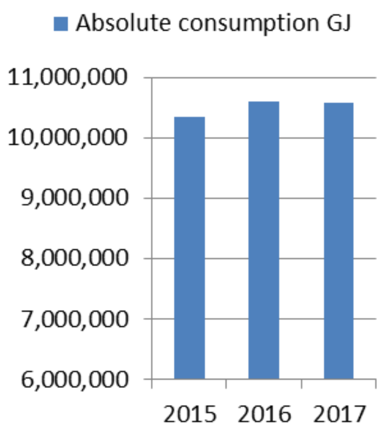
The year 2017 recorded an improvement in the specific energy index (weighted on tons of finished product) of about -4% compared to 2016 and over -15% compared to 2009, the year on which the 2020 target is based.

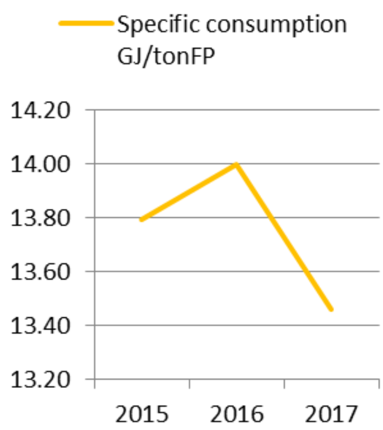
The energy efficiency plan applied to factories and the increase of finished product volume compared to the previous year, in 2017, saved about 177,365 GJ, a contribution scalable from the various energy sources used. This value was calculated for each factory on the basis of the production volumes of the reporting year and the change in efficiencies achieved in 2017 from the previous year.

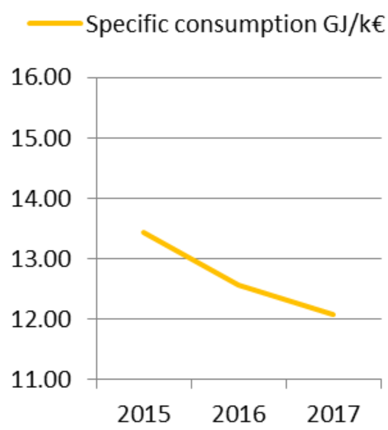
The absolute and specific consumption data reported in the following table were calculated by using direct measurements according to procedure (GHG Corporate Standard) and were subsequently converted into GJ by using heating values from official IPCC sources.

		2015	2016	2017
Absolute consumption	GJ	10,340,097	10,604,897	10,591,117
Specific consumption	GJ/tonFP	13.79	14.00	13.46
	GJ/k€	13.45	12.57	12.08

The same 2017 figures, weighed in economic terms, show an improvement compared to the previous year.

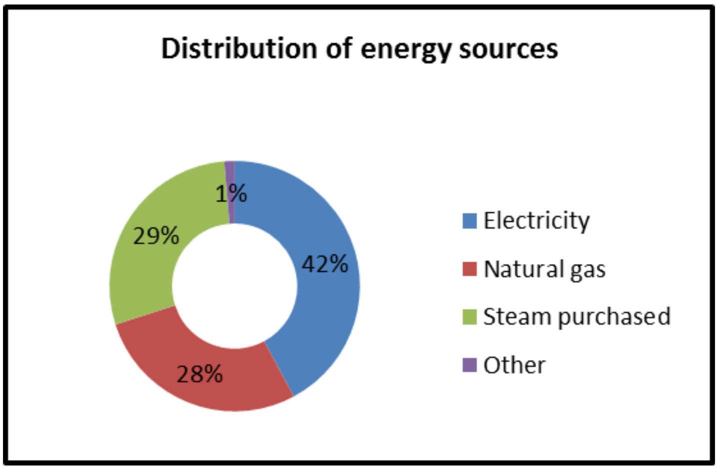






The graph below highlights the “Distribution of energy sources” used in Pirelli production process: among the direct sources, all of non-renewable origin, which account for 29% of the total, are natural gas and, to a lesser extent, other liquid fuels such as oil, LPG and diesel (classified as “other”); the remaining 71% is formed from indirect sources such as electrical energy and steam purchased.

Of the total electricity used by the Group, more than 43% derives from renewable sources (calculation based on IEA data) while for steam, the portion generated by renewable sources corresponds to around 7% of the total.



Management of Greenhouse Gas Emissions and Carbon Action Plan

Pirelli monitors and reports its[19] emissions of greenhouse gases through the calculation of CO_2eq, which takes into account the contribution of carbon dioxide and of methane (CH_4) and nitrous oxide (N_2O). To quantify emissions, the energy consumption of local units (under operational control) included in the scope of reporting are collected annually through the CSR-DM IT system.

Greenhouse gases are generated by the combustion of hydrocarbons at production sites, mainly to operate heat generators that power Group plants, and particularly those that produce steam for vulcanisers, or by the consumption of electrical or thermal energy. The first are called "direct emissions", or Scope 1 emissions, insofar as they are produced at Company production sites, while the emissions resulting from electrical power or thermal energy consumption are defined as "indirect emissions", or Scope 2 emissions insofar as they are not produced within the perimeter of company production sites but at the plants that generate the energy and steam purchased and consumed. The Scope 2 emissions are reported in two separate ways: location-based and market-based (methodology introduced with the "GHG Protocol Scope 2 Guidance" guidelines). It is recalled that the Scope 3 emissions, related to the specific activities of Pirelli Suppliers, are discussed in the paragraph "Our Suppliers"/"CDP Supply Chain", to which reference is made for further information. Instead, reference is made to the Group Footprint infographics for the representation of the impacts of Scope 3 of the various phases of the life cycle.

Performance as measured by energy and greenhouse gas emissions is calculated on the basis of emission factors obtained from the following sources:

- IPCC: Guidelines for National Greenhouse Gas Inventories (2006)[20];

[19] GHG inventory perimeter as indicated in the paragraph "Scope of Reporting"

[20] Emission factors expressed in CO_2 equivalent, obtained by considering the GWP (Global Warming Potential) coefficients based on 100 years of the IPCC Fifth Assessment Report, 2014 (AR5)

- Within Scope 2 location-based:
    - National emission factors[21] taken from IEA: CO_2 Emissions from Fuel Combustion[22];
- Within Scope 2 market-based:
    - Specific emission factors of suppliers where available;
    - Residual-mix emission factors[23] taken from RE-DISS AIB (EU)[24] and Green-e (US)[25];
    - Emission factors used in the context of location-based if other sources of data are not available;

and are reported according to the models proposed by:

- GHG Protocol: A Corporate Accounting and Reporting Standard;
- GHG Protocol Scope 2 Guidance.

Regarding Scope 2 CO_2eq emissions, the national average coefficients are defined with respect to the last year available on the above reports. It must be pointed out that tyre manufacturing industry is not carbon intensive: in fact, it is covered by the European Emission Trading Scheme only in reference to thermal plants having more than 20 MW of installed power. The Company is not subject to other specific regulations at the global level.

As in the case of energy, Pirelli monitors and accounts for its direct CO_2 (Scope 1) and indirect (Scope 2) by using three principal indicators:

- absolute emissions, as measured in tons;
- specific emissions, as measured in tons per ton of finished product;
- specific emissions, as measured in tons per euro of Operating Income.

The Pirelli management, calculation and reporting model of GHG emissions was defined according to the ISO 14064 Standard and the related data were subjected to specific limited audit, by independent third party, according to ISAE 3000.

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[21] Emission factors expressed in CO_2/kWh

[22] 2017 Publication with update to the 2015 figure

[23] Emission factors expressed in CO_2/kWh

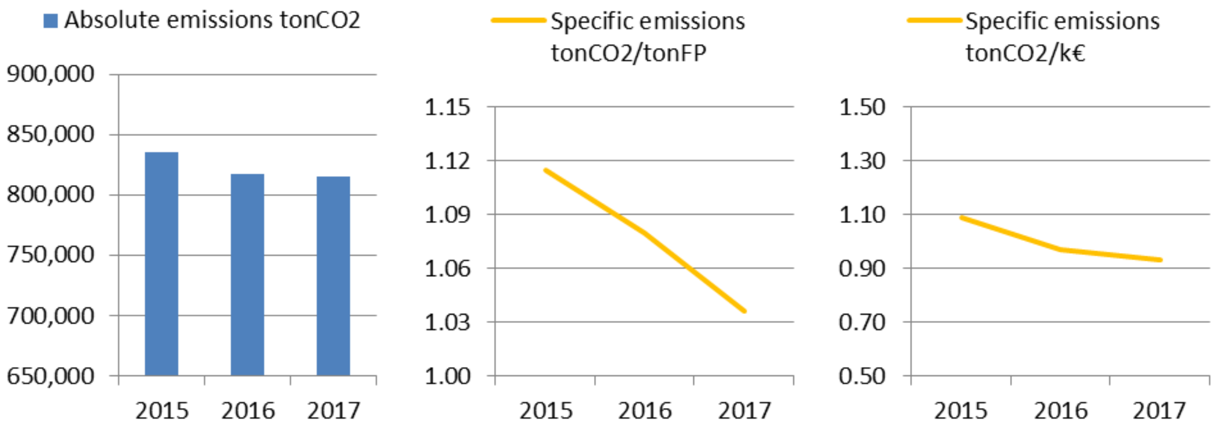
[24] 2017 Publication with update to the 2016 figure

[25] 2017 Publication with update to the 2016 figure

According to the Guidelines of the GHG Protocol Guide, the level of inventory uncertainty was evaluated as "Good".

The Sustainability Plan envisages a reduction in specific emissions (on tons of finished product) of CO_2 equal to -17% by 2020 compared to 2009 values. At the time, the target was developed according to the methodology in force, i.e. Scope 1 and Scope 2 "location-based".

The following tables show the performance of the last three-year period:



In 2017, Pirelli recorded a reduction in specific emissions (weighted on tons of finished product) of more than -4% compared to 2016 and more than -9% compared to 2009, the year on which the 2020 target is based.

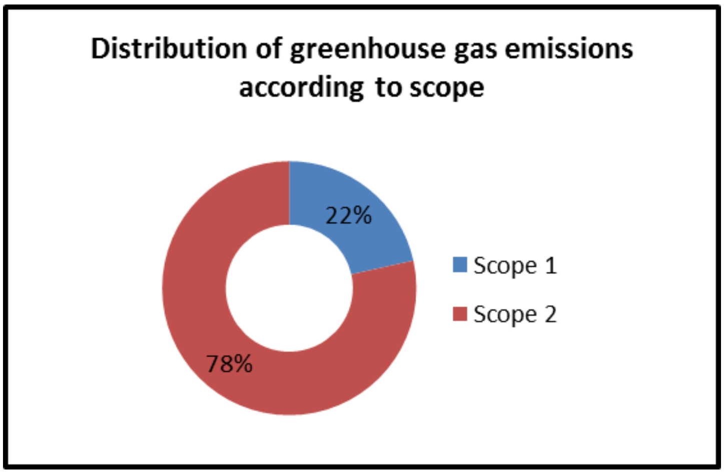
As regards biogenic CO_2 generated from the small production facility of silica from rice husk, Pirelli emitted in 2017 about 1,388 tons of CO_2eq. This quantity is not counted in the Group's absolute emissions mentioned above, as originated from biogenic fuel.

The portion of indirect emissions generated by the projects implemented in Silao (Mexico), Slatina (Romania) and Campinas (Brazil) - described below - was reported as prescribed by the Guidelines of the GHG Protocol, respectively for the procurement of electrical energy from renewable sources and steam from biomass.

The following table reports absolute and specific emissions distinguishing between "location-based" and "market-based" methodology for Scope 2:

GHG EMISSIONS ACCORDING TO SCOPE		**2015**	**2016**	**2017**
Absolute emissions (Scope 1 and 2 location-based)	ton	835,656	818,082	815,249
Scope 1	ton	180,633	171,281	175,347
Scope 2 (location-based)	ton	655,023	646,801	639,902
Scope 2 (market-based)	ton	733,262	719,396	659,145
Specific emissions (Scope 1 and 2 location-based)	ton/tonFP	1.115	1.080	1.036
	ton/k€	1.09	0.97	0.93

The following infographic highlights the weight of direct emissions (Scope 1) and indirect emissions (Scope 2 location-based) of the total absolute emissions of Pirelli.



The improvement in 2017 performance related to greenhouse gas emissions is associated with the energy efficiency measures described in the previous paragraph and is closely linked to the "Carbon Action Plan" developed by Pirelli with the aim of increasingly resorting to renewable energy sources through specific projects. These include:

- the cogeneration plant for the production of electricity, steam and hot water, present at the plant in Settimo Torinese (Italy). There are two cogeneration modules, for a total of nearly 6 MW of electricity: a 4.8 MW turbine unit powered by natural gas and a 1 MW internal combustion engine powered by vegetable oil, which ensures supply of thermal energy from renewable sources;

- the supply of steam generated by biomass plant, fuelled with waste wood from local supply chains, activated for the plant in Campinas (Brazil). In the year 2017, this initiative has allowed replacing more than 59 GWh of energy from fossil sources, for a savings in terms of CO_2 emissions avoided of more than 11,000 tons (Scope 2). In consideration of the obvious environmental benefits of this technology, Pirelli is considering extending the project to other plants in Brazil;

- the procurement of electrical energy from renewable sources at the plant in Silao (Mexico). In 2017, the agreement continued for the dedicated supply of 3 MW electrical generated from wind sources, to cover nearly 30% of electrical consumption of the production unit, with economic advantages with respect to the purchase of energy from the national grid. The annual savings in terms of emissions of CO_2 avoided was about 12,000 tons (Scope 2).

- the procurement of electrical energy from renewable sources at the plant in Slatina (Romania). In the year 2017, the portion of electricity certified from renewable sources exceeded 75% of the electricity consumption of the production site, for an annual savings in terms of CO_2 emissions of about 48,000 tons (Scope 2).

Water Management

Pirelli monitors the "Water Footprint" along the life cycle of the product (as extensively explained earlier in this chapter) and tyre manufacturing is the third most influential phase.

In the aforementioned environmental strategy of Pirelli, the efficient and responsible use of water in production processes and at workplaces is addressed comprehensively, with actions to improve water efficiency in production processes, from design of the machinery to Facility Management activities. Particular attention is paid to the local context of the use of this resource, with action plans identified also thanks to the use of specific analysis tools (such as the Global Water Tool of the World Business Council for Sustainable Development).

The Sustainability Plan set a reduction target of specific withdrawal of water of -66% by 2020 compared to the 2009 value.

The year 2017 recorded absolute withdrawal of about 8.3 million cubic meters, with a reduction of specific withdrawal of 14% compared to 2016 and of 62% compared to 2009.

Thanks to the actions implemented, since 2009, Pirelli has saved about 60 million cubic meters of water: an amount equivalent to the absolute withdrawal of about seven years of the entire Group.

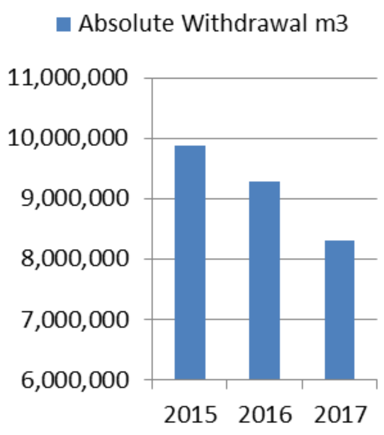
To provide an overall view of the performance in terms of water withdrawal year on year, the following tables report the indicators:

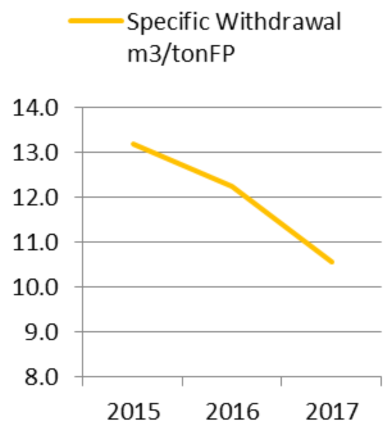
- absolute withdrawal, measured in cubic metres, which indicates the total uptake of water by the Group;

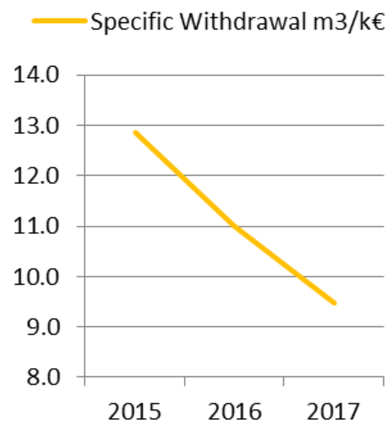
- specific withdrawal, measured in cubic metres per ton of finished product, which indicates the withdrawal of water used to make one ton of finished product;

- specific withdrawal, as measured in cubic metres per euro of Operating Income.

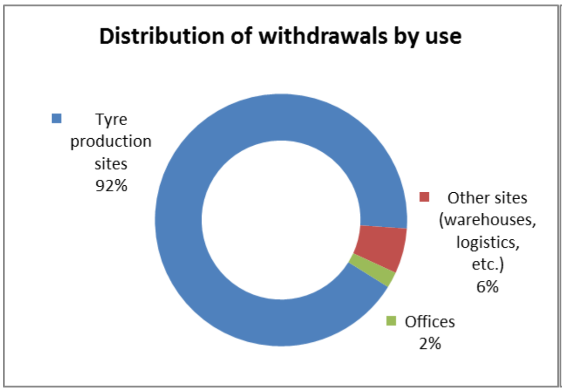
		2015	2016	2017
Absolute Withdrawal	m^3	9,887,000	9,279,000	8,310,000
Specific Withdrawal	m^3/tonFP	13.2	12.2	10.6
	m^3/k€	12.9	11.0	9.5

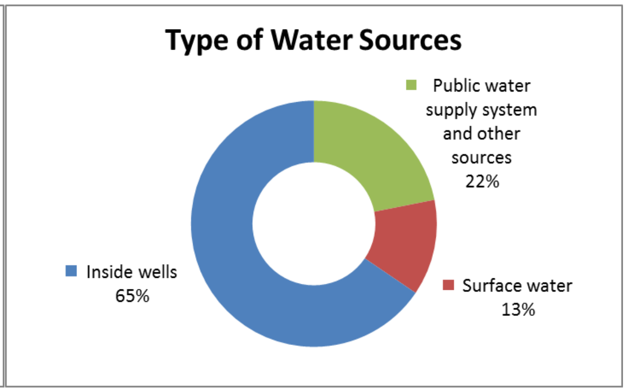






All the figures reported in this section have been collected by taking direct or indirect measurements, and are communicated by the local units. The following two graphs show the distribution of absolute withdrawals by type of use and water supply weight by type of source.





Type of Water Sources (m3)	
Public water supply system and other sources	1,819,000
Surface water	1,047,000
Internal wells	5,444,000
Total	8,310,000

About 65% of the water withdrawn is pumped from wells inside the facilities and authorized by the competent authorities. Furthermore, Pirelli obtains 13% of its requirements from surface water, while dedicating special care to guaranteeing that this withdrawal is marginal in relation to the volume of the affected water bodies (always less than 5%). The volume of water emitted from water bodies located in protected areas is completely marginal, being equal to 2,300 cubic meters. Lastly, about 164,000 cubic metres of water used, equivalent to approximately 3% of total withdrawal, are obtained from the waste water treatment of its production processes.

A total of about 6.2 million cubic metres of domestic and industrial waste water were discharged, with 58% of this into surface water bodies, always in quantities that are marginal (less than 5%) in relation to the volume of the receiving bodies and without significantly impacting biodiversity. The remaining amount was discharged into sewer networks. Before being discharged into the final recipient, industrial waste water – adequately treated as necessary – is periodically subjected to analytical tests that certify substantial compliance with locally applicable statutory limits. In particular, as regards the quality of industrial effluents of the production facilities, indicative average values are: 10 mg/l of BOD_5 (Biochemical Oxygen Demand), 43 mg/l of COD (Chemical Oxygen Demand) and 13 mg/l of Total Suspended Solids.

Waste Management

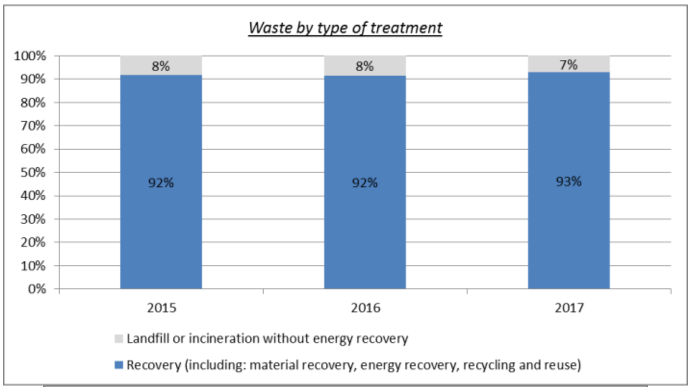
The improvement of environmental performance deriving from the management of waste is achieved through:

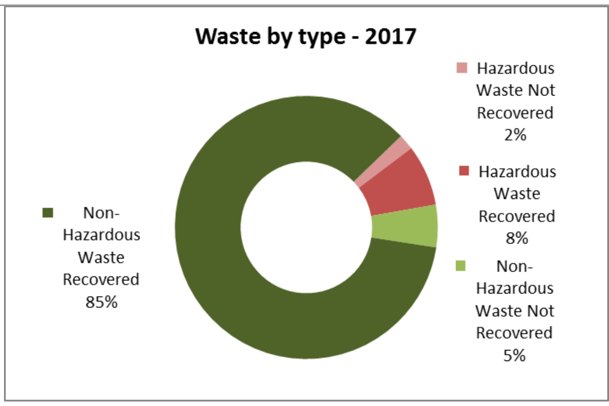
- innovation of production processes, with the aim of preventing the production of waste at the source, progressively reducing the processing of rejects and replacing current raw materials with new materials that have a lower environmental impact;
- operating management of generated waste, aimed at identifying and ensuring the selection of waste treatment channels that can maximise recovery and recycling, gradually eliminating the amount sent to the landfill with the Zero Waste to Landfill vision;
- streamlining packaging management, both for the packaging of purchased products and the packaging for products made by the Group.

The Sustainability Plan requires more than 95% of waste produced to be sent for recovery by 2020, with Zero Waste to Landfill vision.

In 2017, 93% of waste sent for recovery was reached, with an increase of one percentage point compared to the previous year and an increase of 24% compared to 2009, base year of reference.

Specific waste production stood at 140 kg per ton of finished product. Hazardous wastes represent 10% of total production and are sent in their entirety to plants located in the same Country where they are produced.

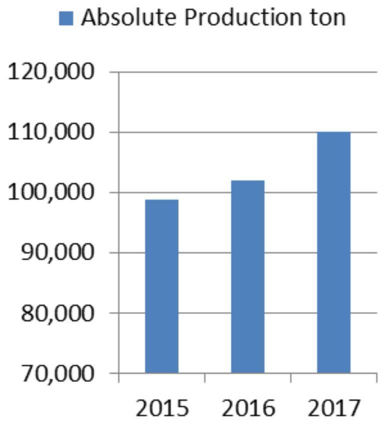


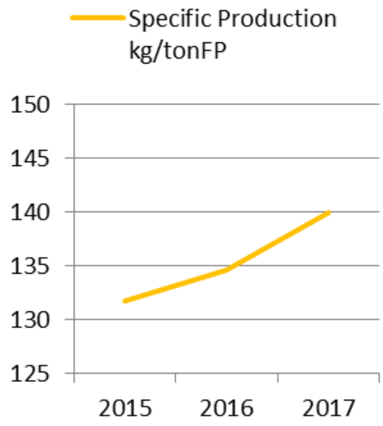


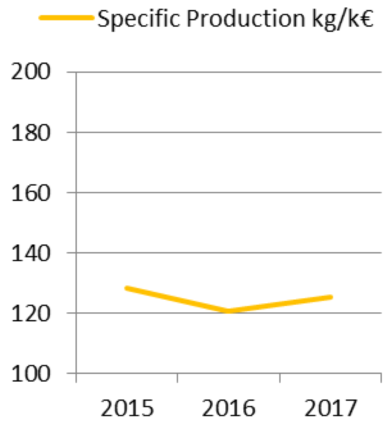
The graphs below detail waste production through three main indicators:

- absolute production, as measured in tons;
- specific production, as measured in kilograms per ton of finished product;
- specific production, as measured in kilograms per euro of Operating Income.

		2015	2016	2017
Absolute production	ton	98,800	102,000	110,100
Specific production	kg/tonFP	132	135	140
	kg/k€	128	121	126





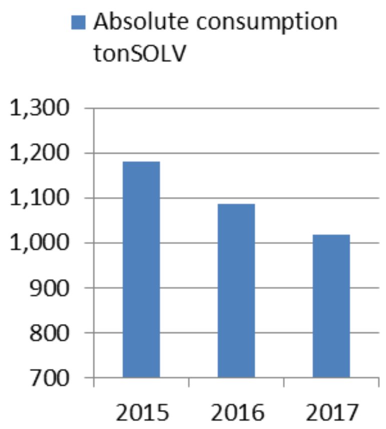


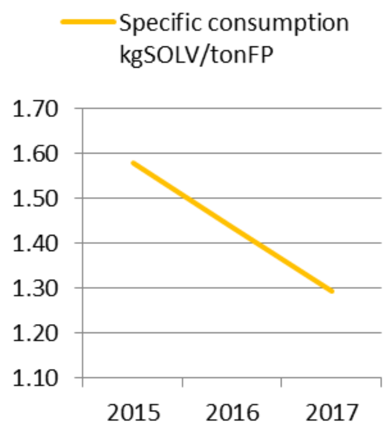
Other Environmental Aspects

Solvents

Solvents are used as ingredients in processing, mainly to reactivate vulcanised rubber, during the fabrication and finishing of tyres. Pirelli is committed to the progressive reduction of these substances, both by optimising their use, and by spreading solvent-free technologies for operations that may be performed even without their use. This resulted in a further reduction in the specific consumption of solvents of about 10% at the end of 2017 compared to the previous year and of about 60% compared to 2009, with related VOC (Volatile Organic Compound) emission slightly lower than total consumption.

		2015	**2016**	**2017**
Absolute consumption	tonSOLV	1,183	1,087	1,018
Specific consumption	kgSOLV/tonFP	1.6	1.4	1.3





Biodiversity

Pirelli pays the utmost attention to ensuring that corporate activities do not interfere with the biodiversity characteristic of the contexts in which the Company operates. Currently, the only Pirelli facility located within a protected and high value area for biodiversity is the facility in Vizzola Ticino (Italy). The Vizzola Ticino site contains the tyre test track, has an area of 0.37 square kilometres and is part of the area of Parco del Ticino in Lombardy, UNESCO MAB area (Man and Biosphere, a collection of 669 biosphere reserves located in 120 countries around the world). It features 23 species included on the IUCN (International Union for the Conservation of Nature) Red List, of which: 17 are classified as “of least concern (LC)”, 1 as “near threatened (NT)”, 3 as “vulnerable (V)”, 1 as “endangered (EN)” and one as “Critically Endangered (CR)”. To ensure the utmost protection of the natural environment in which the Vizzola test track is located, Pirelli has implemented an ISO 14001 certified Environmental Management System in accordance with the Parco del Ticino. Environmental impact on biodiversity in the area are not significant; however, several interventions were carried out, both directly by the Company and by the Park Authority, to mitigate and improve the interactions of Pirelli’s activities with the natural environment, as stipulated in the agreement signed in 2001. In 2016, a campaign to monitor air quality was carried out, which highlighted the substantial negligence of the impacts of the activity compared to the context in which the Vizzola test track is inserted.

In 2017, Pirelli continued in the compensation project of CO_2 emissions produced the previous year by its fleet of company cars, by purchasing carbon credits. Direct result of the Pirelli car policy, this initiative aims to promote the choice of vehicles that have lower environmental impact and support environmental protection projects. The cars of the Italian company’s fleet in 2016 issued 1,089 tons of CO_2. In order to offset this impact on the climate, Pirelli purchased carbon credits through two projects: an international one related to the production of energy from renewable sources and an Italian one based on sustainable forest management.

The first project, carried out in Turkey, consists in the construction and management of a wind farm of over 30 MWp, which allows producing and feeding electricity from renewable sources, avoiding at the same time emission into the atmosphere of climate-altering gases generated by the use of fossil fuels.

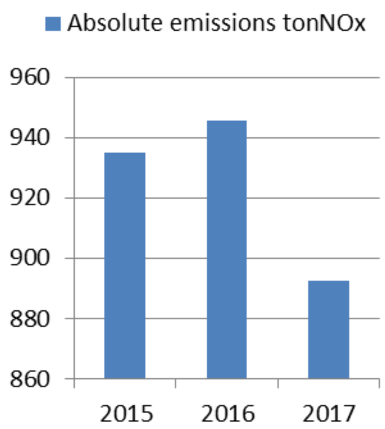
The second project, carried out in collaboration with the Municipality of Passerano Marmorito, supports sustainable forest management activities on a wooded area of about 11 hectares in the province of Asti. The planned silviculture interventions, which affect about 17,000 plants, have the effect of removing carbon dioxide portions from the atmosphere. The activities financed with Pirelli’s contribution will be carried out in 2018. The union of the two projects has allowed the decrease of portion of about 150% of emissions generated by company cars in 2016, thus going well beyond what is required by the policy with a view to increasing environmental responsibility.

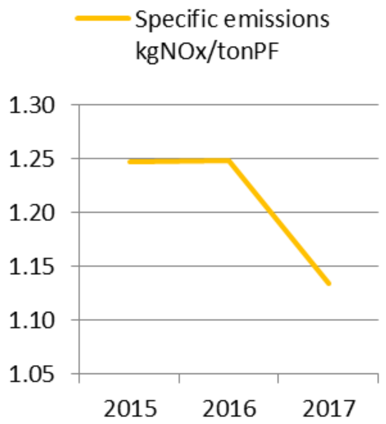
NO_x emissions

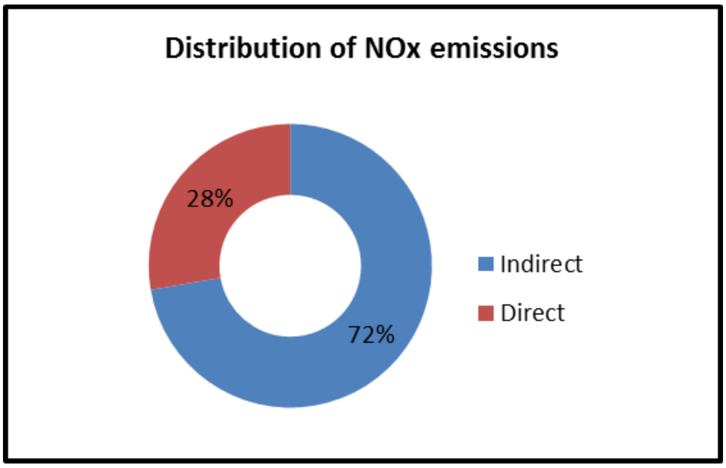
NO_x emissions derive directly from the energy-generating processes used. In 2017, the index based on tons of finished product decreased by 9% compared to 2016. Emissions were calculated by applying the emission factors indicated by the EEA (European Environment Agency) to the energy consumption data.

		2015	**2016**	**2017**
Absolute emissions	$tonNO_X$	935	945	893
Specific emissions	$kgNO_X/tonFP$	1.25	1.25	1.13

The following graph shows the 2017 weight of direct and indirect NO_X emissions out of total NO_X emissions.







Other emissions and environmental aspects

The production process does not directly use substances that are harmful to the ozone layer. These are instead contained in certain closed circuits of the cooling and air conditioning plants. Therefore, except for accidental and unforeseeable losses, there are no free emissions into the atmosphere that can be correlated with Pirelli manufacturing activities. In 2017, direct emissions of SO_X, caused by the combustion of diesel and fuel oil, was estimated to be about 19 tons (EEA - European Environment Agency emission factors). As regards the management of packaging, tyres are generally sold without packaging. The environmental management systems implemented at the production units have assured constant and prompt monitoring and intervention regarding potential emergency situations that may arise, as well as the reports received from stakeholders. During 2017, 3 spills of hydrocarbons occurred at the sites of Merlo (Argentina), Silao (Mexico) and Breuberg (Germany). All spills, of which no more than one cubic meter of spilled volume, were promptly resolved in consultation with the competent authorities, without entailing the payment of significant penalties. Furthermore, there were no significant complaints related to environmental issues, nor any related sanctions.

Expenses and Investments

In the three-year period 2015-2017, environmental expenditure related to the production process exceeded Euro 35 million, of which about 36% was allocated in 2017. Of this amount, 96% concerned normal management and administration of factories, while the remaining 4% was dedicated to preventive measures and improvement in environmental management.

Lastly, it is noted that, consistent with the materiality analysis at the beginning of this section of the report, the most significant expenses that Pirelli dedicates to the environment are those relating to product Research & Development: in 2017, the Company invested Euro 221.5 million in research and innovation of its products, with a constant focus on safety performance and reduction of environmental impacts and, simultaneously, production efficiency.

In addition to the above, during the year, the Company started a process to refine the methodologies to track the “green” portion of investments, in order to promote the choice of alternatives with lower environmental impact. In support of this activity, in 2017, a first Internal Carbon Price model was developed for the economic quantification of the impacts associated with GHG emissions for some selected projects (currently being tested).

SOCIAL DIMENSION

HUMAN RIGHTS GOVERNANCE

Pirelli bases its activities on compliance with the universally established Human Rights, as fundamental and indispensable values of its culture and business strategy, working to manage and reduce potential risks of violations and in order to avoid causing – or contributing to causing – adverse impacts to these rights in the international, multi-racial, socially and economically diverse context in which it operates.

The Company promotes respect for Human Rights and adherence to international standards applicable at its Partners and Stakeholders and informs its governance to the Global Compact of the United Nations, to the ISO 26000 Guidelines, to the dictates of the SA8000® Standard and underlying international standards, and the recommendations contained in the UN Guiding Principles for Business and Human Rights, implementing the Protect, Respect and Remedy Framework.

The human rights management processes are handled by the Pirelli Sustainability & Risk Governance Department, which acts in concert with the affected and responsible functions, central and in the various Countries, with reference to both the Internal and External Community.

Pirelli's commitment to human rights is covered extensively in the Group "Global Human Rights" Policy, as well as in "The Values and Ethical Code", in the "Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment", in the "Global Health, Safety and Environment" Policy, in the "Privacy" Policy, in the "Equal Opportunities Statement" and in the "Sustainable Natural Rubber Policy". These documents were communicated to employees in the local language and are published on Pirelli's website in multiple languages.

In particular, Pirelli's "Global Human Rights" Policy describes the management model adopted by the Company in respect of core Rights and Values such as occupational health and safety, non-discrimination, freedom of association, refusal of forced labour, guarantee of decent work conditions in economic and sustainable terms and in terms of working hours, protection of rights and values of local communities, refusal of any form of corruption, protection of privacy.

To identify, assess, prevent and mitigate the risks of violation of Human Rights, the Company:

- ensures awareness among its employees through information and training starting from the course for new recruits (in this regard, reference is made to the paragraph "Training on Sustainability" in this report);

- manages its supply chain responsibly and specifically includes respect for human rights in the selection parameters of its suppliers, the contractual clauses and verifications carried out by third-party audits. Pirelli also requires its suppliers to implement a similar business model on their supply chain, including adequate due diligence aimed at certifying that the products and materials provided to Pirelli are "conflict free" throughout the supply chain. With specific reference to the natural rubber context, Pirelli promotes decent working conditions, development of local communities and prevention of conflicts related to land ownership.

- is open to cooperation with governmental and non-governmental, sectoral and academic entities in relation to the development of global policies and principles aimed at protecting human rights.

- before investing in a specific market, conducts ad hoc assessments of any political, financial, environmental and social risks, including those related to the respect of human and labour rights. The internal and external context is monitored in those Countries where the Company does operate, in view of preventing negative impacts on human rights in the ambit of the sphere of corporate influence, and if so, remedying them;

- provides its Stakeholders with a dedicated channel for reports, also anonymous, of any situations that constitute or may constitute a risk of violation of Human Rights ("Whistleblowing Policy - Group Reporting Procedure" published on Pirelli's website). A paragraph in this report is dedicated to the "Whistleblowing Report Procedure", to which reference is made for further information on reports received in the last three years.

In terms of materiality in the corporate value chain, the respect for human rights and labour rights assumes particular importance in human resources and the supply chain management.

The management of human and labour rights in the Internal Community at Pirelli is outlined in the paragraph on "Compliance with statutory and contractual obligations in terms of overtime, leave, association and bargaining, equal opportunities and non-discrimination, prohibition of child and forced labour", to which reference is made for related details.

The management of human rights in the supply chain is reported in the section "Our Suppliers" of this report, to which reference is made for more details.

In 2017, with the support of the Sustainability Managers of the Industrial Countries where Pirelli operates and the reference local NGOs, Pirelli performed an analysis of the risk of violation of human rights within Pirelli sites, in the related supply chain, and in the local context outside Pirelli.

The analysis was carried out through a survey that required to indicate a perceived risk value on a scale from 0 to 3 (0 = no risk, 1 = low risk, 2 = medium risk and 3 = high risk), all compared to 35 internationally recognized human rights, as stemming from the United Nations Universal Convention on Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work.

With regard to the perception of internal risk at the Pirelli sites and in the relative supply chain, the survey was submitted to the function managers and sustainability managers, while for the perception of risk in the external context of Pirelli, the survey was submitted to both the aforementioned Pirelli functions and to the local non-governmental organizations of reference.

The consolidation of the feedback received from the Pirelli operating sites, with reference to the internal risk of the Pirelli sites and in the related supply chain, did not reveal any significant risks perceived (on average, a perception of less than 1).

The consolidation of the feedback received from the Non-Governmental Organizations, with reference to the risk perceived in the local context outside Pirelli, showed, on average, risks between 0.08 and 1.85, with greater recurrence within Countries, regarding the Right to equal pay for the same work, Right to decent remuneration, Right to a safe working environment and Freedom from discrimination.

INTERNAL COMMUNITY

The Human Capital Sustainable Management Model is inspired by the Global Compact principles, the SA8000® Standard, which for years has been the reference tool for the Group's social responsibility management, and the ISO 26000 Guidelines. This results in Values and in the specific commitments that the Company states in the "Ethical Code", in the "Global Human Rights" Policy, in the "Health, Safety and Environment" Policy, in the "Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment" and in the "Equal Opportunities Statement", communicated to all employees in the local language and made available to all stakeholders in the Sustainability section of the website www.pirelli.com.

PIRELLI EMPLOYEES AROUND THE WORLD

Pirelli employees at December 31, 2017 - expressed in Full Time Equivalent - amounted to 30,189 resources (vs. 29,787 in 2016) recording a net growth of 402 resources compared to the previous year.

BREAKDOWN OF EMPLOYEES BY CATEGORY

	EXECUTIVES	WHITE COLLARS	BLUE COLLARS	TOTAL
2017	283	6,486	23,420	30,189
2016	279	6,375	23,134	29,787
2017 VS 2016	4	111	287	402

PERCENTAGE OF EMPLOYEES BY CATEGORY, GENDER AND AGE

2017

	Executive			Cadre			Staff			Blue Collar			Total		
	M	F	tot	M	F	tot	M	F	tot	M	F	tot	M	F	tot
<30	0%	0%	0%	3%	3%	3%	24%	32%	27%	30%	31%	31%	28%	29%	28%
30 - 50	50%	66%	51%	66%	77%	68%	61%	54%	59%	57%	61%	58%	58%	60%	58%
>50	50%	34%	49%	31%	19%	28%	15%	14%	15%	12%	8%	12%	14%	11%	14%
Tot	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

2016

	Executive			Cadre			Staff			Blue Collar			Total		
	M	F	tot	M	F	tot	M	F	tot	M	F	tot	M	F	tot
<30	0%	0%	0%	3%	3%	3%	24%	33%	27%	31%	29%	31%	28%	28%	28%
30 - 50	52%	59%	53%	67%	77%	69%	60%	53%	57%	56%	62%	57%	57%	60%	58%
>50	48%	41%	47%	30%	20%	28%	16%	15%	15%	13%	8%	12%	14%	12%	14%
Tot	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

BREAKDOWN OF EMPLOYEES BY GEOGRAPHIC AREA* AND GENDER			
2017			
	Male	**Female**	**Total**
EUROPE	12,670	2,338	15,008
NAFTA	2,120	499	2,619
SOUTH AMERICA	7,168	671	7,839
MEA	517	44	561
ASIA PACIFIC	3,339	823	4,162
TOTAL	25,814	4,375	30,189
2016			
	Male	**Female**	**Total**
EUROPE	12,416	2,341	14,757
NAFTA	1,744	334	2,078
SOUTH AMERICA	6,870	627	7,497
MEA	529	52	581
ASIA PACIFIC	3,913	961	4,874
TOTAL	25,472	4,315	29,787
2017 vs 2016			
	Male	**Female**	**Total**
EUROPE	254	-3	251
NAFTA	376	165	541
SOUTH AMERICA	298	44	342
MEA	-12	-8	-20
ASIA PACIFIC	-574	-138	-712
TOTAL	342	60	402

BREAKDOWN OF EMPLOYEES BY GEOGRAPHIC AREA* AND BY CONTRACT								
	2017				**2016**			
	PERMANENT	**TEMPORARY**	**AGENCY**	**TOTAL**	**PERMANENT**	**TEMPORARY**	**AGENCY**	**TOTAL**
EUROPE	13,999	990	20	15,008	13,577	1,153	27	14,757
NAFTA	2,599	0	20	2,619	2,055	0	23	2,078
SOUTH AMERICA	7,469	370	1	7,839	7,225	257	16	7,498
MEA	560	1	0	561	574	7	0	581
ASIA PACIFIC	4,138	24	0	4,162	4,867	7	0	4,874
TOTAL	28,765	1,384	41	30,189	28,298	1,424	66	29,787

% PART TIME, BY GENDER					
2017			2016		
Male	**Female**	**TOTAL**	**Male**	**Female**	**TOTAL**
0.7%	3.9%	1.2%	0.8%	4.1%	1.3%

: **Europe: Austria, Belgium, France, Germany, Greece, Italy, Netherlands, Poland, Czech Rep., United Kingdom, Romania, Russia, Slovakia, Spain, Sweden, Switzerland, Hungary. Nafta: Canada, Mexico, United States. South America: Argentina, Brazil, Chile, Colombia. MEA: South Africa, Turkey. **Asia Pacific**: Australia, China, Japan, Singapore, Taiwan.*

Employee flows by geographic area, gender and age

The following data refer to incoming/outgoing employees. The disposals and acquisitions of companies or business units, and changes in work schedules from full to part-time are not considered.

EMPLOYEE FLOWS BY GEOGRAPHIC AREA*				
	2017		2016	
	INCOMING	**OUTGOING**	**INCOMING**	**OUTGOING**
EUROPE	2,144	1,830	1,840	1,633
NAFTA	1,371	809	1,117	756
SOUTH AMERICA	1,566	1,199	1,190	1,360
MEA	106	96	149	102
ASIA PACIFIC	465	1,136	309	288
TOTAL	5,652	5,070	4,605	4,139

2017 EMPLOYEE FLOWS BY GEOGRAPHIC AREA*, GENDER AND AGE: TOTAL VALUES										
	INCOMING					OUTGOING				
	<30	**30 - 50**	**>50**	**Male**	**Female**	**<30**	**30 - 50**	**>50**	**Male**	**Female**
EUROPE	1,196	822	126	1,773	371	580	822	428	1,433	397
NAFTA	934	420	17	1,044	327	555	243	11	655	154
SOUTH AMERICA	702	836	28	1,369	197	397	680	122	1,053	146
MEA	80	26	0	103	3	61	32	3	92	4
ASIA PACIFIC	296	164	5	391	74	497	628	11	931	205
TOTAL	3,208	2,268	176	4,680	972	2,090	2,405	575	4,164	906

2017 EMPLOYEE FLOWS BY GEOGRAPHIC AREA*, GENDER AND AGE: PERCENTAGE VALUES

	INCOMING					OUTGOING				
	<30	30 - 50	>50	Male	Female	<30	30 - 50	>50	Male	Female
EUROPE	56%	38%	6%	83%	17%	32%	45%	23%	78%	22%
NAFTA	68%	31%	1%	76%	24%	69%	30%	1%	81%	19%
SOUTH AMERICA	45%	53%	2%	87%	13%	33%	57%	10%	88%	12%
MEA	75%	25%	0%	97%	3%	64%	33%	3%	96%	4%
ASIA PACIFIC	64%	35%	1%	84%	16%	44%	55%	1%	82%	18%
TOTAL	57%	40%	3%	83%	17%	41%	47%	11%	82%	18%

2016 EMPLOYEE FLOWS BY GEOGRAPHIC AREA*, GENDER AND AGE: TOTAL VALUES

	INCOMING					OUTGOING				
	<30	30 - 50	>50	Male	Female	<30	30 - 50	>50	Male	Female
EUROPE	1,095	688	58	1,543	297	618	670	346	1,296	337
NAFTA	829	283	5	939	178	563	191	2	630	126
SOUTH AMERICA	630	546	14	1,102	88	476	774	110	1,208	152
MEA	102	43	4	121	28	66	31	5	99	3
ASIA PACIFIC	211	98	0	255	54	169	116	3	213	75
TOTAL	2,867	1,658	81	3,960	645	1,891	1,782	466	3,446	692

2016 EMPLOYEE FLOWS BY GEOGRAPHIC AREA*, GENDER AND AGE: PERCENTAGE VALUES

	INCOMING					OUTGOING				
	<30	30 - 50	>50	Male	Female	<30	30 - 50	>50	Male	Female
EUROPE	59%	37%	3%	84%	16%	38%	41%	21%	79%	21%
NAFTA	74%	25%	0%	84%	16%	74%	25%	0%	83%	17%
SOUTH AMERICA	53%	46%	1%	93%	7%	35%	57%	8%	89%	11%
MEA	68%	29%	3%	81%	19%	65%	30%	5%	97%	3%
ASIA PACIFIC	68%	32%	0%	83%	17%	59%	40%	1%	74%	26%
TOTAL	62%	36%	2%	86%	14%	46%	43%	11%	83%	17%

: **Europe: Austria, Belgium, France, Germany, Greece, Italy, Netherlands, Poland, Czech Rep., United Kingdom, Romania, Russia, Slovakia, Spain, Sweden, Switzerland, Hungary. Nafta: Canada, Mexico, United States. South America: Argentina, Brazil, Chile, Colombia. MEA: South Africa, Turkey. **Asia Pacific**: Australia, China, Japan, Singapore, Taiwan.*

During the year, the Company operated internationally to rebalance the employment level aligning it to the needs of volume related to high market volatility, obtaining a positive occupational balance compared to 2016.

In mature Countries (Countries where Pirelli operates, internationally defined as “mature” or “non-emerging” markets), in Italy, there was the strengthening of HQ structures mainly in the areas dedicated to research and development.

As for emerging markets (Countries where Pirelli operates, internationally defined as “emerging”, namely Romania, Russia, Argentina, Brazil, Chile, Colombia, Mexico, Venezuela, Egypt, Turkey, China), in addition to the acquisition of the Chinese facility of Jiaozuo, the Company increased the number of employees mainly in Romania and Mexico, acting on the organisation and production processes in line with market requirements and in Brazil mainly at the Campinas plant for the change of work scheme. As for Brazil, the reorganization process of the production structure continued and led to a downsizing of the workforce especially in the plants of Santo André and Bahia following the crisis situation of the country and the related negative impact in the Tyre sector. As for China, in addition to the growth of Consumer activities was the deconsolidation of activities related to the production and sale of Truck products in October 2017.

Pirelli does not employ anyone under the age of 15. There are 48 young people aged between 15 and 18 (13 in Brazil, 20 in Germany, 1 in the UK, 11 in Switzerland and 3 in Sweden), each for training and integration plans, in harmony with local laws.

DIVERSITY MANAGEMENT

Pirelli is characterised by a multinational context where individuals manifest a great diversity, whose conscious management simultaneously creates a competitive advantage for the Company and a shared social value. Pirelli’s commitment to compliance with equal opportunities and the enhancement of diversity in the workplace is expressed in the main Group Sustainability documents: the “Ethical Code” approved by the Board of Directors, the “Social Responsibility Policy for Occupational Health, Safety and Rights, Environment” and the “Equal Opportunities Statement”, both signed by the Chairman. These documents have been distributed to all employees in their local language and published on the institutional website www.pirelli.com/Sustainability.

While respecting the cultural differences of the individual Countries, what necessarily unites all Pirelli affiliates in the same culture are its shared corporate values, policies and rules, which are applied at Group level and communicated in the local language.

The training course on Diversity has been part of the Group’s training offer for years.

Pirelli monitors the level of acceptance and appreciation of diversity perceived by employees within their own reality. The survey is conducted as part of the annual “My Voice” climate survey, conducted in the local language at Group level (reference is made to the dedicated paragraph in this report). The results of the survey, conducted in late 2016, as every year have been particularly appreciable with regard to the perception of respect and management of Diversities, which remains a distinctive feature of the corporate culture of Pirelli. The results of the survey carried out at the end of 2016 were communicated to employees in the first half of 2017, the next survey will be carried out in the spring of 2018.

A functional tool for the management of equal opportunities and the prevention of risk of breach thereof is the Group Whistleblowing Procedure, through which employees, suppliers and the External Community can anonymously report any suspected violation. In 2017, 2 reports were ascertained for cases that could be linked to discriminatory attitudes, for which the Company took action intervening in one case with disciplinary sanction and in the other case with dismissal.

For further information on reports received in 2017, 2016 and 2015, reference is made to the paragraph "Group Reporting Procedure – Whistleblowing".

Internationality and multiculturalism are the characteristic elements of the Group: Pirelli operates in over 160 Countries on five continents, and 89.5% of employees (at December 31, 2017) worked outside of Italy.

Awareness of the cultural differences that create the identity of the Company entails displaying the utmost confidence in management of local origin: 79% of Senior Managers work in their country of origin, where Senior Managers are those reporting directly to the Chairman and CEO as at December 31, 2017. In order to develop the innovative and managerial potential inherent in multiculturalism and in dealings with different professional environments, the Company promotes the growth of its managers through international mobility: 53% of active Senior Managers in 2017 have in fact experienced at least one inter-company assignment during their professional experience within the Pirelli Group. Moreover, at the end of 2017, 13% of managers on foreign assignment were women.

For the composition of the Corporate Bodies by gender and the Diversity Policy reference is made to the "Report on Corporate Governance and Ownership Structure 2017" in this Annual Report, paragraphs "Sustainability and Diversity Policies", "Board of Directors - *Composition*" and "Board of Statutory Auditors-*Composition*".

Below is a breakdown of employees by gender, expressed as the percentage weight of women against the total number of employees in each job category, with reference to the two-year period 2016-2017, the data shown in the following table show substantial stability in 2017 compared to 2016, with a percentage of women of 14.5% of the total population. Instead, the percentage of women in relation to managerial positions rose from 20.6% in 2016 to 21.6% in 2017, mainly due to the growth recorded in the population of middle management, an important element since the category constitutes an area for growth and development for managerial positions.

EMPLOYEES BY GENDER AND CATEGORY						
YEAR	**EXECUTIVES**	**CADRE**	**EXECUTIVES + CADRE (TOT MANAGERS)**	**WHITE COLLARS**	**BLUE COLLARS**	**TOTAL**
2017	10.3%	23.3%	21.6%	33.6%	10.1%	14.5%
2016	10.0%	22.3%	20.6%	33.8%	10.1%	14.5%

Analysing the breakdown of gender in terms of employment contract, the table below shows that also in 2017, a substantial balance was maintained between men and women.

EMPLOYEES BY GENDER AND BY CONTRACT						
	2017			**2016**		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
PERMANENT	95.2%	95.7%	95.3%	94.8%	96.3%	95.0%
TEMPORARY	4.7%	4.1%	4.6%	5.0%	3.5%	4.8%
AGENCY	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%

The rate of employee return to work after maternity/paternity leave at Pirelli in relation to its total workforce in all industrial Countries where the Company operates was positive. In particular: a year following the maternity and paternity event occurred in 2016, 2017 saw 76% of women and 93% of men still employed by the Company. The difference in the data between genders should be considered natural in light of the different socio-cultural contexts in which Pirelli female workers are inserted.

In the context of gender diversity, Pirelli pays special attention to remuneration equality, constantly monitoring this issue.

The countries considered significant in the analysis at the end of 2017 are Brazil, China, Germany, Italy, Romania, Mexico, Argentina, the USA, Russia, France, Spain and the UK representing over 3/4 of the total workforce subject to the remuneration policy (executives, managers and white collar employees). At a methodological level, it should be noted that the remuneration differentials between men and women were calculated for each Country and at the same weight of positions held, cross-checking the “grade” (i.e. the weight attributed to each position on the basis of various factors) with elements such as professional seniority. This valuation method allows objectivity and accuracy of the survey and evaluation: in fact, it should be noted that data calculated and/or reported only at Group level would be unable to pay due attention to the structural differences of the local markets, the different professional seniorities and the logic of remuneration markets with special features not comparable with each other.

The average of pay differentials between men and women recorded in these countries is equivalent to 3% in favour of women for white collars, compared with 2% in 2016 and 1% in 2015 also in favour of women; instead, it is equal to 1% in favour of men for managers, in line with 2016 and compared with 5% in 2015 also in favour of men.

A few examples:

- Italy, which has an difference between average remuneration for men and average remuneration for women of around 3% in favour of women for the category of white collars (compared to 1% in 2016 in favour of women and 13% in favour of men in 2015) and 1% also in favour of women for the category of managers (2% in 2016 and 1% in 2015);

- Romania, where the category of white collars has equal remuneration (compared to 1% in favour of men in 2016 and 5% in 2015 in favour of women) and for the category of middle managers there is 3% in favour of men;

- Brazil, where for the category of white collars there is 1% in favour of men (compared to substantial equal remuneration in 2016 and 5% in favour of women in 2015) and the same applies to the category of middle managers where there is 1% in favour of men (against substantial equal remuneration in 2016 and 4% in favour of men in 2015);

- Germany, which showed a difference between average remuneration for men and average remuneration for women of around 1% in favour of men for the category of white collars (3% in 2016 and 4% in 2015) and 6% also in favour of men for the category of managers (in line with 2016 and compared to 3% in 2015).

With reference to the population of executives, of which women account for 10% (figure up compared to 9% in 2015 and 2014), there is an average remuneration difference of 11% in favour of women (in 2016, it was 8% in favour of men, and in 2015, it was 5% in favour of women).

As for the population of blue collars, all industrial countries with a significant number of observations were analyzed: Brazil, China, Germany, Italy, Mexico, Romania, Russia, Spain, Switzerland and the UK. For each country, the remuneration differential between men and women has been calculated. The average, weighted by number of headcount, showed a remuneration differential of 3% in favour of women.

In particular:

- China shows a 9% remuneration differential in favour of men, due to both organisational roles and professional seniority, at the moment on average in favour of the men population;

- in Italy there is 4% in favour of men;

- in Romania, instead, there is a 2% remuneration differential in favour of women.

In the various markets, the "professional seniority" factor, still on average of benefit of men, continues to have a strong impact on the remuneration trend. On the other hand, the number of women who enter the labour market will contribute in the medium term to an increasing balance between genders, also in terms of professional seniority.

In regard to the standard salary of new hires during their first year of work at Pirelli, this is greater than the minimums prescribed by local legislation and there are no differences between men and women or related to other diversity factors.

The inclusive culture by which Pirelli is guided in its way of doing business permeates corporate life even in the case of disability, as explained in the Pirelli Policy on equal opportunities, applied at all affiliates of the Group. Under applicable local laws, approximately 1.4% of total employees in 2017 (vs. 1.1% in 2016) have some form of disability, as in 2014, however with the following considerations: the percentage measurement of disabled employees in the multinational context of the company clashes with the objective difficulty of measuring their number, both because in many countries where the Group is present, there are no specific laws or regulations promoting their employment and therefore disabilities are not automatically detected, and because in many countries this information is deemed confidential and protected by privacy laws; it is therefore likely that the actual percentage of disabled persons working at Pirelli might be higher than the above figure.

With reference to the "age" factor of the company population, as can be seen from the table below, it is homogeneous between gender.

AVERAGE AGE BY CATEGORY AND GENDER

2017	EXECUTIVES	CADRE	WHITE COLLARS	BLUE COLLARS	MEDIUM
Female	48	43	37	36	37
Male	50	45	38	37	37
Total	50	44	38	37	37

2016	EXECUTIVES	CADRE	WHITE COLLARS	BLUE COLLARS	MEDIUM
Female	48	43	37	36	37
Male	50	45	38	37	38
Total	50	44	38	37	38

Instead, the following table represents the average seniority of service per professional category and gender: also in 2017, there were no significant differences between men and women.

AVERAGE SENIORITY OF SERVICE BY CATEGORY AND GENDER					
2017					
	EXECUTIVES	**CADRE**	**WHITE COLLARS**	**BLUE COLLARS**	**MEDIUM**
Female	13	13	9	7	8
Male	15	15	9	9	9
Total	15	15	9	9	9
2016					
	EXECUTIVES	**CADRE**	**WHITE COLLARS**	**BLUE COLLARS**	**MEDIUM**
Female	13	13	8	7	8
Male	15	14	9	9	9
Total	14	14	9	9	9

The following procedures and activities to promote equal opportunities have been well-established for years:

- the use, as far as possible, of candidate lists with a significant presence of women in recruitment processes;
- the use of training to promote cultural change connected with the promotion of diversity, with specific modules dedicated to “Diversity Management,” beginning with courses for new hires (e.g. Plunga);
- introduction of new initiatives aimed at respecting cultural and religious diversity (e.g. different and clearly marked diets in canteens, kitchens typical of different cultures from that of the host country...);
- “multilingual” book stores at the factories;
- welcome kits for those joining Pirelli at a facility in a country other than their home country;
- welfare and work-life balance initiatives (in regard, refer to the paragraph “Welfare and initiatives in favour of the Internal Community” in this report);
- the presence, within the permanent training offer, of the “Intercultural Orientation” course, aimed at providing participants with tools and methodologies to train their ability to interact effectively in global and multicultural contexts.

REMUNERATION AND SUSTAINABILITY

The remuneration policies adopted by Pirelli aim to ensure fair remuneration in line with the individual's contribution to the success of the Company, recognising the performance and quality of the individual's professional input, in a philosophy of sustainable remuneration.

The purpose is twofold: on the one hand to attract, retain and motivate critical employees, while on the other to reward and promote conduct that is as far as possible consistent with the corporate culture and values. Compensation policies and processes for Group management (intended as the overall executives) are managed by the central Human Resources and Organisation department, while for non-executive personnel they are handled on an individual Country basis. Once again in 2017, and in accordance with market best practices, the impact of the (short-term and medium-term) variable component on the aggregate remuneration of Group management remained very high, which means that there is a strict correlation between remuneration and performance.

Members of Management in general are connected to the Annual Incentive Plan (MBO) linked to the achievement of annual economic-financial objectives of the Group and/or Business Unit and/or Region and the assessment resulting from the Performance Management Tool, which allows greater relevance to be attributed to organisational conduct (how), and not simply the results achieved (how much). The Performance Management of all Country CEOs includes economic sustainability, social and environmental objectives. For further details in this regard, reference is made to the paragraph "Performance Management" of this report.

In 2014, some changes and improvements were made to the annual incentive system (MBO) which is no longer related to the Triennial Incentive Plan (LTI) but includes a form of deferred payment to the following year of a part (25%) of the annual incentive accrued subject to accrual of the MBO of the following year. Payment of an additional amount equal to a variable percentage of the entire MBO accrued during the previous year will be paid in line with the degree that the MBO is achieved in the following year.

The return to the stock exchange at the beginning of October 2017 meant that the Company's long-term average targets should have been revised for the 2018-2020 three-year period. Consequently, by resolution of the Board of Directors of July 28, 2017, the 2016-2018 Long Term Incentive – LTI related to said three-year period was terminated early at the end of 2017 (a year before the natural expiry). The Board of Directors also approved the payment in 2018 in a single instalment on the basis of reporting the newly measured goals – even in terms of percentage opportunities for each individual participant – on the values for the two-year period (2016-2017).

At the beginning of 2018, a new three-year incentive plan (LTI 2018-2020) was launched and extended to the majority of Executives of the Group, in line with the variable remuneration mechanisms adopted at international level, totally self-financed as the related expenses are included in the economic data of the Business Plan. The Plan, in line with international best practices, includes a Sustainability objective common to all Group Management.

The General Policy on Remuneration approved by the Board of Directors of Pirelli, establishes principles and Guidelines to which Pirelli abides in order to determine and monitor the application of remuneration practices related to Directors with special powers/offices, Executives with strategic responsibilities, Senior Managers and other Group Executives.

Specifically, the Guide Lines of the remuneration for the above management figures also cover:

- fixed and variable remuneration, both short and medium-long term (it is noted in this regard that Pirelli currently has no existing forms of remuneration through equity);
- compensation in case of dismissal;
- resignation and termination of employment;
- clawback clauses for Top Management;
- introduction of the aforementioned sustainability target common to all Group Management.

INTERNATIONAL MOBILITY

The theme of international mobility has always been important to Pirelli, with a view to achieving cultural and value integration while still respecting diversity, an approach that the Company considers crucial to maintaining and creating value in the long term.

The dissemination of the Pirelli industrial culture throughout the world and the transfer of valuable technical and managerial know-how to new start-ups is also a key instrument in support of the Group's geographical expansion strategy.

In 2017, about 54 new inter-company expatriates were recorded, compared with about 80 postings in 2016 and about 90 in 2015. About a third of new postings were to major industrial Countries, such as China and Germany, and mobility flows continued from emerging Countries to mature Countries.

At the end of 2017, the expatriate population totalled about 195 persons (vs. 227 in 2016 and 217 in 2015), belonging to 19 nationalities and who moved to 29 different Countries on five continents, of which 13% women. The overall expatriate population consists in equal amounts (50%) of Italian and foreign citizens, demonstrating the concrete progress being made towards the goal of creating an increasingly international management team.

The Pirelli International Mobility Policy has been standardised and shared within all the affiliates, with common treatment rules in order to enable uniform management of the expatriate personnel of the entire Group.

It includes a principle of fiscal neutrality pursued through the implementation of a so-called "tax equalisation" policy, which allows neutralising of the tax differences that arise in the destination country with respect to the country of origin, ensuring the application of equitable and appropriate remuneration principles, in addition to the assignment of certain benefits closely related to care for expatriates and their accompanying families.

EMPLOYER BRANDING

Pirelli considers it crucial to enter the market by transmitting drivers that distinguish the group, that is, Business, People and Change, which include the cardinal principles on which the Company bases its business approach, such as technological know-how and product innovation, technological and commercial leadership in the highest segment of the market, the tension of the people towards results and the meritocracy that always ensures the best growth for employees, both locally and internationally.

In addition to disseminating the company principles, Employer Branding is also a valuable tool to give visibility to job opportunities aimed at recent graduates and profiles with experience, not only in the Italian market but globally. Considering the countries where Pirelli has a presence with one or more production plants in Europe, the United States, South America, the Middle East, Africa, Russia and Asia-Pacific, numerous events, projects and meetings were organised in 2017, where the Company promoted its own Employer Branding initiatives. These activities are carried out also thanks to the network of contacts and partnerships with some prestigious universities in the various countries, such as the Beijing University of Chemical Technology in Beijing, the University of Munich in Germany, the Nottingham Trent University in the United Kingdom, the Politehnica University of Bucharest in Romania, the ESIC - Business Marketing School in Spain, the Universidad de Buenos Aires in Argentina, the Universidad Tecnológica del Centro in Venezuela, the Instituto Tecnológico de Estudios Superiores de México, the Keio University in Japan, the American University of Cairo in Egypt.

Pirelli is also collaborating actively, at corporate level in Italy, with Politecnico di Milano, Politecnico di Torino, Università Bocconi, Università Cattolica and Università degli Studi di Torino. The latter Universities are located close to the Pirelli offices in Italy and the Company has always considered them to be a benchmark for economic and engineering education of young people. With these institutions, Pirelli has organised Career Days, round tables, Job Fairs, as well as company presentations and opportunities to meet with students directly at the company, aimed at "personally experiencing" the reality of the Group. Many presentations, in particular, concerned the Pirelli Sustainability Model.

The business-education partnerships described above are placed within the context of the "European Pact for Youth" of which Pirelli is a co-initiator, a Youth Pact that was signed during the last Enterprise 2020 Summit (held in November 2015 in Brussels) by the European Commission, CSR Europe and a group of companies. The Pact aims to promote the growth of new generations through the promotion of partnerships with Universities, training courses, internships and masters' courses: the objective of reducing the skills gap between different countries and different cultures is fundamental, trying as much as possible to ensure that young people receive the training needed to enter the new professions required by a labour market whose expectations are constantly evolving. The official presentation of the results of the two-year project took place in Brussels in November 2017, during the European week of professional training, in the presence of the President of the European Parliament.

Among the channels of Employer Branding used by Pirelli, the internet plays an important role: on its pirelli.com website, the Company provides a channel for those who wish to submit their application for specific open positions, as well as providing full disclosure on its corporate history, management models adopted, objectives and results achieved; targeted channels are also used by Pirelli for the publication of its job offers, including LinkedIn where in the last year, Pirelli has significantly increased its audience (in terms of engagement and views), remaining one of the most visited profiles among tyre manufacturers.

DEVELOPMENT

Performance Management

Performance Management (PM) means the process whereby the contribution of each employee in an organisation is defined, observed and assessed at Pirelli, a unique and fundamental opportunity for the development and orientation of each with respect to a series of predefined indicators that are critical to the success of the Company and the employee.

During the process, particular attention is given at the time of feedback, which provides a transparent and open dialogue between the manager and the employee, from the phase of defining the individual objectives to that of assessment of the results achieved.

The Performance Management process involves all staff worldwide (executives, managers and employees) and in 2017 saw a “redemption” rate (2016 assessment sheets completed compared to the total of open sheets) equal to 98.5%, of which the completion rate by women involved in the process was 97.5%, while completion by men reached 98.8%.

To support the quality of assessments, Pirelli has introduced the so-called Calibration Meetings. These are meetings organised by the managers of the individual functions, Business Units and countries, with their direct reports, and with the heads of Human Resources of reference, during which the assessments of people who belong to a specific organisational unit are pooled with the objective of ensuring a shared and balanced distribution of the assessment, to ensure a process that is as consistent, homogeneous and objective as possible.

The Performance Management of all Country CEOs includes economic sustainability, social and environmental objectives. In particular, the performance obtained regarding the Sustainability Plan of the country is evaluated, which envisages targets of compliance with the SA8000® Standard, reduction in injury frequency indices, reduction in energy consumption and water withdrawal, increase in waste recovery, control of the sustainability of the supply chain, dissemination and implementation of Group Policies and engagement with stakeholders.

Talent review

The Talent Review process aims to place "people in the right place", or to ensure business continuity through the coverage of strategic positions with the best talents, both centrally and at each Affiliate. Key positions are those positions that have a direct impact on the strategic success and competitive advantage of the organisation.

"Talents" are employees who, in addition to having demonstrated positive performance in the previous 2 years, possess the potential to hold, immediately or within the next two years, key positions within the organisation. In fact, they represent the future of the Company for the coverage of strategic positions. The focus on talents is also demonstrated by the various skills assessment projects concluded in 2017, following increasing focus on the analysis of the talent of people to support the company strategy. The talent management process also includes meeting and discussion sessions between managers, which aim to share and standardise the criteria for the definition of talent within the organisation.

Pirelli confirms itself as a company with a strong predisposition to grow talent from within: the average corporate seniority of the talent pool is in fact about 12 years.

The pipeline of talents has a strong international and multicultural connotation, as their origin includes as many as 17 different nationalities.

In 2018, the development process of talents within the Group will continue, also with a view to providing the means for structured growth within the organisation and mitigating the retention risk of talents.

TRAINING

All Pirelli affiliates have adopted the Training@Pirelli training model, organized, structured and equipped system to respond to "Group" needs as well as any needs that may emerge locally at any time.

The training offer is based on the strategic priorities of the organization and of the various functions, which are alongside the needs that emerge annually from the Performance Management process (evaluation and development tool based on dialogue between the manager and the employee, specified in the dedicated paragraph).

The three "pillars" on which Training@Pirelli is based are the *Professional Academy,* the *School of Management* and the *Local Education.* The first two are designed centrally and according to the cases provided centrally or locally, while Local Education is managed and implemented directly in the individual countries to meet the specific local needs.

The entire training offering is communicated and managed via the online training portal called *LearningLab*.

Also in 2017, Pirelli was called in various international locations to illustrate its Training Model, recognized as benchmark of quality and robustness, already awarded in 2015 with the Silver Award by the Global Council of Corporate Universities, in the category "Best Corporate University embodying the identity, the culture and the brand of the Organization in its stakeholders", award dedicated to the most important Corporate Universities worldwide.

Professional Academies

The Pirelli Professional Academy is aimed at the entire company population and there are ten: Product Academy, Manufacturing Academy, Commercial Academy, Quality Academy, Supply Chain Academy, Purchasing Academy, Finance and Administration Academy, Planning & Control Academy, Human Resources Academy, Digital Academy.

Sustainable Management elements are throughout the Academies, with focus for example on product life cycle (LCA – Life Cycle Assessment), environmental efficiency of the process, health and safety, sustainable management of the supply chain, risk management, diversity management.

The Academies cater to the entire corporate population and aim to provide continuous technical-professional training, encourage cross-functional collaboration, ensure the exchange of expertise and know-how among countries and support the implementation of tools and procedures within the organization.

The faculty of the Academy is mainly composed of internal trainers, experts from the specific functions who, based on the training needs and logistical needs, act at central, regional and local level, or through online seminars and webinar sessions. The internal trainers are certified as such following adequate training, with homogeneous methods at all affiliates. Participation in the internal "Train the trainer" course is a fundamental requirement to ensure and align the skills of all trainers regarding classroom management methods and delivery of the technical content of the Academy. Pirelli is currently certifying 314 internal trainers in the world on various disciplinary and professional subject areas.

The Academy model involves a significant figure from the function guiding each Academy, supported by one or more professionals from the same function and from the Group Training function, which ensures consistency in the methods of approach, delivery and evaluation of learning in addition to ensuring collaboration with the local training teams.

Every year, the Professional Academies meet both the Top Management and the local training representatives, with the objective of strategic alignment and sharing of the results achieved.

In 2017, the Professional Academies offered 248 courses globally. We report two significant initiatives delivered during the year: "Manufacturing to Digital" and "Shopfloor Manager Assessment and Development".

The first is a training course dedicated to all plant managers, aimed at disseminating knowledge and skills in factory 4.0 that can support the company in the digital transformation process undertaken.

The second one is instead an assessment and development project that involved the heads of all the Pirelli factories, fundamental figures in the relationship between the factory environment and the managerial teams. These figures, precisely because of this role, are called "*Capitani*" (Captains) internally (term maintained in Italian at a global level). The activities carried out have allowed the analysis of the knowledge and skills of the population that currently holds the role, in order to plan effective and personalized development and training actions. During 2018, the training and follow-up actions established following the assessment will continue.

Finally, in 2017, three Group plants, Bahia, Bollate and Kirov, were involved in a change management process. These initiatives have accompanied the entire plant population in the important challenge of converting processes and production towards "High Value" products, i.e. with high added value. Workshops and training sessions were organized aimed at understanding the challenge and activating new and more coherent conduct necessary for change that have involved both the blue collar population and white collars. The change management project for Kirov in particular will continue further in 2018.

School of Management

The School of Management (SOM) is the training structure dedicated to the development of the management culture within Pirelli. Its targets are the populations of Executives, Global Talents, Middle Management/Senior Professionals and Recent Graduates/Junior.

The focus of management training is calibrated and outlined every year based on the business challenges that the Company is required to face.

The training aimed at executives is preferably provided centrally (Milan) in order to allow participants to discuss company strategies directly with Senior Management and share them at inter-departmental and geographical level.

The training model of managerial skills was revised and modified in 2016 to make training topics even more consistent with the need to develop a skilled managerial class and able to face the new challenges of the Company. In line with the adoption of the Learning Agility model (subdivided into the 4 main dimensions of People Agility, Change Agility, Results Agility, Mental Agility), also during 2017, 4 training courses were designed for managerial training, aimed at strengthening specific skills and related attitudes. With a view to the ever-increasing involvement of participants and the constant updating of teaching methods, the training courses delivered have provided alternative and innovative methods of use in addition to the traditional one, offering participants moments of interaction and collaboration, both in presence and on line, often aimed at developing case studies and projects of corporate interest.

In 2017, 4 editions of the programs of the School of Management were delivered to Executives and Global Talents of the Group, and more than 100 courses were delivered to Middle Management and Senior Professionals, held in 12 countries of the Group for a total attendance of about 1000 people.

The School of Management also offers constantly updated online tools through the "Train your Brain" section, available to all managers on the LearningLab international platform.

As for the population of recent graduates, in 2017, the two-year course Warming Up@Pirelli continued; it was launched in 2013 at global level and in 2017, it was attended by about 200 young graduates from every country.

The program aims to provide a homogeneous view of the Pirelli reality for all young new recruits in the different countries. The main themes include: the Sustainable Management Model adopted by the Company, the strategies, the product, processes, customers, markets and all other matters regarding basic skills that Pirelli considers important for a young person who wishes to become part of the company's future. During the two-year training course, participants have the opportunity to work on various company projects of interest proposed by various functions, in order to apply innovative approaches and develop cross-functional teamwork. The macro-structure of the course, defined centrally in terms of content and process steps, is organised in various countries with appropriate adjustments aimed at enhancing the local specificities. To the aforementioned Warming Up training program, specific local induction programs are added, including the Mexican one, which involved over 800 new employees in 2017.

Local Education

The training provided locally responds to the specific training needs of the local context and culture of the country of reference and is for the entire local company population.

The seminars cover areas of expertise ranging from the improvement of interpersonal skills to stress management, from the development of IT, language and regulatory skills up to seminars on issues of welfare and diversity at the Company. Some courses particularly appreciated and attended in 2017 were:

- "Presentation Skills", dedicated to employees who need to refine their communication skills in public. The course makes use of numerous exercises and role play in which participants are involved in video shooting, later used as food for thought.

- "Problems, Decisions and Solutions", support for employees who want to experiment with a methodological approach to problem solving in order to learn how to make decisions in a complex environment. Among the teaching tools used in the classroom was the mapping of non-rational elements in order to reduce their impact in the decision-making phase and simulation exercises.

Focus: Training on Sustainability and Corporate Governance

Also in 2017, training continued on the Pirelli Sustainable Management Model, with update on the state of the Company's Sustainability Plan. Reference was already made to training on specific sustainable management processes spanning all Group Academies and Local Education.

In addition, there is institutional training in the International Course "PLunga", which presents the Group's Sustainable Management strategy to all new employees, starting from the multi-stakeholder approach contextualized in the integrated economic, environmental and social management. Training on the Pirelli Model also draws new employees' attention to the Group's Sustainability Policies and the commitments they involve, as detailed in the "Ethical Code", the "Code of Conduct", the "Equal Opportunities Policy", the "Social Responsibility Policy for Occupational Health, Safety and Rights and Environment", the "Global Human Rights" Policy, in addition to the requirements of the SA8000® Standard. The foregoing is also the subject of continuous training for all Group Sustainability Managers and Purchasing Managers.

Like every year, also in 2017, Pirelli dedicated a training session that brings together all the Group's Sustainability Managers for three days. The "Pirelli Sustainability Manager Workshop 2017" was held in Milan and in Germany in November. The event involved the active participation of the Top Management of the Company, with strong cross-functional alignment with a view to achieving the Group targets as well as demonstrating the fundamental teamwork that enables the Company to create lasting and shared value. The 2017 workshop was completely focused on sharing the new "Pirelli High Value" strategy and on the dissemination and deployment actions at local Stakeholders.

In June 2017, Pirelli launched an online training campaign on Law 231. The initiative involved the entire white collar population operating on the Italian perimeter (about 1,600 people). The dissemination of the contents, the tracking of the training activities and the recording of the results of the learning tests were entirely managed through the Learning Lab, the company's learning management system. At December 31, 2017, over 1,400 people successfully completed compulsory training activities.

Pirelli training Performance

In 2017, the total training provided was equal to 8 days of average training per capita at Group level, with 9.3 average days per capita for blue collars and 4.3 for white collars. Men reached an average of 8.2 training days, compared to the average 7.5 per capita days recorded for women; such difference is to be attributed to the fact that the majority of the average training days per capita is related to blue collars and that the latter is represented for the 89.9% by men.

92% of total employees (considering the average employees of the year) took part in at least one training day.

The aforementioned performances, net of exceptional increases over the years (due, for example, to the activities of start-up plants - e.g. Mexico – to specific "re-skilling" campaigns following technological changes at some plants, etc.), are confirmed substantially in line with those of previous years.

In 2017, Pirelli in fact exceeded the target set for several years in its strategic plans, consisting of maintaining a global training level of at least 7 average days per capita, involving 90% of the Group's population in at least one average day of training.

With regard to the contents addressed in training at global level, the issues of Health, Safety and the Environment maintained a significant portion also in 2017, confirming its relative weight of 12% of the total training provided.

In turn, "on-the-job" training activities provided to blue collars represent 52% of the total training provided: through this training method, Pirelli focuses on continuous updating mechanisms that are guaranteed through the activity of "technical trainers" present at each plant, all now trained and certified according to the Group standard. Finally, also analyzing training at global level, the relative weight of the Professional Academy is the second most relevant after "on the job" training, with a prevalence of the training activities of the Manufacturing Academy and the Quality Academy.

Examining the thematic areas related to training of the staff population at global level, the Professional Academy represents 32% of the training provided. In turn, the Pirelli School of Management represents 26% of the training provided.

In turn, Local Education had a significant influence on the training provided in each country (36%), including language training that has increased significantly in recent years.

Finally, in 2018, a considerable investment is expected in training to support the digital transformation, both for staff and blue collars (refer also to the paragraph on Professional Academies).

LISTENING: GROUP OPINION SURVEY

In 2013-2016, Pirelli consolidated the My Voice climate survey as a tool for active listening of its employees in the world, as a basis for setting central and local improvement plans.

The annual recurrence of this listening moment has strengthened over time the relationship of trust between employees and the company, laying the foundations for a process of continuous improvement both in the organizational climate and in the workplace.

From 2017, in line with Pirelli's new strategic challenges, it was decided to rethink also the strategies and methods for listening and engaging people.

Therefore, the My Voice process will be renewed from 2018, from an annual frequency to a moment of listening that will occur approximately every year and a half, in order to guarantee adequate time to define and implement specific action plans by country/function/Business Unit, responding to the needs emerging from the survey, also with a view to promoting trust and continuous dialogue with employees. This new approach in 2017 was communicated to all employees worldwide through a dedicated information campaign, which illustrated the changes in the process, methods and timing of listening of the Group Survey.

The next survey, scheduled for Spring 2018, will introduce a new measurement model for employee engagement based on the relative level of "*sustainability over time".*

As in previous years, the 2018 survey will also be sent to all Pirelli employees worldwide through an online questionnaire, while for the first year it will also be accessible from mobile devices. The return of the results will follow, both through dedicated communications on the company Intranet and through meetings in presence, the definition and implementation of specific action plans by country/function/Business Unit in the remaining months, until the next survey.

At the same time, in 2017, all Pirelli Affiliates activated their improvement plans, as defined based on the outcome of the previous survey.

With reference to the trends of the last two Group Opinion Survey: the 2016 participation rate was equal to 74% of the company population, the Trust Index to the Company in 2016, also at global level, was 64% overall. The 2016 figures mentioned are substantially in line with those that characterized the 2015 survey.

WELFARE AND INITIATIVES FOR THE INTERNAL COMMUNITY

At organisational level, Pirelli for years, has had the figure of the "Group Welfare Manager", who is entrusted with the supervision of welfare activities, jointly with the many central and local functions concerned, including Health and Safety at Work, Industrial Relations, Sustainability and Equal Opportunity Managers of the Group.

The welfare initiatives that Pirelli offers to its employees vary from country to country, in accordance with the specific needs identified in different social contexts in which the affiliates operate. In any case, they implement the guidelines shared at Group level, so that all the sites worldwide are progressively committed to locally adopting activities, tools and welfare processes aimed at creating collaborative environments and ensuring adequate support for the needs of personal life, respecting local regulatory, social and cultural specificities.

Reflecting the Group guidelines, overall, welfare activities activated at Pirelli affiliates in the world are attributable to four macro areas of action:

- lifestyle (e.g. health care, information and awareness campaigns);
- family support (e.g. scholarships, summer camps for employees' children, inter-company crèche);
- free time (e.g. open days, sporting and cultural activities);
- work life and work environments (e.g. flexible working hours, facility, individual development training, cultural growth and group celebrations).

All Group affiliates have the opportunity to share local best practices through a special section dedicated to welfare on the corporate Intranet.

Historically, Pirelli provides infirmaries at all its production units where health operators and medical specialists are available to all employees during working hours. These facilities provide counselling for health problems outside work as well as first aid care and periodic health supervision. It should be considered that the specialized services performed in the outpatient and nursing facilities of Pirelli in the world were around 250,000 in 2017 alone. For example, at the historic headquarters of Milan Bicocca, in 2017, over 23,000 services were provided to Pirelli employees, including specialist visits, instrumental examinations, therapies and physiotherapies, and prevention campaigns.

For example, the following are some of the welfare activities activated at the various local affiliates.

After the pilot phase started in September 2016, in 2017 the project called "Pirelli Smart Way" was extended to the entire staff of Milan Bicocca. Adherence to the Project gives the opportunity to "smart working", or to provide working activity partly even outside the offices, subject to agreement with managers and in compliance with the rules defined by the Company.

The Pirelli Smart Way Project involved a population of about 1,100 people, whose duties were deemed compatible with this new way of working. Of these, 84% have adhered to the project and have been enabled for Smart Working after having carried out a specific training process. The Smart Workers of Bicocca in 2017 had a total of 6,761 days of Smart Working, seizing the opportunity offered by the company to manage their work activities with greater autonomy, responsibility and flexibility, saving commuting time and costs, while balancing company needs with personal needs.

Following the introduction of Smart Working at Bicocca, the Managers of the organizational units involved were invited to participate in a workshop aimed at analyzing the implications of Smart Working on the role of manager and the style of leadership.

Since the beginning of the project, 13 sessions of the workshop have been provided, involving over 180 managers including executives, officials and middle managers.

Taking into account that participation was on a voluntary basis, these numbers and the lively involvement of Managers in the workshops are to be considered an excellent index of interest in the initiative.

During the first months of 2018, a new survey (already carried out on the population of the pilot project) is scheduled to be launched to detect and monitor the level of satisfaction and appreciation of the experience by both employees and managers, with a view to listening and continuous improvement.

Similar Smart Working Projects are being disseminated at various Group locations, such as at the Pirelli offices in New York (after a pilot phase in 2016) and in São Paulo in Brazil (ongoing pilot phase). At the end of the pilot period, a survey is always carried out between Smart Workers and their Managers to collect their feedback on the experience.

To support work – life balance and in particular family support, in Italy in 2017, the “Bambini in Bicocca” (Children at Bicocca) project continued, guaranteeing babysitting and kids club service for employees’ children of school age (5-10) during school holidays. In 2017, the project doubled the number of children welcomed, thanks to the inclusion of additional corporate sites in which to carry out activities with minors. More than 230 children in 2017 alone were in fact hosted as part of the “Bambini in Bicocca” project.

Similarly, in many of the Group’s sites, recreational events are organized periodically dedicated to the families of employees and also open to the local community; purely by way of example, think of the Children Day conducted in China at the primary school in Chongqing where over 700 people including children, parents, educators and employees in 2017 collaborated to spread the culture of road and workplace safety. Instead, the now traditional Diversity Day, now in its fifth edition in 2017, has been renewed at the Pirelli Germany office: children and adults participate in a competition in search of the differences in each of the participants, in the machinery and in the factory processes. At the end of the day, the plant hosted a vernissage of children’s paintings and drawings, in memory of their experience.

There were multiple campaigns for prevention and to raise awareness for a healthy lifestyle, including the “Nutrition workshop” conducted in Romania, an important opportunity to raise awareness for a healthy diet for the psychological and physical well-being of all employees. In turn, the “Faz Bem” project in Brazil promotes the improvement of the quality of life in particular through Sport, with various communication and involvement initiatives, like the Campaign “#sentirmibene” launched in Italy at the end of 2014 and which is divided into a series of initiatives to promote healthy lifestyles and well-being.

Moments of inclusiveness and sharing characterize the “Open Days”, which take place at numerous affiliates in the world: these are days dedicated to employees’ families, with educational workshops, visits to departments, games and music.

The well-being of workers also comes from a working environment that is psycho-socially adequate and stimulating, where they feel valued and in which psychosocial risks and work-related stress are effectively prevented and countered. To this end, as part of the Company’s global program called “Excellence in Safety”, Pirelli performs in-depth analyses and acts on key areas and issues such as improvement of the organisational structure, clarity of tasks and roles, empowerment of workers, improvement of communication in the organisation, sharing of objectives and motivation with respect to a common strategy, as key elements for the prevention and mitigation of occupational stress.

INDUSTRIAL RELATIONS

The Industrial Relations policy adopted by the Group is based on respect for constructive dialogue, fairness and roles. Guaranteeing and respecting free trade union activities is one of the key values on which Pirelli bases its own Human Capital Management System. Relations and negotiations with trade unions are managed locally by each affiliate in accordance with the laws, national and/or company-level collective bargaining agreements, and the prevailing customs and practices in each country.

At this local level, these activities are supported by the central departments, which coordinate the activities and ensure that the aforementioned principles are observed throughout the Group.

Industrial Relations also have an active role in the Group’s commitment in terms of health and safety, characterised by active participation on the part of the union and workers. In fact, 76% of the Group’s employees are covered by representative bodies that periodically, with the Company, monitor and address the current issues and awareness and intervention plans/programs, aimed at the improvement of activities and to safeguard the health and safety of employees.

In respect of the principle of constructive and timely dialogue with employees, in any case of corporate reorganization and restructuring, employees and their representatives are informed in advance, with timing that varies from country to country in full compliance with local laws, collective agreements in force and trade union agreements.

In 2017, the Industrial Relations activities reached important negotiating results. Several collective agreements were renewed, without any conflict, in the United Kingdom, Argentina and Mexico.

During the year, the Company also operated internationally to rebalance the employment level aligning it to the needs of volume related to the market, reporting a Group occupational balance up at the end of 2017 compared to 2016.

Pirelli increased its workforce in Romania, Mexico and Brazil, while in Italy the central functions related to Digital and to product research, development and innovation were further strengthened.

European Works Council (EWC)

The Pirelli European Works Council (EWC), formed in 1998, holds its ordinary meeting once a year after presentation of the Group Annual Financial Report, where it is informed about the operating performance, operating and financial forecasts, investments made and planned, progress in research, and, as occurred also at the annual meeting in 2017, about the progress of the Company's Sustainability Plan.

The agreement establishing the CAE provides for the possibility of holding other extraordinary meetings to fulfil the information requirements of delegates, in light of transnational events concerning significant changes to the corporate structure: opening, restructuring or closing of premises, important and widespread changes in work organisation. EWC delegates are provided with the IT tools they need to perform their duties and a connection to the corporate Intranet system, for the real-time communication of official Company press releases.

Compliance with statutory and contractual obligations governing overtime, time off, association and negotiation, equal opportunities and non-discrimination, bans on child and forced labour

The governance to protect Human and Labour Rights is the subject of Pirelli's Ethical Code and specific Policies adopted by the Company, in particular the "Social Responsibility Policy for Occupational Health, Safety and Rights and Environment", the "Global Human Rights" Policy and the "Health, Safety and Environment" Policy. All the aforementioned Policies are public and have been communicated in local language to employees. Moreover, since 2004, Pirelli has adopted the the requirements of International Standard SA8000® as a reference tool for managing social responsibility at its affiliates and in the supply chain.

The management of diversity and equal opportunities, and the responsible management of the supply chain in the field of human and labour rights are subject to specific paragraphs in this report, to which reference is made for further details.

Pirelli's approach has always been characterised by compliance with all legal and/or contractual requirements concerning working hours, the use of overtime and the right to regular days of rest. These requirements are often the subject of agreements with trade unions, in line with the regulatory context of each country. There are no restrictions on workers' right to use their total number of holidays and the period is generally agreed between the employee and the Company.

In addition to the trade union dialogue and coordination between Headquarter and local functions, Pirelli verifies the application of the provisions on the respect of human and labour rights at its affiliates through periodic audits performed by the Internal Audit Department, in compliance with a three-year audit plan to cover all the Company's sites. Normally every audit is carried out by two auditors and takes about three weeks on-site. The Internal Audit Team received training on the environmental, social, labour and business ethics elements of an audit from central function directors to enable them to carry out an effective, clear and structured audit, granting Pirelli effective control over all aspects of sustainability. If compliance violations are found during these audits, an action plan is agreed between the local managers and central management, with precise implementation dates and responsibilities and verification follow-ups.

The auditors carry out verifications on the basis of a checklist of sustainability parameters deriving from the SA8000® Standard and the Pirelli Policies mentioned above. All managers from the affiliates involved in the audits are adequately trained and informed on the audit object and procedures by the applicable central functions, in particular Sustainability, Purchasing, Health and Safety, Industrial Relations.

Considering the last four years, in 2014, the Internal Audit Department carried out audits in Italy, the United Kingdom and China; in 2015, in Mexico, Russia (Voronezh plant) and the United Kingdom; in 2016, in Germany, Russia (Kirov plant) and the United Kingdom (follow-up). In 2017, the audits concerned the industrial sites in Argentina, Brazil (Campinas and Feira de Santana plants), Mexico, Romania and the USA. The non-conformities emerged as a result of the audits mentioned above were the subject of the action plans agreed between the local managers and central management, and will be subject to follow-ups in 2018 by the Internal Audit Department. None of the audits revealed any breach of ILO Core Labour Standards, with specific reference to forced labour or child labour, freedom of association and collective bargaining, and non-discrimination.

Labour and social security lawsuits

In 2017, as in previous years, the level of work and social security litigation at Group level remained low. Just as in previous years, the level of litigation remains high in Brazil, to the point of representing about 90% of all the labour lawsuits currently pending against the entire Group. Labour lawsuits are extremely common in this country and depend on the peculiarities of the local culture. As such, they affect not only Pirelli but also the other multinational companies operating there. Labour lawsuits are generally initiated when an employment contract is terminated, and they usually involve the interpretation of regulatory, legal and contractual issues that have long been controversial. The Company has made a major commitment to prevent and resolve these conflicts – to the extent possible – including through settlement procedures.

Unionisation levels and industrial action

It is impossible to measure exactly the consolidated percentage of union membership at Group companies, since this information is not legitimately available in all countries where Pirelli has a presence (on five continents).

However, it is estimated that over 40% of Pirelli employees are trade union members. As to the percentage of workers covered by collective agreement, in 2017 it stood at 76% (vs. 74% in 2016). This figure is associated with the historical, regulatory and cultural differences between each country. Collective agreements for renewal in 2017 were renewed without any conflict and strikes.

Supplementary pension plans, supplementary health plans and other social benefits

The Group has defined contribution and defined benefit funds, with a substantial prevalence of the former kind over the latter. To date, the only defined benefit plans are:

- in the United Kingdom, where the fund relating to the tyre business has been closed to new employees since 2001 for the introduction of a defined contribution scheme (and closed to future accumulations for all active employees as of April 1, 2010), while the funds related to the cable business sold in 2005 were closed to future accumulations in the same year;
- in the United States, where the fund was closed in 2001 (since 2003, it has not been tied to salary increases) for the introduction of a contribution scheme (and only applies to retired employees);
- in Germany, where the fund was closed to new hires from 1982.

Other defined benefit plans exist in Holland and Sweden, but they represent a relatively insignificant liability for the Group.

The Group also maintains various supplemental Company medical benefit plans at its affiliates according to local requirements. These healthcare schemes vary from country to country in terms of allocation levels and the types of coverage provided. The plans are managed by insurance companies or funds created ad hoc, in which the Company participates by paying a fixed amount as is done in Italy, or an insurance premium as is done in Brazil and the United States. For the economic-equity measurement of the above benefits, reference is made to the Consolidated Financial Statements, notes “Employee funds” and “Personnel Costs”.

The social benefits recognized by Pirelli for employees (including life insurance, invalidity/disability insurance and additional parental leave) are generally recognized to all employees, regardless of the type of contract whether permanent, temporary or part-time, in compliance with company policies and local trade union agreements.

OCCUPATIONAL HEALTH, SAFETY AND HYGIENE

Management model and system

Pirelli's approach to responsible management of occupational health, safety and hygiene is based on the principles and commitments expressed in "The Values and Ethical Code" of the Group, in the "Health, Safety and Environment Policy" in the "Global Human Rights Policy" and in the "Quality Policy", in accordance with the Sustainability Model envisaged by the Global Compact of the United Nations, with the "Declaration of the International Labour Organization on fundamental Principles and rights at Work" and with the "Universal Declaration of Human Rights" of the United Nations. Reference tool since 2004 has also been the SA8000® standard. In particular, the "Health, Safety and Environment" Policy outlines Pirelli's commitment to:

- manage its activities regarding health and safety protection at work in compliance with the laws and all the commitments entered into, as well as according to the most qualified management international standards;
- pursue objectives of "no harm to people", by implementing actions for early identification, assessment and prevention of risks for health and safety at work aimed at a continuous reduction in the number and severity of injuries and occupational illnesses, activating health surveillance plans in order to protect workers from specific risks associated with their business duties;
- develop and implement emergency management programs to prevent and avoid harm to persons;
- define, monitor and communicate to its Stakeholders specific objectives of continuous improvement of health and safety at work;
- empower, train and motivate its employees to work safely involving all levels of the organization in an ongoing program of training and information, aimed at promoting a culture of safety at work;
- promote information and awareness-raising on health and safety issues;
- provide ongoing and concrete support aimed at facilitating the work-life balance;
- manage its supply chain responsibly by including issues of health and safety at work in the supplier selection criteria, the contractual clauses and the audit criteria, also requiring suppliers to implement a similar management model in their supply chain (for an outline on

responsible management of the supply chain, reference is made to the paragraph "Our Suppliers");

- make available to all its Stakeholders a channel (the "Whistleblowing Policy-Reporting Procedure" published on Pirelli's website) dedicated to reporting, even anonymously, of any situations that constitute or may constitute a risk for the protection of the health, safety and well-being of people (reference is made to the Paragraph "Focus: Reporting Procedure - Whistleblowing Policy" of this Report for an outline of reports received in the last three years, none of which regarding health and safety).

All the Documents mentioned above are communicated to Group employees in their local languages and are published in the Sustainability section of the Pirelli website, which should be consulted for full display of the content.

The occupational safety management system was developed in compliance with procedures and guidelines elaborated centrally in order to consolidate a "common language" that guarantees sharing, alignment and effective management in the Group.

Pirelli adopts an occupational health and safety management system structured and certified according to OHSAS 18001:2007. All certificates are issued with ANAB international accreditation (ANSI-ASQ National Accreditation Board - US accrediting body). Also in 2017, RINA Services S.p.A. was the evaluator of conformity of the health and safety management systems of Pirelli. At the end of 2017, all the production facilities are certified according to OHSAS 18001:2007, with the exception of the facility in Jiaozuo that joined the Group in the last quarter of 2016, and the facility in Rome (United States), where a management system is operative, applied under the OSHA Standards, similar to the OHSAS 18001 Standard.

At local level, in each productive unit are held periodical meeting with employees' representatives (Health&Safety Committee), with the aim of displaying, in respect of the Management System, the activities done and those planned, and of sharing the results of the risk assessments on workplace risks.

Safety culture

"*The Zero Accidents Target*" is a precise and strong corporate position.

Pirelli strongly believes that leaders play a strategic role in risk prevention. Their behaviour must therefore be an example for all employees. From an industrial point of view, this objective is pursued through investments aimed at technical improvement of work conditions, while constantly insisting on the cultural and behavioural aspect of all Company players.

It is necessary to pursue the safety culture in accordance with the rules, while maintaining a very clear idea of everyone's responsibilities to themselves, others, and their own family. This approach, together with the involvement and continuous internal dialogue between management and workers, has allowed a sharp decline in historical injury indices.

In 2013, the Company signed an agreement with DuPont Sustainable Solutions for the global implementation of the “Excellence in Safety” Program, in support of the management model outlined above and with particular focus on the implementation of a standard approach to behavioural safety in the Group. The Program began in 2014, extending gradually in 2016-2017 to all production sites of the Group. A specific Steering Committee, chaired by the Operations General Manager, monitors the progress of the program.

In particular, in addition to the strengthening and consolidation of the safety culture concepts based on conduct, the focus on Leading Indicators was further developed, namely measuring what preventive measures should be implemented and how this should be done, rather than Lagging Indicators, namely reactive indicators, such as the number or frequency of accidents.

The sharing of the Safety Culture was also supported by the monthly newsletters like the Safety Bulletin, and the periodic publication of significant events through the traditional channels of internal communication.

As part of the collaboration with DuPont Sustainable Solutions, in 2017, Pirelli continued to develop the theme of prevention of psychosocial risks and work-related stress.

Some of the most important areas of intervention of the “Excellence in Safety” Program are in fact related to the improvement of governance on safety, the organisational structure, the clarity of the tasks and roles, empowering workers, improving communication within the organisation, the sharing of objectives, motivation with respect to a common strategy: all substantial issues for a work environment that is psycho-socially appropriate and stimulating, in which workers feel valued and the psychosocial risks are effectively prevented and countered. Regarding this issue, during the 2014-2015 two-year period, Pirelli adhered to the European Agency Campaign for Occupational Health and Safety (EU-OSHA) “Healthy Workplaces *Manage Stress*”.

Safety training

In addition to safety training offered locally at every Pirelli location (which is illustrated in the section of this report dedicated to training), special mention should be made of Group activities and projects, which simultaneously target several countries by allowing an alignment of culture and vision, fully benefiting pursuit of the Company’s own improvement targets. The Manufacturing Academy merits a special mention. This is the Pirelli Professional Academy dedicated to the sphere of factories, where health, safety and environment issues are discussed in detail. It must be pointed out that 12% of the training provided by Pirelli in 2017 addressed occupational health and safety issues.

In 2017, the ninth edition of the Pirelli Health, Safety and Environment Global Meeting was also held. The annual meeting in 2017 took place at the Pirelli production site in Slatina, Romania. The purpose of this meeting, which brings together all managers responsible for Health and Safety in the Group, is to pool the best practices applied by the various Pirelli sites in the world, with a view to promoting continuous improvement.

Monitoring of Performance

Alongside establishing specific guidelines and procedures for implementing management systems, Pirelli uses the web-based Health, Safety and Environment Data Management (HSE-DM) system, elaborated and managed centrally by the Health, Safety and Environment Department. This system makes it possible to monitor HSE performance and prepare numerous types of reports as necessary for management or operating purposes.

The HSE-DM system collects all the information on accidents occurred at the factories, Group fitting units, equities and logistics units managed directly by Pirelli (accident analysis, corrective action taken...). If the dynamics of a particular case are significant, all the plants are not only provided with the information via a system called Safety Alert, but are also urged to conduct an internal audit as to whether conditions similar to the ones that caused the injury or near miss also exist at their plants and to define any possible corrective measures. By using this system, every site is able to audit the solutions adopted by other plants in order to share the best choices.

Performances

The performances reported below concern the three years 2015-2016-2017 and cover the same scope of Group consolidation. It is noted that, in order to guarantee the same scope set out by the GRI principles, the exit of the industrial business from the corporate scope in 2017 required a recalculation of the historical values reported below for the years 2015 and 2016.

The 2020 target of the Business Plan is for a reduction by 2020 in the Frequency Index of 87% compared to 2009. In 2017, Pirelli reached an injury **Frequency Index (FI)** of 0.27 with a reduction of 18% compared to 2016 and 83% compared to 2009.

The Injury Frequency Index, analysed by gender, is also significantly lower for women in 2016, reflecting the fact that the female population is generally engaged in activities with lower risk than the male population. Below is a summary table of the FI values by gender in the last three-year period:

	2017	**2016**	**2015**
Frequency Index (FI)	0.27	0.33	0.48
FI Men	0.30	0.37	0.54
FI Women	0.07	0.11	0.14

FI = number of injuries/number of hours actually worked x 100,000

The following table summarizes the distribution of the 2017 Frequency Index by geographic area:

	Europe	Nafta	South America	MEA	Asia Pacific
Frequency Index (FI)	0.29	0.20	0.36	0.24	0.06

The injury **Severity Index (SI)** in the Group in 2017 was 0.10, an improvement of over 16% compared to 2016. Below is a summary table of the SI values in the last three-year period:

	2017	2016	2015
Severity Index (SI)	0.10	0.12	0.16

SI = number of days absence, starting from the first day following the injury, per injury/number of hours actually worked x 1,000

The following tables summarize the distribution of the 2017 Severity Index by gender and geographic area.

	Male	Female
Severity Index (SI)	0.11	0.06

	Europe	Nafta	South America	MEA	Asia Pacific
Severity Index (SI)	0.10	0.11	0.15	0.03	0.03

The most representative injuries concern events involving contusions, cuts and fractures of the upper limbs.

Both in the case of the Frequency Index and the Severity Index, Asia Pacific has a lower rate than the other geographical areas where Pirelli operates, which however have all been steadily declining for years.

With reference to commuting accidents (not included in the calculation of the FI and SI mentioned above), the following tables show the total number registered by the Group in the last three years and the distribution by geographic area of the 2017 cases.

	2017	2016	2015
Commuting accidents	108	137	139

	Europe	Nafta	South America	MEA	Asia Pacific
Commuting accidents	28	44	36	0	0

The Frequency Index for occupational illnesses in 2017 stood at 0.04.

	2017	**2016**	**2015**
FI Occupational illnesses	0.04	0.04	0.07

FI = number of occupational illnesses/number of hours actually worked x 100,000

The following tables summarize the distribution of the 2017 occupational illnesses index by gender and geographic area:

	Male	**Female**
FI Occupational illnesses	0.04	0.04

	Europe	**Nafta**	**South America**	**MEA**	**Asia Pacific**
FI Occupational illnesses	0.04	0.00	0.09	0.00	0.00

As part of the production process, there were no workers with high incidence or high risk of illnesses related to their occupation.

With regard to injuries of temporary workers, the following tables show the number of injuries recorded in the last three years and the distribution of the 2017 injury frequency index by gender and geographic area:

	2017	**2016**	**2015**
Injuries involving temporary workers	3	11	23

	Total	**Male**	**Female**
FI temporary workers	1	1.19	0.00

	Europe	**Nafta**	**South America**	**MEA**	**Asia Pacific**
Injuries involving temporary workers	1	0	2	0	0

	Europe	**Nafta**	**South America**	**MEA**	**Asia Pacific**
FI temporary workers	2.85	0.00	2.54	0.00	0.00

Regarding the Frequency Index of injuries for employees of suppliers operating at Group sites, the rate was a total of 0.19. Below is the breakdown by Region.

	Europe	Nafta	South America	MEA	Asia Pacific
FI employees of suppliers operating at Pirelli	0.14	0.00	1.22	0.00	0.00

Fatalities

- 2017: a fatal accident occurred involving Pirelli Group employees at the Campneus Company (Brazil); no fatal accidents involving employees of external companies operating at the Group's operating units;
- 2016: there was no fatal accident involving Group employees or employees of independent contractors working at the Group's operating sites.
- 2015: 1 fatal accident occurred involving Group employees at the Yanzhou (China) operating unit; no fatal accidents involving employees of external companies operating at the Group's operating units.

Best Practices 2017

Fifteen Pirelli manufacturing plants were "sites of excellence" in 2017, since no employees were injured there in the year:

- Manufacturing Units: Burton MIRS, Slatina Motorsport, Bicocca MIRS, Breuberg MIRS, CMP
- Fitted Units: Sorocaba, Hurligham, Sao Jose dos Pinhais, Goiana, Didcot
- Equities: Dackia, AGOM
- Logistics – TLM: Barueri, Campinas, Feira de Santana

These results should be attributed to the constant focus on leading indicators, namely in terms of prevention.

Health and Safety Expenditure

In the three-year period 2015-2017, expenditure for health and safety by the Group amounted to about Euro 30 million, of which about 10 million was invested in 2017.

The expenditure made targeted improvements on machines and plant and, more in general, the workplace environment as a whole (ex. improvement of microclimate and lighting conditions, changes in layout for ergonomic improvement of activities, measures to protect the healthfulness of infrastructure...).

Health and Safety Targets

- 2020: reduction in the Accident Frequency Index of 87% compared to 2009 (underway);
- 2014-2020: global implementation of the “Excellence in Safety” program (underway);
- 2017-2020: completion of integration of Health, Safety and Environment KPIs for the sale/commercial/equities areas (underway).

EXTERNAL COMMUNITY

INSTITUTIONAL RELATIONS OF THE PIRELLI GROUP

In all the countries where Pirelli operates, the aim of Institutional Relations Management is directed towards creating corporate value through managing structural relations with reference stakeholders, ensuring adequacy of representation of the Company.

The activities are based on the utmost transparency, legitimacy and accountability, with respect to both the information disseminated in public venues, and to relations managed with institutional interlocutors, in line with the Group's Ethical Code, *Institutional Relations Policy - Corporate Lobbying* and the *Anti-corruption Compliance Program* (documents published on the Company's website) and in line with the principles of the *International Corporate Governance Network (ICGN)* and however in compliance with the laws and regulations of the countries where Pirelli operates.

The geographical scope of the Pirelli Group's industrial and economic interests therefore calls for an extended and multi-level network of institutional relations on a national, European and international level.

In the area of institutional relations, Pirelli acts above all via active monitoring and in-depth analysis of the institutional and legislative context and identification of stakeholders of reference. Institutional dialogue is further accompanied by projects and initiatives carried out in collaboration with institutional entities to promote and support issues of general interest on corporate matters.

The Institutional Business activity also includes the analysis of global political-economic dynamics, linked to the development of the main topics of corporate interest, and benefits from collaborations with selected *think tanks* of international prestige. These include among others the collaborations with the Institute for International Policy Studies, the International Affairs Institute, The Trilateral Commission, and the Aspen Institute.

At an international level, Pirelli interacts with the main institutional interlocutors present in the countries where it operates with its production sites. When necessary, the Group promotes initiatives directed towards mutual understanding and with the purpose of promoting representation of its interests through a strategy based on a clear perception of the industrial objectives and business valorization. Moreover, among the various tools of "economic diplomacy", in addition to the promotion of bilateral initiatives, Pirelli is particularly active in a number of Business Councils, including presidency of the Business Forum Italy China, where it has held presidency since 2016.

With reference to the most important international initiatives, there is therefore that of the Italy China Business Forum, a permanent forum of dialogue between the business communities of the two countries set up under the auspices of the Italian Ministry of Economic Development and the Chinese Ministry of Commerce (MOFCOM). During 2017, as part of the Business Forum, of which Pirelli is co-chairman, a series of business sessions and meetings were organized, with the participation of institutional representatives, aimed at strengthening bilateral relations between Italy and China. These include the Italy China Financial Forum held at the Pirelli Headquarters in February, in which some of the most important financial institutions of the two countries took part, in addition to the Italian Minister of Economy and Finance; the fourth plenary session of the Business Forum, organized in Beijing in the presence of the two Heads of State; the "China Italy SME Investment and Trade Forum", held in May in China on the occasion of the presence of the Italian President of the Council in Beijing and dedicated to the promotion of collaboration between small and medium enterprises; the Conference "Belt and Road: Building a Concrete Roadmap for Italy and China's Joint Growth" held in Milan in November to provide a concrete contribution to business communities for the implementation of joint projects within the Chinese development strategy. Also in the context of relations with China, the Group has also developed more relationships at regional level as well.

Activities concerning institutional relations also involved quite constant distribution of information relating to international Pirelli initiatives towards qualified institutional interlocutors as well as ongoing monitoring and analysis of the institutional and political dynamics.

As part of the enhancement of the historical relations between the Company and the United States of America, where Pirelli has industrial and commercial facilities, work continued on a number of initiatives related to institutional projects and activities at the United States Council for International Business, European American Chamber of Commerce and Italian American Chamber of Commerce, Organization for International Investment, and the Eurogrowth initiative of the Atlantic Council. Pirelli also maintains its board membership in the Foreign Policy Association. In October, on the occasion of the visit of the Governor of Georgia to Italy, Pirelli hosted the Governor and related delegation at its headquarters to renew the relationship with the State in which it is present with an industrial plant.

Also in Brazil, Pirelli continued to celebrate the country's strong link with Italy, promoting, among others, meetings with institutional representatives. In 2017, the Group met the mayor of São Paulo on the occasion of his visit to Italy. Pirelli also maintains relations with local institutions to protect its industrial sites, distributed in the states of São Paulo, Bahia and Rio Grande do Sul, with which a series of initiatives are also developed to raise awareness on issues such as road safety, safeguarding the territory and promoting culture.

In the European context, a significant activity also concerns Romania, in which Pirelli maintains a constant dialogue with the main institutional interlocutors in order to accompany the phases of industrial development at the Slatina site. Among the activities carried out in 2017, during the visit of a Romanian delegation led by the Secretary of State for Trade in November, Pirelli took part in the forum dedicated to the promotion of bilateral economic relations.

As proof of the Group's continuing commitment to strengthening relations with the countries in which it operates, in 2017, Pirelli took part in official visits with institutional representatives visiting Italy. In this context, a series of bilateral meetings could thus be carried out, aimed at analyzing the Group's industrial and commercial issues with significant institutional impacts. These include representatives of the Mexican, US, Egyptian, British, Chinese Government and of the Federal Republic of Tatarstan.

Relations with **European Institutions** also focus on consolidating relations with stakeholders of reference and monitoring legislation. The ongoing dialogue and discussion with the Commission and the European Parliament concern a wide range of matters of corporate interest: industrial policy, research and innovation, energy and environmental policies, mobility, technical regulations, domestic market and international trade. In line with Group standards, during the various stages of processing and forming European regulation, Pirelli represents Group interests with community stakeholders with an approach that is at all times directed towards utmost transparency and propriety. The Pirelli Group is enrolled with the European Registry for Transparency, which was instituted by an institutional agreement between the European Parliament and the European Commission.

Given its particular centrality, however underlined by the statutory pacts of the new listing on the stock exchange that seal the Italian nature of the group, relations with national authorities continue to have particular importance. In fact, in **Italy**, the Group continues to interact with a system of relations that involve the main institutional bodies, both central and local. In government contexts, Pirelli maintains constant relations with the main structures of reference and with the entities related to them. Relations with the Ministry of Foreign Affairs and International Cooperation are particularly important, in both the central and peripheral areas, with which the information activity regarding the presence of Pirelli in the international area is constant, as well as support in the valorisation of system interest abroad. Relations are particularly important with the Directorate General for internationalization policies and the promotion of exchanges of the Ministry of Economic Development, particularly aimed at coordinating the activities of the Italy China Business Forum. The Group also supported various initiatives of institutional importance, including events to raise awareness on issues of environmental protection, safety and territorial protection. In the diplomatic sphere, Pirelli also hosted the XII Conference of Italian Ambassadors in the presence of the Italian Foreign Minister at Pirelli HANGARBICOCCA™. The Group is also engaged in customary in-depth analysis of institutional importance, concerning: questions relating to the industrial presence of the Group; promoting and strengthening international relations in countries where the Group is present with industrial sites, analysing and studying in-depth impacts relating to the regulatory governance of tyres and their entire life-cycle; matters relating to road safety and environmental sustainability, both as regards production processes and in respect of the product itself.

MAIN INTERNATIONAL COMMITMENTS FOR SUSTAINABILITY

The attention of Pirelli to sustainability is also expressed through participation in numerous projects and programs promoted by international organisations and institutions in the area of social responsibility. The following are some of the main commitments undertaken by the Group worldwide (numerous activities and agreements existing locally at the affiliated companies are not included).

UN Global Compact

Pirelli has been an active member of the Global Compact since 2004 and since 2011, it has been part of the Global Compact Lead Companies. The Group endorses the "Blueprint for Corporate Sustainability Leadership", which offers leadership guidelines envisaged in the Global Compact to inspire advanced and innovative sustainability performance in terms of management capacity for the creation of sustainable value.

In 2017, the Global Compact Lead activated a series of initiatives to provide support in the definition of strategies and partnerships for the pursuit of Sustainable Development Goals (SDGs) launched in September 2015 in New York with the aim of accompanying the activities of sustainable companies until 2030.

This context includes Pirelli's participation in the action platforms "*Decent Work in Global Supply Chains*", "*Financial Innovation for the SDGs*" and "*Reporting on the SDGs*"; the work group of the latter presented to the public the report "*Analysis of the Goals and Targets*" during the leader summit held in September in New York.

In 2016, Pirelli had already provided business cases for the SDGs Industry Matrix of the Transportation sector, a publication aimed at collecting examples of application of the SDGs to corporate activities.

Since 2014, Pirelli has been a Founding Participant of the SSE Corporate Working Group, the group of companies that provide their own evaluations and indications as part of the Sustainable Stock Exchanges (SSE) initiative promoted by UNPRI, United Nations Conference on Trade and Development, United Nations Environment Program Finance initiative and the UN Global Compact. The initiative is based on a platform for exchange of ideas and assessments, which aims to increase the attention of world stock markets, investors, regulators and companies to the sustainable performance of companies.

ETRMA – European Tyre and Rubber Manufacturers Association

ETRMA is the main partner of the EU institutions for the sustainable development of new European policies for the sector and for their proper implementation. With the institutional support of the Pirelli Group, in 2017, the association continued to raise awareness of the European Commission and European Union Member Countries on the implementation of market surveillance for monitoring compliance with regulations on the general safety of vehicles and tyres and on energy efficiency, as well as the labelling of tyres in European Countries, and through the strengthening of the partnership with the national associations of the sector of which Pirelli is an active member. At the end of 2017, the European Commission's program on Competitiveness and Sustainable Growth of the Automotive Industry (GEAR 2030) was completed, which saw ETRMA and Pirelli contribute significantly to the programmatic and strategic proposal on the new challenges arising from technological changes on connectivity & autonomous driving and new approaches to mobility, as well as from global trade, in particular with China. Moreover, ETRMA continued to be heavily involved in the implementation of the Emission Trading Scheme, with the aim of reducing the economic impact for the sector of European energy policies and the European Innovation Partnership on Raw Materials and guaranteeing fair and unrestricted access to key raw materials for the sector.

Finally, the association supports the European Commission in the definition of policies on the Circular Economy for the sector and is successfully continuing in promoting sustainable manufacturer responsibility practices for the management of end-of-life tyres, thanks to which Europe maintains a more than 95% recovery rate, through close collaboration with the various operating partnerships existing in European countries. The good ETRMA (and European) practices remain an international benchmark.

ETRMA maintains a proactive role in the development of cognitive studies regarding environmental issues, such as microplastics, and health, for example the filling material obtained from end-of-life tyres for sports fields.

IRSG – International Rubber Study Group

Pirelli, in representation of the European Commission, is a member of the Industry Advisory Panel of the International Rubber Study Group (IRSG) based in Singapore, an intergovernmental organisation that brings together producers and consumers of rubber (both natural and synthetic), acting as a valuable platform for discussion on issues regarding the supply and demand for natural and synthetic rubber. It is the principal source of information and analysis on all aspects related to the rubber industry. Within IRSG, Pirelli participated in the Sustainable Natural Rubber Project, which resulted in the management guidelines for the Sustainable Natural Rubber Initiative (SNRi) launched in 2014, during the World Rubber Summit.

The experience of Stakeholder engagement carried out within the Project, as well as the SNR-I Guidelines, are among the many references that Pirelli has considered for the preparation of its Sustainable Management Policy for natural rubber, published in 2017 and to which a paragraph is dedicated in this report.

WBCSD – World Business Council for Sustainable Development

For years, Pirelli has been a member of the WBCSD – World Business Council for Sustainable Development. This is a Geneva-based association of about 200 multinational companies based in over 30 Countries that have made a voluntary commitment to link economic growth to sustainable development. In particular, Pirelli endorses two projects: Tire Industry Project and SiMPlify project (first Sustainable Mobility Project - SMP).

The Tire Industry Project (TIP), whose members account for about 65% of global production capacity of tyres, was founded in 2005 with the objective to seizing and anticipating the challenges of sustainable development through the assessment of the potential impact on health and environment of tyres throughout their life cycle. The project extends its evaluation activities to raw materials, tyre debris, with upcoming focus on India, and nano-materials. On the latter issue, in collaboration with the OECD (Organization for Economic Co-Operation and Development), TIP has developed a specific guide for the sector that contains best practices of reference for research, development and industrialization of new nano-materials, so as to ensure that the use of any nano-material is safe for people and the environment; the document is available at the Internet address.

http://www.oecd.org/chemicalsafety/nanosafety/nanotechnology-and-tyres-9789264209152-en.htm.

TIP has also finalized the development of "product category rules" (PCR) necessary to carry out product life cycle assessments (LCAs), as well as to develop the "environmental product declarations (EPDs)" for tyres so that the results are comparable between the various producers. With reference to the aggregated environmental reporting of the sector, TIP has identified as relevant the data relating to CO_2 emissions, energy consumption, water use and ISO 14001 certification.

Also in 2017, TIP worked on the international promotion of good practices on end-of-life tyre management in terms of valorization of recovery and reuse as a second raw material.

The next projects concern the analysis of existing best practices, and possible platforms, for the sustainable management of natural rubber, and the assessment of the presence of microplastics in the marine environment.

The SiMPlify Project, in which Pirelli has participated since 2013, has developed a vision linked to an idea of urban mobility that is universally accessible and with low environmental impact, for the transport of both passengers and goods in an urban context. The project (2013-2019) involves international companies in the automotive, auto parts, transportation, oil&gas, information and communication technology sectors. The project availed itself of the support of the University of Ghent and experts in the field and provides a tool based on numerical data normally available in the municipalities of cities - such as, for example, the number of inhabitants, the number of cars, kilometres of cycle paths - which, together with an online survey on citizenship, allow to calculate 19 indicators on the state of mobility of the city and therefore to propose ad hoc solutions derived from best practices available worldwide.

In a first phase, the project was implemented in six pilot cities such as Hamburg, Bangkok, Chengdu, Indore, Lisbon and also Campinas which, in addition to being home to an important Group plant, saw Pirelli as the project's task force leader, helping the city authorities to redefine the urban mobility plan, and focusing on issues of sustainable mobility, road safety and polluting emissions. In 2017, the project continued and Pirelli is leading its activities in Feira de Santana, home to another important Brazilian plant of the Group, and is laying the foundations in this direction for its adoption, in the course of 2018, also in Jiaozuo, important city in rapid transformation located in the center of China, also a Pirelli production site.

The effectiveness of the project and its tool is confirmed not only by the satisfaction of the cities where it has already been used, but also by the various acknowledgements received from various international organizations, including the European Commission, which decided to adopt the tool to support in this sense, 50 European cities.

EU-OSHA – European Occupational Safety and Health Agency

For the ninth consecutive year, Pirelli continued to be an official partner of the European Occupational Safety and Health Agency (EU-OSHA) in 2017. Every two years, the Agency tackles a different issue. The 2016-2017 campaign “Healthy Workplaces for All Ages” recognizes the need to prepare a sustainable working environment, which guarantees the health and safety of employees throughout their entire working life. In endorsing the Campaign, Pirelli launched a series of targeted initiatives, confirming its commitment to promoting a healthy work environment, where employees feel valued and where dialogue and the sharing of know-how between different generations is encouraging.

CSR Europe

Since 2010, Pirelli has been a member of the Board of CSR Europe, represented by the Sustainability and Risk Governance Director. CSR Europe is a network of companies in Europe that are leaders in the area of corporate social responsibility. Its members include more than forty-eight multinational companies and forty-one national partner organisations from thirty-three European countries.

In addition to several collaboration projects between companies for the improvement of corporate management performance, in 2017, CSR Europe continued with the initiative “European Pact for Youth” launched in 2015 and “Sustainable Business Exchange”, launched in 2016 to support the achievement of the sustainable development goals of the United Nations.

The Pact for Youth, supported by the European Commission and aimed at supporting the increased employment of young people through education and training as essential tools to match the skills of young people to the new skills required by the market, has seen Pirelli as a co-initiator of the initiative; the results of the two-year project were presented in November 2017 in Brussels, in the presence of the President of the European Parliament. The Pirelli Group contributed to the realization of these goals through a network of collaborations with high schools and universities in the various countries in which it operates (reference is made to the paragraph “Company Initiatives for the External Community”, sub-paragraph “Training” for further details on the project “Alternanza Scuola Lavoro” launched in Italy.)

Pirelli has chosen CSR Europe for the organization of the Pirelli Global Stakeholder Dialogue 2016, of the Stakeholder consultations carried out in the same year in Romania, Mexico, Germany and Turkey, and in 2017, in Russia and Argentina. In 2017, CSR Europe also moderated the multi-stakeholder consultation held by Pirelli and concerning the draft of the Company Policy on the sustainable management of natural rubber (later published in October 2017).

International commitments against climate change

For years, Pirelli has been committed to the fight against climate change, promoting the adoption of energy policies for the reduction of CO_2 emissions.

To this end, Pirelli has participated in numerous events and projects such as the Climate Conferences “COP23” in Bonn (2017) and “COP22” in Marrakesh (2016), the “Business for COP 21 Initiative” (2015) and participated in several side events organized during the “COP21” Climate Conference in Paris (2015).

Throughout 2014, the Group joined the “Road to Paris 2015” project and signed three initiatives consistent with its sustainable development strategy:

- Responsible Corporate Engagement in Climate Policy;
- Put a Price on Carbon;
- Climate Change Information in Mainstream Filings of Companies Communication.

Also in 2014, the Company signed the Trillion Tonne Communiqué, the document that requires global emissions over the next 30 years to remain below the trillion tonnes of greenhouse gases, avoiding a rise in average global temperature higher than 2 °C.

Pirelli has also signed numerous international agreements such as “The Carbon Pricing Communiqué” (2012), the “2nd Challenge Communiqué” (2011), the “Cancún Communiqué” (2010), the “Copenhagen Communiqué” and the “Bali Communiqué” (2007), the first document for the development of concrete strategies for a global climate agreement to be implemented through a joint government intervention.

COMPANY INITIATIVES FOR THE EXTERNAL COMMUNITY

As specified in the Group “Ethical Code”, Pirelli provides support to educational, cultural, and social initiatives for promoting personal development and improving living standards. The Company does not provide contributions, advantages, or other benefits to political parties or trade union organisations, or to their representatives or candidates, this without prejudice to its compliance with any relevant legislation. Since the founding in 1872, Pirelli has been aware that an important role in the promotion of civil progress in all the communities where it operates and, capitalising on the Company’s natural strengths, it has identified three focus areas: road safety, technical training and solidarity through sporting activities for young people. Pirelli for some years has adopted an internal procedure to regulate the distribution of gifts and contributions to the

External Community by Group companies, in relation to the roles and responsibilities of the functions involved, the operational process of planning, realising and monitoring the initiatives and the disclosures regarding the same. Essential support in the identifying of the actions that best satisfy local requirements comes from the dialogue with locally operating NGOs. Priority is given to those initiatives whose positive effects on the External Community are tangible and measurable according to objective criteria. The internal procedure also specifies that no initiatives may be taken in favour of beneficiaries for whom there is direct or indirect evidence of violation of human rights, worker rights, environmental protection or business ethics.

The contributions to the External Community by Group companies are part of a broader strategy to support the achievement of the Sustainable Development Goals of the United Nations (SDGs), already mentioned above in the paragraphs “United Nations Sustainable Development Goals (SDGs)” and “UN Global Compact”.

At the end of each of the following paragraphs, the SDGs are indicated which are most directly impacted by the activities of the Company described therein.

Road safety

Pirelli is synonymous worldwide not only with high performance, but also safety. Together with environmental protection, road safety is the key element of the Green Performance strategy that inspires the Group’s industrial and commercial choices. Pirelli’s commitment to road safety takes the form of numerous training and awareness-raising activities, but above all it translates into research and the ongoing application of innovative technological solutions for sustainable transport.

In 2017, Pirelli continued its commitment to the promotion of road safety through adherence to the “Action for Road Safety Campaign” of FIA, developed in support of the decade of actions for road safety organised by the United Nations in late 2011.

The FIA campaign promotes initiatives and training and information campaigns aimed at encouraging more responsible automotive behaviour and having safer roads and cars.

As the Global Partner of this campaign, Pirelli has signed the “*Ten Golden Rules*” for road safety, committed to disseminating it to its distribution network and has launched training programs and projects to raise awareness on safe driving during the course of 2017 in several countries where it operates.

Regarding road safety, Pirelli is also a signatory of the European Road Safety Charter, through which it undertakes to:

- contribute to consumer knowledge about the fundamentals of road safety, through experience and safe driving courses;

- increase the awareness of young drivers on the causes of road accidents through specific initiatives;
- provide information material on winter road safety at the points of sale, with the support of the Pirelli website and sites dedicated to information on winter ordinances;
- organise training seminars, in collaboration with associations, on issues of road safety related to the tyre and its related uses;
- train international dealers on the importance of the tyre in road safety and the performance differences between winter, summer and all-season tyres; the activity has been ongoing for over three years and has involved most of the countries in which Pirelli has a direct presence; in 2017, there were more than 800 classroom training sessions for dealers from around the world with more than 18,000 participants;
- actively participate in national programs on road safety, in agreement with associations, institutions, universities, manufacturers of cars and motorcycles or collaborating with law enforcement agencies for the preparation of a useful module for detection of the state of use of the tyre.

Also at Group level, since 2013, Pirelli has participated in the WBCSD SiMPlify project that proposes solutions for the redefinition of urban mobility with a focus on the issues of sustainable mobility and road safety. For further details on Pirelli's involvement in this project, reference is made to the paragraph "WBCSD" of this report.

In Italy, also in 2017, Assogomma activities continued: the product trainers were directly involved in the provision of courses to the Traffic Police in the context of the "*Estate in Sicurezza*" (Summer in Safety) activity. As in previous years, a section of the website was dedicated to driving tips, in summer and winter, highlighting the important role played by the tyre in the active safety of vehicles and its occupants. Training activities aimed at raising awareness on the issue of road safety have also been carried out in relation to interlocutors other than the sales network and institutional interlocutors, such as students: Pirelli has managed a three-year training course for students of the Don Orione di Fano and Orselli di Forlì professional institutes, in front of an audience of future operators in the automotive sector.

There have been numerous road safety initiatives activated by the other countries in which the Group operates: in the USA and Canada, the "Tire Safety Week" was organized, an initiative on safe driving that also involved other tyre manufacturers; in Mexico, a series of messages on road safety to be aired in 2018 in the State of Guanajuato is being developed and produced in collaboration with a local television channel. In Germany, Pirelli supported the secondary school in Michelstadt, in the Breuberg factory area, supporting the "Scuola di Bicicletta" (Bicycle School) project that teaches students how to react to traffic.

There have been many activities offered in Russia; like every year, in August, the city of Kirov collaborated with Pirelli in the campaign "Kirov is for politeness on the road". The slogan of the event is "kindness deserves to be encouraged"; during the event the local police, together with some volunteers, observes drivers to evaluate respect of intersections and distributes information leaflets. The best drivers were awarded during the ceremony with Pirelli tyres. The theme of the day was FIA's "golden rules" on road safety. Also in Kirov, at the beginning of the school year, Pirelli distributed to students reflective material to be attached to clothes and bags to be seen by motorists at night.

In the United States, Pirelli has collaborated with "Mothers Against Drunk Driving" in a marketing campaign, to raise awareness and raise funds for the organization, which fights drunk driving. In China, Pirelli collaborated with the NGO Shangri-la Institute for Sustainable Communities ("SISC"). SISC is a non-governmental organization that promotes education for sustainable development, by supporting projects with schools and local communities. Pirelli also participated in a road safety education day at a school in Qiongqing, involving about 755 people.

In Turkey, a Pirelli team had 5 days of "pit stops" in Istanbul, measuring the tread of 34,180 tyres for the safety of drivers. In Brazil, in 2017, Pirelli launched the support of a go-kart school for children aged between 6 and 16, with the aim of raise awareness among future drivers for respect of road rules and the regulation of track racing, encouraging them to do sports.

There have been multiple initiatives in favour of road safety education on two wheels. In 2017, Pirelli Motorcycle has increased its collaboration with driving schools for the development of practical and safe road and off-road experience. Among the various initiatives are Metzeler Off-road Park, Old School Racing by Alex Gramigni, GS Academy in collaboration with BMW, Ducati Racing Experience in collaboration with Ducati and True Adventure Academy in collaboration with Honda.

SDGs - Reference Targets:

- **3.6**, dedicated to reducing the number of deaths and injuries due to road accidents;
- **11.2**, in support of safer, more accessible and sustainable transport systems, with particular attention to the needs of the most vulnerable groups.

Training

The promotion of technical education and training at all levels are very old values that are well-established in the history of Pirelli. The Group continues to benefit from technical and research cooperation with various universities around the world, beginning with the Milan and Turin Polytechnic Universities, the Milan Bicocca University and also the Qingdao University in China, the University of Craiova in Romania and the Universities of Baden-Wuerttemberg, Darmstadt and Aschaffenburg in Germany, among others.

In Spain and China, Pirelli sponsored various scholarships. In China, Pirelli sponsored 36 scholarships for outstanding students at the University of Qingdao for Science and Technology, while in Spain the beneficiaries are students at the UAB (Universitat Autonoma de Barcelona) and FUB (Fundació Universitaria del Bages).

In Germany, the company supported the universities and schools of Hochschulen, Berufsschulen, DHBW Mannheim and EGS Höchst Odenwald.

In Brazil, Pirelli supports Educandario Imaculado Coracao de Maria in Amélia Rodrigues, an elementary school run by Italian nuns and attended by 800 children.

In the United Kingdom, Pirelli sponsors children's projects, as well as an important fair for employment.

In Turkey Pirelli sponsors the "Innovative Thinking for High Schools" project with various activities, training courses and workshops.

In Romania, Pirelli's partnership with the University of Craiova concerns the Master's programs in information technology and engineering in the automotive field. Furthermore, in collaboration with local authorities, Pirelli participates in the START program, aimed at training the unemployed, which in 2017 certified the students as operators in the curing area. In Russia, Pirelli promoted a competition among students who challenged themselves with projects in the field of chemistry.

Technical training has a fundamental role in the creation of a skilled labour pool needed to maximise plant productivity. In Mexico, the Piero Pirelli Institute for technical training, inaugurated in 2015, is equipped with the most advanced learning tools (virtual simulator, automatic controls, pneudraulic systems, electrical, electro-mechanical, mechanical and measurement systems). Within the institute, there are numerous classrooms, a showroom on the process, materials and 3D models of the product, production workstations that use both virtual reality and physical warehouse simulators, service areas and offices.

In Italy, in 2017, the Alternanza Scuola Lavoro project was inaugurated, governed by the 2015 "Buona Scuola" law. The project, designed on a three-year basis, involves two classes of chemical and technological institutes in the area and aims to accompany the children belonging to the classes involved throughout the three-year period, in order to guide them to discover what a company is, to support them in understanding the main dynamics of company management and to help them in the delicate phase of professional choice and orientation. Adhering to the Pirelli project therefore facilitates schools in the regulatory compliance of the provisions of the decree, supports the territory in the promotion of school excellence and internally promotes the management of generational diversity thanks to the involvement, within the project, of senior Pirelli employees in the role of mentors and guides of the young students hosted.

Training does not only concern the production process at the factory; for Pirelli, the entire life cycle of the tyre is important. In fact, the Group focuses heavily on disseminating sustainable agriculture practices for raw materials such as natural rubber. In Indonesia, in collaboration with the supplier Kirana Megatara, Pirelli continued the *"Rubber Productivity Enhancement Project"* with three main objectives:

- educating natural rubber farmers by teaching the correct procedures for rubber extraction enabling the protection of natural resources (maximizing productivity and maintaining and extending the life of trees). Training is on three fronts: theory, extraction, and quality;

- distributing high quality natural rubber tree seeds to farmers so that they can plant better trees with higher productivity;

- giving scholarships to the children of natural rubber growers, to allow them to go to school and buy school books.

SDGs - Reference Targets:

- **4.4**, dedicated to increased technical training to youth and adults, aimed at increasing manual skills and entrepreneurship;

- **9.5**, referring to support for scientific research and increased technological capabilities of the industrial sectors.

Sport and social responsibility

There is a close link between solidarity and sport, in a virtuous circle where commitment to sports becomes synonymous with the commitment to promoting solidarity and ethics, especially amongst young people. Getting young people involved in sport is a way to teach the notion of integration to children from different social groups, and helps prevent negative situations like isolation and solitude. Pirelli signed a global agreement not only for the sponsorship of the professional football club FC Internazionale Milano ("Inter"), but also as a partner of the global social project Inter Campus.

Since 1997, Inter Campus has developed social, flexible cooperation and long-term actions, in 29 countries around the world with the support of 200 local operators, using football as an educational tool to offer needy boys and girls aged between 6 and 13 the right to play. Since 2008, Inter and Pirelli, along with a local partner, have been running the Inter Campus social project in Slatina, Romania. The sports and recreational activities are organised for the entire year, involving over 100 children from different social contexts who have been learning team spirit, social integration and the values of friendship through football for years. Since 2012, Pirelli and Inter have replicated the experience of Inter Campus in Mexico: Inter Campus Silao, near the Pirelli factory, inaugurated by President Felipe Calderon, involves about 400 children in the area. In the United States, the first Inter Campus was inaugurated in 2014 by Pirelli and Inter in the community of Inwood, area of New York City. Also in 2014, Pirelli and Inter launched an Inter Campus project together in Voronezh, Russia, involving two local orphanages with about 100 children.

In Brazil, Pirelli sponsors basketball, volleyball, football, judo, cycling and tennis activities. In the United States, Pirelli sponsored the local team Rome Braves in Georgia, as well as various sporting events related to philanthropy, including the donation to R.A.C.E. (*Racing Awareness Charity Events of Rome*) and a donation to the YMCA. Even in the United Kingdom, Pirelli sponsored various sporting events related to philanthropic fundraising and contributed funds for a female youth football team.

In Kirov, Russia, Pirelli sponsored the ice hockey *“Pirelli Cup”,* involving several youth teams (120 participants).

In Germany, Pirelli supported a football initiative for the disabled.

In Romania, Pirelli sponsored the “Io Tifo Positivo!” Project for children aged between 7 and 14, to encourage fairness in sport, and organized a sports weekend for more than 100 local families.

In Turkey, a team of employees ran in the Istanbul marathon in the name of equal opportunities in education, while in Russia a Pirelli team ran for the “Naked Hearts” foundation to raise funds for disabled children.

SDGs - Reference Targets:

- **3**, dedicated to guaranteeing a healthy lifestyle and promoting well-being for everyone, at all ages.

Solidarity

The responsible approach taken by Pirelli to involvement and inclusion takes the form of social solidarity activities worldwide. The Company supports educational and didactic programs that are able to give less fortunate children the tools to improve their condition; it contributes scholarships and research projects, firmly believing in training as vital to individual growth and the economic growth of a country. In Brazil, where Pirelli has been historically active in the local community with social projects, the Company provided for children in the city of Feira de Santana, near the Pirelli factory, in an after-school program with 15 different types of activities. A similar project is near the Gravataí factory, which is aimed at social inclusion and includes music and dance activities in addition to more traditional educational activities. Also in Brazil, Pirelli supports the kindergartens of Dr. Klaide in Santo André and Escadinha do Tempo in Meleiros, which guarantee not only educational activities but also medical, dental and psychological visits, in addition to food, for 285 children.

Pirelli supports the Fundació Mambre in Spain, a foundation that operates as a facilitator in social inclusion processes, supporting homeless people on their individual growth paths. In addition, the Company supports programs providing food for needy families, and a warehouse for the storage of food for the poor. Pirelli collaborates with the AMPANS Association, dedicated to the cognitively disabled. Pirelli also contributed to a solidarity project aimed at facilitating the search for jobs for intellectually disabled people, and collecting toys for needy children at Christmas.

In Russia, Pirelli contributed to the “Chance” project, which provides private lessons to orphans, while in Kirov, Pirelli employees dedicated part of their time to entertainment of children and, with the support of the Arifmetika Dobra foundation, organised a visit to a playground. Also in Kirov, employees support two orphanages with visits and donations.

In Turkey, Pirelli hosted special students from the Kosekoy Youth Education and Rehabilitation Center for the international disabled day in December. In Canada, a group of employees cooked for the needy, and made a donation to the Le Garde-Manger philanthropic entity.

In China, Pirelli supported orphans and poor people in Yanzhou. In the Netherlands, Pirelli sponsored “Amici di Sophia” (Friends of Sophia), projects for children at the Rotterdam hospital. In Belgium, the company made a donation to the “Pecheur de Lune” foundation that organizes events for sick children. In Greece, Pirelli accompanied a group of orphans to visit an automobile museum. In Switzerland, Pirelli donated tyres for transporting the disabled. In Mexico, Pirelli is contributing to the creation of a community center, “Centro Impulso” (Impulse Center) that offers sports and cultural activities, as well as technical training.

In the UK, Pirelli raised funds for the national autism society, a trip of volunteers to Zambia for philanthropic activities, a visit of needy children to the circus, a project against online bullying, a football sponsorship for “Me & Dee”, which offers holidays to needy people, meals for the homeless, and toys for needy children at Christmas.

Pirelli USA and Pirelli Mexico, in addition to Pirelli at Group level, have donated funds to the Red Cross to help the victims of hurricanes in the USA and the earthquake in Mexico.

In Italy, the “Insieme per il Centro Italia” (Together for Central Italy) fundraising campaign saw the Company double the donations made by employees and intended for the construction of a “city of production activities” in the Municipality of Arquata del Tronto, hit by the earthquake in summer 2016.

SDGs - Reference Targets:

- **1**, on the eradication of poverty in all its forms;

- **2**, related to the elimination of hunger in the world;
- **11**, dedicated to the development of cities and social environments that are inclusive, safe and sustainable.

Health

Pirelli considers contributing to improving the health services of the communities where it operates to be important. Since 2008, Pirelli Tyres Romania, in collaboration with the Niguarda Hospital in Milan, has supported the professional training of medical and nursing professionals and the donation of medical equipment and devices to Slatina Hospital. Over 270 professionals were trained in this program, and specifically in oncology, paediatric care and emergency care. Pirelli Tyres Romania has also provided dental treatment to around 300 children in Slatina through the project Overland for Smile. Since 2010, Pirelli has supported the Pequeno Principe Hospital in Curitiba, the biggest paediatric hospital in Brazil.

In many countries, Pirelli promotes a healthy and active lifestyle with various projects, both among its employees and in the local community. In the United States, a *"Wellness Challenge"* was organised.

In addition, in several countries, Pirelli makes donations to scientific research, or collaborates with the volunteer projects of employees for research fundraising. In the USA, a donation was made for breast cancer research; in the Netherlands, for pancreatic cancer research; in Belgium, for a foundation that deals with pediatric oncology. In the UK, several donations were made for cancer research, to hospitals and hospices in the community and for individual cases of need. In one case in particular, Pirelli collected money and made a donation to help a sixteen-year-old boy victim of a car accident in Carlisle, to face medical expenses and buy a prosthetic leg.

In Spain, Pirelli participated in the Day of Solidarity Somos Uno, raising funds for biomedical research for serious childhood illnesses and the prevention of Alzheimer's. In Turkey, Pirelli made an awareness campaign on the problem of breast cancer.

SDGs - Reference Targets:

- **3**, dedicated to guaranteeing a healthy lifestyle and promoting well-being for everyone, at all ages.

Environmental initiatives

Many Pirelli employees around the world enthusiastically participate every year in environmental projects. Employees in France and Australia wanted to promote recycling initiatives.

In Romania and Russia, groups of employees have volunteered for local environmental clean-up projects. In Romania, more than 200 volunteers went to the Strehareti forest to collect waste. In Russia, 60 employees of the Voronezh plant collected waste in the biosphere nature reserve, interacting with the local beaver community. In Kirov, Pirelli participated in the “Giochi Puliti” (Clean Games) competition on waste collection.

In Mexico, Pirelli sponsored a reforestation project with the State of Guanajuato on 40 hectares of land, while in Romania, in Slatina, about 100 employees planted around 80 trees.

A major project to preserve the forest areas was Kirana Megatara in Indonesia, already described in this chapter in the section on training, aimed at maximizing productivity and maintaining and extending the useful life of natural rubber trees. On the subject, in October 2017, Pirelli published the Policy on the sustainability of natural rubber.

SDGs - Reference Targets:

- **12.5**, aimed at reducing the generation of waste through reduction, recycling and reuse;
- **15.2**, related to the promotion of sustainable forest management, to reduce deforestation and increase reforestation.

Culture and social value

The internationality of Pirelli also emerges from the love for culture, with initiatives in many countries worldwide also in 2017. The attention to culture, and even more the commitment to preserve it, spread it and enhance it, are part of the DNA of the creation of social value. Pirelli is among the sponsors of the Museum of Modern Art of São Paulo, one of the most important structures in Latin America which, in addition to the permanent collection, every year offers major exhibitions, seminars, events and courses. Pirelli provided support to the event ArtRio, a collection of 100 national and international galleries. In Brumadinho, Pirelli supports the Instituto Inhotim, with a famous collection of contemporary art and a collection of plants from around the world. In the field of music, Pirelli sponsors the Mozarteum project, which presents great international orchestras of classical music. Also in Brazil, Pirelli supported the exhibition of the collection of the banker Roger Wright at the Pinacoteca de São Paulo, a selection of more than 170 Brazilian works of the 60s and modern installations. Pirelli also supports the photo exhibition Exposição Antilogias, also at the Pinacoteca de São Paulo.

Pirelli in Brazil continued, after the restoration of the Cristo Redentor in Rio de Janeiro, to maintain the famous statue, and contributed to the restoration of the Cidade de Milão square in São Paulo.

In Romania, Pirelli sponsors theatre days for the community, in collaboration with the Cultural Center of Slatina “Eugen Ionescu”. In Russia, Pirelli organized a competition between art students with a trip to Italy as a prize, and was a partner of the Platonov international art festival, in Voronezh. Also in Voronezh, Pirelli sponsored a fundraising dance to promote young musical and artistic talents. Also in 2017, an exhibition of the Pirelli Calendar was presented at the Multimedia Art Museum in Moscow. In the United States, Pirelli sponsors the Council for the Arts in Rome, Georgia.

In Turkey, Pirelli has collaborated with the club "The Art of Reading" to spread reading also in schools. In addition, some children of employees of the Izmit factory presented a theatrical show called "Fabrika".

In Italy, the commitment to activities that generate value for the territory is evidenced by the numerous and consolidated collaborations with prestigious national and international entities and institutions: in particular, in the art world, with the Fai (Italian Environment Fund), in the world of theatre with the Piccolo Teatro di Milano and the Franco Parenti Theater, in the music world, with the MITO SettembreMusica Festival, the Villa Arconati Festival, the Giuseppe Verdi Symphony Orchestra of Milan and the Teatro alla Scala Foundation.

SDGs - Reference Targets:

- **4**, aimed at promoting quality education and all forms of equitable and inclusive learning.

FONDAZIONE PIRELLI (PIRELLI FOUNDATION)

One of the missions of the Fondazione Pirelli, or Pirelli Foundation, established in 2008, is the preservation of the Group's historic and cultural heritage and the promotion of its corporate culture through initiatives having a strong social and cultural impact, exhibitions, as well as collaborations with other institutions.

Many projects, even in 2017, are aimed at sharing the Company's history and promoting its cultural and artistic heritage. Among these, the following are noted:

- Volume "La pubblicità con la P maiuscola. La comunicazione visiva Pirelli, tra design d'autore e campagne globali anni Settanta-Duemila" (Corraini Edizioni, June 2017, hardback and e-book, in Italian and English). Over 1,800 paper copies of the book were distributed, of which about 1,700 to foreign business markets (e.g. China, USA, Germany, Poland, Australia, MEAI). For the use of audiovisual materials and exclusive content related to the book, a web-app and the section of the Foundation website advbook.fondazionepirelli.org dedicated to the volume were developed. On 4/7/2017, the book was presented, also through multimedia installations and exhibition paths, at the Franco Parenti Theatre in Milan, with an event that saw the participation of over 500 people and Marco Tronchetti Provera, Antonio Calabrò, Carlo Bonomi, Paola Dubini, Vicky Gitto and Aldo Grasso as speakers;

- Concert "Il Canto della fabbrica" (The Song of the Factory): composition inspired by the rhythms of the Pirelli digital factory in Settimo Torinese commissioned by the Pirelli Foundation to the violist Francesco Fiore for the Italian Chamber Orchestra conducted by Maestro Salvatore Accardo. The opera was presented in world premiere on 8/9/2017 (during the MITO SettembreMusica Festival) in the Packaging Department of the Settimo Torinese plant, in front of about 1,000 people (320 Pirelli employees and family members), after a general rehearsal at the Pirelli Headquarters of Bicocca (with more than 300 employees) and a preview at the Piccolo Teatro Studio Melato in Milan (350 people). The event at the factory was also followed in direct streaming by over 300 people from the Biblioteca Comunale Archimede of Settimo Torinese and made available also through the company Intranet;

- Exhibition "Pirelli in Cento immagini. La bellezza, l'innovazione, la produzione" (Pirelli in 100 images. Beauty, innovation, production) (January 18 - May 1, 2017, Biblioteca Archimede, Settimo Torinese): the exhibition, a focus on the more than 140 years of the company's life, was curated by the Pirelli Foundation and promoted by the Municipality of Settimo Torinese and the ECM Foundation with the patronage of the Piedmont Region and the Metropolitan City of Turin. The exhibition is also linked to the publication of a catalogue that describes the sections of the exhibition path, and which also includes some of the most beautiful images of the Pirelli Calendar;

- Documentary "Leopoldo Pirelli, Impegno industriale e cultura civile" (Leopoldo Pirelli, Industrial commitment and civil culture) (3D Production for MemoMi): on the occasion of the

10th anniversary of the death of the entrepreneur, with testimonies, interviews and documents largely from the Historical Archive of the Pirelli Foundation, the film was previewed on 25/01/2017 at Pirelli HANGARBICOCCA™ and subsequently aired on Sky Arte HD;

- Digital content *(fondazionepirelli.org* and social media): production of about 500 contents on the site and activation of the new weekly section "Storia e storie dal mondo Pirelli" (History and stories from the Pirelli world). The site has been visited approximately 43,500 times (+48% vs 2015), mainly in the English language section. The Facebook and Instagram Foundation accounts have over 7,500 followers (+70% vs 2015);

- Educational and training activities: - Pirelli Educational Foundation: more than 2,200 primary and secondary school students involved in the themes of corporate culture and 400 teachers involved in training. The Pirelli Foundation took part in the *Robotics Festival* in Milan (May 2017) and at the *5th Festival of Innovation and Science* in Settimo Torinese (October 2017) proposing training activities that saw the overall participation of about 400 children and youths; - Universities: lessons and guided visits to about 400 students from the main Italian and foreign universities (Università Cattolica, IULM, Università Bocconi and Università degli Studi di Milano Bicocca, SAFM in Turin, Singapore University, University of Dublin, etc.);

- Historical archive (processing): in 2017, the cataloguing and digitization of materials continued, with the processing of approximately 1,800 photographs and 500 issues of company magazines (*Fatti e Notizie*, *Noticias Pirelli* and *Paginas Pirelli)*. The digital inventory was also implemented on the Foundation's website with the publication of 3 new photographic sections ("Car racing" and "Bicycle") and " *Vado and Torno* magazine", of which about 70 issues were previously worked on;

- Project for the census and analysis of the Pirelli Group archives: launched in 2016, the project for the analysis of the Group's archiving practice involved 40 offices, for a total of 60 persons interviewed; moreover, in collaboration with the Facility Department, the analysis of the documentation sent to the deposit archive before 2008, in order to rationalize the company warehouses and implement the Historical Archive;

- Research and historical materials for exhibitions and publications: - loans to institutions, also international (e.g.: La Triennale, Milan; Design Museum, London); - documentary research for scholars and exhibition projects (e.g. exhibition on design "Pirelli by Dixon", Milan Furniture Fair, April 2017) (about 100 requests).

In 2017, around 3,300 people visited the Pirelli Foundation (and the Pirelli Headquarters) through:

- Participation in initiatives to promote Corporate Culture: - Museocity (Municipality of Milan, 4/3/2017): extraordinary opening of the Pirelli Headquarters with exposure of the photographic work *L'uscita delle maestranze Pirelli dallo stabilimento di via Ponte Seveso* (The exit of Pirelli workers from the plant in via Ponte Seveso of 1905 conserved in the

Foundation (about **250** participants); - Photoweek (Municipality of Milan, June 5-11, 2017): participation with guided tours and creative workshops for children (about **70** people); - XVI Week of Business Culture "I linguaggi della crescita: impresa, cultura e territorio" (The languages of growth: business, culture and territory) (Confindustria/Museimpresa, November 10-24, 2017): guided tours, installations and projections inside the former cooling tower of the Pirelli Headquarters (about 260 participants);

- Guided tours and events at the Foundation to support the Business Units for the valorization of the Pirelli Brand: about 2,200 guests.

Initiatives in favour of the Internal Community include:

Pirelli company libraries of Milan Bicocca and Bollate: over 6,000 titles available to employees, selectable for loan and consultation on the online OPAC Catalogue. In total, in 2017, there were about 2,200 loans, 2,919 movements and 400 users. On 20/11/2017, the first anniversary of the libraries in the Pirelli Headquarters of Bicocca was celebrated with an exhibition entitled "Visioni milanesi" and an event in the presence of the writer Alessandro Robecchi and chef Filippo La Mantia (over 300 participants);

"Bambini in Bicocca": in collaboration with the Human Resources Department of Pirelli, the Foundation has devised didactic paths for employees' children during school break days (over 200 children between the ages of 6 and 10).

PIRELLI HANGARBICOCCA™

Pirelli HANGARBICOCCA™, which with its 15,000 square metres is one of the largest exhibition venues in Europe, is a space dedicated to the production, exhibition and promotion of contemporary art, created in 2004 from the reconversion of a vast industrial facility that belonged to Ansaldo-Breda.

The programming of solo exhibitions by the most important international artists is distinguished by a character of research and experimentation and special attention to site-specific projects which are capable of maintaining a dialogue with the unique features of the space. The 2017 artistic program, curated by Artistic Director Vicente Todolí and curator Roberta Tenconi, presented artists of great international profile, alternating exhibitions of very successful names with exhibitions of emerging artists. The program managed to attract an Italian and international audience composed of art experts, representatives of the most important museums, trade journalists and the general press, as well as an equally large number of enthusiasts, families and students. During the year, there was a total of about 222,000 visitors who visited the 6 major exhibition projects dedicated to international artists, including "Take Me (I'm Yours)" the collective exhibition that reinvents the rules by which to experience a work of art and the permanent installation of the Seven Heavenly Palaces of Anselm Kiefer.

- Kishio Suga, "Situations";

- Laure Prouvost, “GDM - Grand Dad’s Visitor Center”;
- Miroslaw Balka, “CROSSOVER/S”;
- Rosa Barba, “From Source to Poem to Rhythm to Reader”;
- Lucio Fontana, “Ambienti/Environments”;
- “Take Me (I’m Yours)”.

The vocation of Pirelli HANGARBICOCCA™ is that of a place open to the city and its hinterland, of institution that accompanies the normal exhibition activity with a range of programs intended to attract even the non-specialised public to contemporary art.

In 2017, the Public Program accompanied the exhibitions with a full calendar of events, guided tours to the exhibitions and the district, projections and meetings with the key players in art and culture.

During the year, there were about 12 cultural events (day and/or evening) that involved nearly 3,000 participants in activities related to ongoing exhibitions, including a 2-day summer festival in July, which was attended by about 1,300 people.

In 2016, Pirelli HANGARBICOCCA™ launched the Membership program with the aim of creating a community that shares a passion for contemporary art. In less than two years, Membership has reached the number of 676 active Members, with a growth of 100% compared to the year 2016. Among the new benefits for 2017, free guided tours and bike tours, special opening on Wednesdays by appointment, new affiliations: GAMeC in Bergamo, Peggy Guggenheim Collection in Venice and Milan Design Film Festival

In 2017, 14 dedicated activities including 4 preview visits to exhibitions, 5 curatorial visits, 2 Family Labs reserved for Family Members, 1 bike tour and 2 visits to exhibitions hosted by other institutions. 15 dedicate Newsletters. Among the benefits, there is always the possibility to reserve a spot for the activities of the Public Program and take advantage of special discounts on the purchase of exhibition catalogues and the institutional line at the bookshop and at the IUTA Bistrot.

HB Kids and HB Family activities for children aged between 4 and 14, saw the participation of 2,500 children and young people, in line with the figures of the previous years. The number of participants who took part in the HB School activities has instead reached over 8,000 while visits by Italian and foreign university students and professors have involved about 2,900 people.

The education department also continued its guided tours proposing activities in Italian and foreign language in addition to the format “Art on Sunday” involving cultural mediators in Sunday lessons on the history of art related to the exhibitions and Bike Tours to discover the neighbourhood for school students of all levels.

With the aim of valorization of the Seven Heavenly Palaces of Anselm Kiefer, the collaboration with the Milano Musica Festival continued with two concert weekends; in June, an event open to the public was held with poetry readings in collaboration with the Paolo Grassi theatre and the Sorbonne 2 university in Paris.

In April 2016, the new Bookshop was inaugurated, with a selection of books and catalogues related to current exhibitions, children’s books, art-related non-fiction, reference books and merchandising products, including t-shirts, shopping bags, small stationery and umbrellas with the institutional logo, as well as postcards and posters with exhibition images.

During the year, Pirelli HANGARBICOCCA™ also hosted 11 major private events including the Annual conference of Italian Ambassadors abroad, Ferrari’s 70-year gala dinner, Barilla World Nutrition Forum, Ermenegildo Zegna’s FW 2018 fashion show, Hitachi’s Social Innovation Forum 2018 as well as Goran Bregovich’s concert for Vidas organized for the fundraising for the new pediatric project and supported by Pirelli HANGARBICOCCA™, granting free use of space.

The activities of Pirelli HANGARBICOCCA™ generate, among other things, significant induced employment: in 2017, the creation of exhibitions and major initiatives involved 49 companies and generated over 5,000 days/worker.

REPORT ON THE CORPORATE GOVERNANCE

AND OWNERSHIP STRUCTURE OF PIRELLI & C. S.P.A.

PURSUANT TO ART. 123-BIS OF THE CONSOLIDATED FINANCE LAW (TUF)

(TRADITIONAL MODEL OF ADMINISTRATION AND CONTROL)

(REPORT APPROVED BY THE BOARD OF DIRECTORS OF PIRELLI & C. S.P.A. ON 26 FEBRUARY 2018 IN RELATION TO THE YEAR ENDED ON 31 DECEMBER 2017. THE REPORT IS AVAILABLE ON THE WEBSITE WWW.PIRELLI.COM)

GLOSSARY

Annual General Meeting: the shareholders' meeting called to approve the financial statements as of 31 December 2017.

Camfin: Camfin S.p.A., Italian company with registered offices at via Bicocca degli Arcimboldi 3, Milan, Tax Code, VAT and Milan Companies Register number 00795290154.

ChemChina: China National Chemical Corporation, Chinese company with registered offices at 62 West Beisihuan Road, Haidian, Beijing (People's Republic of China), registered with the State Administration of Industry and Commerce of the People's Republic of China, registration number 100000000038808.

CNRC:China National Tire & Rubber Corporation Ltd., Chinese company with registered offices at 62 West Beisihuan Road, Haidian, Beijing (People's Republic of China), registered with the State Administration of Industry and Commerce of the People's Republic of China, registration number 100000000008065.

Corporate Governance Code: the Corporate Governance Code for listed companies, last updated in July 2015 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

Civil Code: the Italian Civil Code.

Board of Directors: the Board of Directors of Pirelli & C. S.p.A.

Consob: the National Commission for Companies and the Stock Exchange.

Report Date: the meeting held on 26 February 2018 by the Board of Directors that approved this Report.

First Trading Day: 4 October 2017, being the date on which the shares of the Company were admitted to trading on the MTA market organised and managed by Borsa Italiana S.p.A..

Year: the financial year to which this Report relates.

Group: Collectively Pirelli and its subsidiaries, as defined in art. 2359 of the Civil Code and art. 93 TUF.

IPO: the procedure for the listing of Pirelli shares completed successfully in October 2017 with the start of trading on the MTA.

LTI: Long-Term Investments Luxembourg S.A., Luxembourg company with registered offices at 124 Boulevard de la Pétrusse, L-2330, Luxembourg (Grand Duchy of Luxembourg), Luxembourg Companies and Commerce Register number B-187332.

MTA: Screen-traded Stock Market organised and managed by Borsa Italiana S.p.A.

Marco Polo: Marco Polo International Italy S.p.A., Italian company with registered offices at via San Primo 4, Milan, Tax Code, VAT and Milan Companies Register number 09052130961.

MTP&C: Marco Tronchetti Provera & C. S.p.A., Italian company with registered offices at via Bicocca degli Arcimboldi 3, Milan, Tax Code, VAT and Milan Companies Register number 11963760159.

New Shareholders' Agreement: the shareholders' agreement signed on 28 July 2017 by ChemChina, CNRC, SRF, SPV HK 1, SPV HK 2, SPV Lux, Camfin, LTI and MTP&C, with effect from the First Trading Day. The essential content of the New Shareholders' Agreement, to which reference is made for further information, is available on the Website (www.pirelli.com).

Pirelli: Pirelli & C. S.p.A., Italian company with registered offices at viale Piero e Alberto Pirelli 25, Milan, Tax Code, VAT and Milan Companies Register number 00860340157.

Pirelli International: Pirelli International plc, English company with registered offices in Derby Road, Burton on Trent (United Kingdom), registered with the Companies House of England and Wales, number 04108548.

Pirelli Tyre: Pirelli Tyre S.p.A., Italian company with registered offices at viale Piero e Alberto Pirelli 25, Milan, Tax Code, VAT and Milan Companies Register number 07211330159.

Issuers' Regulation: the Regulation approved by Consob resolution 11971/1999 (as amended) on the subject of issuers.

Related Parties Regulation: the Regulation approved by Consob resolution 17221 dated 12 March 2010 (as amended) on the subject of related-party transactions.

Report: this report on corporate governance and the ownership structure prepared pursuant to art. 123-bis TUF.

Compensation Report: the report prepared pursuant to art. 123-ter TUF.

Website: the institutional website of Pirelli containing *inter alia* information about the Company, which can be found at the Internet domain *www.pirelli.com*.

Company: Pirelli & C.

SPV HK1: CNRC International Limited, limited company formed under the laws of Hong Kong (People's Republic of China), with registered offices at RMS 05-15, 13A/F South Tower World Finance CTR Harbour City, 17 Canton Rd TST KLN, Hong Kong (People's Republic of China), Hong Kong Companies Register number 2222516.

SPV HK2: CNRC International Holding (HK) Limited, limited company formed under the laws of Hong Kong (People's Republic of China), with registered offices at RMS 05-15, 13A/F South Tower World Finance CTR Harbour City, 17 Canton Rd TST KLN, Hong Kong (People's Republic of China), Hong Kong Companies Register number 2228664.

SPV Lux: Fourteen Sundew S.à r.l., Luxembourg limited company (*société à responsabilité limitée*) with registered offices at rue Robert Stümper 7A, L-2557, Luxembourg (Grand Duchy of Luxembourg), Luxembourg Companies and Commerce Register number B-195473.

SRF: Silk Road Fund Co., Ltd., Chinese company with registered offices at F210-F211, Winland International Finance Center Tower B, 7 Financial Street, Xicheng, Beijing (People's Republic of China), registered with the State Administration of Industry and Commerce of the People's Republic of China, registration number 100000000045300(4-1).

Articles: the Articles of Association of Pirelli & C., available on the Website.

TUF: the Consolidated Finance Law, being Decree 58 dated 24 February 1998 (as amended subsequently).

INTRODUCTION

This Report describes the system of corporate governance of the Company in force as ofthe First Trading Day. This system is consistent with the principles contained in the Corporate Governance Code adopted by the Company[26].

1. COMPANY PROFILE

Pirelli, with its 30,000 employees and annual sales of about Euro 5.3 billion in 2017, ranks among the principal global manufacturers of tyres and supplier of ancillary services, being the only operator in the sector exclusively specialised in the consumer market (tyres for cars, motorcycles and bicycles), with a globally-recognised brand. The Company has a distinctive positioning with regard to High Value tyres, which are manufactured to achieve the highest levels of performance, safety, quietness and road grip, with significant input from technology and/or customisation (i.e. specifically, *New Premium*, *Specialties* and *Super Specialties* tyres and *Premium* motorcycle tyres). In addition, the Company is currently leader in the Prestige tyres segment, with more than one-third of the global market in volume terms, and in the radial segment of the after-market for motorcycle tyres. Pirelli is also the leader in Europe, China and Brazil, in the after-markets for New Premium car tyres and Premium motorcycle tyres.

The current positioning of Pirelli as a “Pure Consumer Tyre Company” results from the public takeover bid made in 2015 by Marco Polo Industrial Holding S.p.A. (the vehicle incorporated by ChemChina, Camfin and LTI, merged by absorption in Pirelli during 2016) on the entire share capital of the Company and the consequent process of transformation, which led to the separation of Industrial activities previously held from the Consumer activities. The transformation process culminated in October 2017 with the return of the Company to the stock exchange.

1.1 *MODEL OF CORPORATE GOVERNANCE*

The model of corporate governance adopted by Pirelli implements the traditional system of administration and control, with a Board of Directors (14 members) responsible for managing the business and a Board of Statutory Auditors entrusted with monitoring the administration and compliance with the law and the Articles.

In compliance with the Corporate Governance Code, the Board has established five internal committees with the power of making recommendations to, advising and carrying out analytical work for the Board.

The Shareholders’ Meeting is responsible for adopting resolutions on the matters reserved to it by law or by the Articles.

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[26] Adopted by resolution of the Board of Directors prior to the First Trading Day.

The legal audit of the accounts is entrusted to PricewaterhouseCoopers S.p.A., the registered auditing firm appointed by the Shareholders' Meeting, following a reasoned recommendation presented by the Board of Statutory Auditors.

In order to ensure the preservation and continuity of the Pirelli business culture, the shareholders' agreements (described in more detail later in the Report) expressly recognise the central role played by current top management, establishing *inter alia* that Marco Tronchetti Provera will hold the offices ofChief Executive Officer and Executive Vice Chairman of Pirelli and guide the activities of top management until the approval of the financial statements of the Company as of 31 December 2019.

1.2 *SUSTAINABILITY AND DIVERSITY POLICIES*

Pirelli has adopted a sustainable management model. Responsible management by Pirelli addresses the entire value chain.

As of 2005, the sustainable performance of Pirelli is described in the annual report of the Company (to which reference is made), certified by a third party and prepared in accordance with both the international reference standards for reporting on sustainability and the Italian Decree 254/2016; the annual report can be found on the Website.

The Company complies with the requirements of current regulations and the principles and criteria set out in the Corporate Governance Code for the composition of its administrative and control bodies in terms of age, gender, education and professional experience. Their actual application, particularly with regard to self-assessment activities, is monitored by the Board of Directors.

Pirelli is characterized by a multinational context in which people express a huge heritage of diversity. Conscious management of this diversity generates competitive advantages, opportunities for the development and enrichment of the business, and shared corporate values. In line with the Company's mission, Pirelli business culture has been able to anticipate over the years several topics and issues (such as environment and gender diversity) well in advance, thereby being able to satisfy the need to respond to new and growing requests made by the stakeholders.

Even at Board level, the above values are deemed as success factors necessary for achieving the Company's strategic targets.

For this reason, although the Board has not yet adopted a formal diversity policy due to the short period between the First Trading Day (4 October 2017) and the end of the Year (31 December 2017), the respect of said values has already been guaranteed by the shareholders in the context of last renewal of the Board of Directors, in terms of age, gender, nationality and educational, professional and cultural experiences. This enables the Board to perform its duties in the most effective way, through the support of different points of view, with the ability to analyse individual situations from multiple persepctive.

Lastly, during 2018 the Board of Directors will consider the adoption of a formal policy on diversity that complies with the principles described above,

2. INFORMATION ON THE OWNERSHIP STRUCTURE

2.1 *STRUCTURE OF SHARE CAPITAL*

On the Report Date, the issued share capital of Pirelli amounts to Euro 1,904,374,935.66 fully paid, and is represented by 1,000,000,000 ordinary shares without nominal value. Each share grants the right to one vote. There are no other categories of share and no financial instruments have been issued with the right to subscribe for new shares.

At present, the Company does not have any form of stock incentive plan for employees.

Additionally, the Articles do not provide for the possibility of increased voting rights or the issue of shares with multiple voting rights.

2.2 *SIGNIFICANT SHAREHOLDINGS OF CAPITAL*

Based on the communications received by the Company until the Report Date pursuant to art. 120 TUF, the significant direct and indirect shareholdings of Pirelli capital are indicated in Table 1 attached to this Report.

2.3 *MANAGEMENT AND COORDINATION ACTIVITIES*

The Company is an indirectly controlled, pursuant to art. 93 TUF, by ChemChina via CNRC and certain of its subsidiaries, including Marco Polo.

At the meeting held on 31 August 2017, the Board of Directors acknowledged that the management and coordination activities of Marco Polo would cease with effect from the First Trading Day, while CNRC would retain the right to consolidate Pirelli. This situation has further strengthened the autonomy of Pirelli and its management in the definition and management of the industrial, economic and financial strategies of the Group.

In particular, the Board of Directors of Pirelli has determined that, from the First Trading Day, Pirelli is no longer subject to any management and coordination activities considered typical, neither by Marco Polo nor by other companies or entities (including CRNC and ChemChina), and therefore, by way of example:

1. Pirelli conducts relations with customers and suppliers in full autonomy without any external interference;

2. Pirelli prepares the strategic, industrial, financial and/or budget plans of the Company or the Group independently;

3. Pirelli is not subject to any group regulations;

4. no organisational-functional links exist between Pirelli on the one hand and Marco Polo, CNRC and/or ChemChina on the other;

5. Marco Polo, CNRC and/or ChemChina have not carried out any deeds, adopted any resolutions or made any communications that might cause reasonable belief that the decisions of Pirelli are in some way imposed or required by Marco Polo, CNRC and/or ChemChina;

6. Marco Polo, CNRC and/or ChemChina do not centralise treasury management activities or other financial support or coordination functions;

7. Marco Polo, CNRC and/or ChemChina do not issue directives or instructions – and in any case would not coordinate initiatives – concerning the financial and borrowing decisions of Pirelli;

8. Marco Polo, CNRC and/or ChemChina do not issue directives regarding any special transactions carried out by Pirelli including, for example, the listing of financial instruments, acquisitions, disposals, concentrations, contributions, mergers, spin-offs etc.;

9. Marco Polo, CNRC and/or ChemChina do not make any crucial decisions regarding the operating strategies of Pirelli or formulate group strategic guidelines.

Conversely, Pirelli exercises management and coordination activity on several subsidiaries, having made the communications required by art. 2497-*bis* of the Civil Code.

2.4 *RESTRICTIONS ON THE TRANSFER OF SECURITIES*

The Articles do not impose any restrictions on the transferability of the shares issued by the Company.

However, the New Shareholders' Agreement does place restrictions on the transfer of shares in the Company until completion of the process of divestment and reorganisation carried out by Marco Polo, which will include *inter alia* the de-merger of said company into three companies wholly owned by, respectively, SPV Lux, Camfin and LTI (the "**Marco Polo Demerger**"). For further details see Section 2.8.2.

More specifically, the signatory shareholders have agreed not to sell, assign, transfer or in any case make use of in any other way, directly or indirectly (except for transfers to their parent companies, subsidiaries or fellow subsidiaries), *inter alia*, their respective direct or indirect equity interests in Pirelli until the first anniversary of the First Trading Day (except for LTI, which may transfer directly or indirectly, via Marco Polo, its equity interest in Pirelli after six months have elapsed from the First Trading Day).

2.5 *SECURITIES THAT CARRY SPECIAL RIGHTS*

No securities have been issued that carry special rights of control.

2.6 *SHARE OWNERSHIP BY EMPLOYEES: MECHANISM FOR THE EXERCISE OF VOTING RIGHTS*

With regard to the shares owned by employees, there are no specific procedures or restrictions governing the exercise of their voting rights.

2.7 *RESTRICTIONS ON VOTING RIGHTS*

There are no mechanisms that restrict the voting rights of shareholders, except for the terms and conditions governing the exercise of the right to attend and vote at Shareholders' Meetings, as discussed in Chapter 18 of the Report.

2.8 *SHAREHOLDERS' AGREEMENTS*

2.8.1 SRF CONTRACT

On 5 June 2015, SRF, CNRC and ChemChina signed an "Investment Contract" (the "**First SRF Contract**") regarding investment by and the participation of SRF, together with ChemChina and CNRC, in the acquisition of control over Pirelli.

The First SRF Contract granted SRF – holder of 25% of the share capital of SPV HK2 – with certain rights and prerogatives in relation to the corporate governance of SPV HK2, SPV Lux, Marco Polo and Pirelli; it also established certain restrictions on the transfer of the shares held in SPV HK2.

In particular, in order to achieve the objectives of SRF and CNRC for their joint (and indirect) investment in Pirelli, the parties to the First SRF Contract agreed that SRF would be entitled to designate a candidate for the Boards of Directors of Marco Polo and Pirelli.

Nothing in the First SRF Contract prejudices the right of ChemChina to exercise control over Pirelli via CNRC.

2.8.2 NEW SHAREHOLDERS' AGREEMENT

On 28 July 2017 ChemChina, CNRC, SRF, SPV HK 1, SPV HK 2, SPV Lux, Camfin, LTI and MTP&C (together, the "**Parties to the New Agreement**") signed the New Shareholders' Agreement that governs, on the one hand, the governance of Pirelli with effect from the First Trading Day, as well as the commitment of CNRC, SRF, Camfin and LTI to arrange for the Marco Polo Demerger as soon as possible subsequent to the First Trading Day and, in any case, by 31 December 2018, subject to (i) the beginning of the trading (which took place on 4 October 2017) and (ii) the reimbursement of the loan of Euro 1,250 million obtained by Marco Polo (which took place on 5 October 2017).

The New Shareholders' Agreement requires the Board of Directors of Marco Polo to approve the demerger project relating to the Marco Polo Demerger in favour of three beneficiary companies each wholly owned by, respectively, SPV Lux, Camfin and LTI. The Marco Polo Demerger will be non-proportional pursuant to art. 2506-*bis*, para. 4, of the Civil Code and, accordingly, the net assets of Marco Polo will be divided among the beneficiary companies in proportion to the equity interests held by SPV Lux, Camfin and LTI in Marco Polo (being 65%/22.4%/12.6%). In the context of the Marco Polo Demerger, Pirelli shares will be measured at their placement price.

The Marco Polo Demerger must be completed as soon as possible after the First Trading Day and, in any case, within three months of the date of approval of the 2017 financial statements of Marco Polo, subject to the positive outcome of the opinion requested by Marco Polo from the Tax Authorities regarding the tax treatment of the Marco Polo Demerger.

If the Marco Polo Demerger cannot be completed by the above deadline, or should any of the Parties to the New Agreement believe, in good faith, that the demerger is not the most efficient solution, each of them will be entitled to request an assessment in good faith of possible alternative solutions to the Marco Polo Demerger for the assignment to the shareholders of Marco Polo of its net assets.

2.8.3 THE SHAREHOLDERS AGREEMENT RELATING TO CAMFIN

In relation to Camfin, a shareholders' agreement is also in force, originally signed on 11 August 2015 by Marco Tronchetti Provera & C. S.p.A., Nuove Partecipazioni S.p.A., UniCredit SpA, Manzoni S.r.l. and Intesa Sanpaolo S.p.A., subsequently updated by said companies on 4 May 2017 in the context of the completion of the merger of the company Coinv S.p.A. in Camfin, which had effects as of 12 June 2017 (the "**Coinv Merger**") and in consideration of the Coinv Merger itself and of certain provisions of the agreement no longer applicable (the "**Camfin Shareholders' Agreement**"). The Camfin Shareholders' Agreement has not been updated by the parties following the IPO and it contains several provisions that must be considered outdated due to the beginning of the trading of the Pirelli shares on the MTA; however some limited provisions, relevant pursuant to art. 122, first and fifth paragraph, of the TUF, are still applicable in relation to the planned disinvestment from Camfin by the current shareholders.

* * *

For further information about the clauses contained in the abovementioned Shareholders' Agreements, see the extracts from the agreements available on the Website, published pursuant to art. 130 of the Issuers' Regulation.

2.9 *CHANGE OF CONTROL CLAUSES*

The most significant contracts containing clauses of this type are summarised below.

2.9.1 2014 BOND

On 18 November 2014, Pirelli International issued a bond for a total nominal amount of Euro 600 million (the "**2014 Bond**").

The securities issued pursuant to the 2014 Bond, having a minimum nominal value of Euro 100,000 each (the "**Securities**"), are listed on the regulated market of the Luxembourg Stock Exchange.

The regulation for the 2014 Bond provides for, *inter alia*, the reimbursement of the capital in a lump sum on the expiration date set forth 18 November 2019.

Pursuant to the 2014 Bond Regulation, the bondholders are entitled to request early reimbursement of the Securities if there is a Change of Material Shareholding, which would arise *inter alia* if (i) Pirelli ceased to hold (directly or indirectly) more than 50% of the share capital with voting rights at the ordinary shareholders' meeting of Pirelli Tyre (except if Pirelli and Pirelli Tyre are merged) or (ii) a party (other than Camfin or another party working together with Camfin), or several parties working together (not being shareholders of Camfin or their subsidiaries working together) (a) acquire (directly or indirectly) more than 20% of the share capital with voting rights at the ordinary shareholders' meeting of Pirelli and that equity investment is greater than the investment held by Camfin from time to time; or (b) appoint or cause the removal of the majority of the members of the Board of Directors of Pirelli.

On 23 February 2018, Pirelli International Plc decided to exercise the right to early reimburse all the Securities and then to cancel them.

The above transaction is scheduled for completion by 31 March 2018.

2.9.2 LOAN

On 13 June 2017 Pirelli, on the one hand, and Banca IMI S.p.A., J.P. Morgan Limited and The Bank of Tokyo-Mitsubishi UFJ, Ltd., in their roles as mandated lead arrangers, bookrunners, underwriters and global coordinators signed a mandate letter regarding the grant of an unsecured loan to Pirelli and Pirelli International (the "**Beneficiaries**") for a maximum amount of Euro 4,200,000,000 (the "**New Loan**").

The contract signed on 27 June 2017 in relation to the New Loan envisages, *inter alia*, that the Beneficiaries shall repay early that part of the New Loan made available by each lender should certain events occur, including changes in the control structure of Pirelli.

In particular, this change of control clause may be invoked solely in one of the following circumstances: (i) ChemChina ceases to hold, directly or indirectly, individually or together with Camfin or another company controlled by Marco Tronchetti Provera or his close family members, more than 25% of Pirelli post IPO; or (ii) ChemChina ceases to be, directly or indirectly, individually or together with Camfin or another company controlled by Marco Tronchetti Provera or his close family members, the relative majority holder of the voting rights in Pirelli (i.e. more than other parties that act individually or together); or (iii) any other party (or parties acting together) appoints or removes the majority of the Board of Directors.

Any takeover by Camfin (or another company directly or indirectly controlled by Marco Tronchetti Provera or his close family members) as the parent company of Pirelli would not represent a change of control on condition that certain requirements are met, including the requirement for Marco Tronchetti Provera or a person designated by him to be the CEO of both that company and Pirelli.

2.9.3 PT EVOLUZIONE TYRES JOINT VENTURE

On 24 April 2012, Pirelli Tyre and PT Astra Otoparts tbk, an Indonesian company, signed a Joint Venture Agreement in relation to PT Evoluzione Tyres, an Indonesian company incorporated on 6 June 2012 and operating in the production of motorcycle tyres in the plant of Subang, West Java.

Pursuant to this contract, in the event of a change in the ownership structure of one of the shareholder that is deemed to be a change of control event, a put&call procedure could be activated that, in the extreme case, might lead to the acquisition by Pirelli Tyre of the entire equity interest held by PT Astra Otoparts tbk in PT Evoluzione Tyres, with the consequent termination of the joint venture agreement.

2.9.4 SUPPLY CONTRACT WITH BEKAERT

The strategic suppliers of the Group include Bekaert, to which the Company sold the steelcord business unit in 2014. Having regard to the special nature of the contractual conditions associated with the sale of the above business unit, a contract for the supply of steelcord exists with that supplier, under which Pirelli purchased about 90% of its 2016 requirements.

The contract with Bekaert includes a change of control clause whereby Bekaert has the right, *inter alia*, to withdraw within 90 days after becoming aware of a situation in which a third party acquires control of Pirelli.

2.9.5 EMTN PROGRAMME AND 2018 BOND

On 21 December 2017, in order to ensure the constant optimisation of the financial structure of the Company, the Board of Directors (i) approved an EMTN programme (Euro Medium Term Note Programme) for the issue of non-convertible, senior unsecured bonds for a maximum amount of Euro 2 billion and (ii) in the context of that programme, authorised the issue by 31 January 2019 of one or more bonds to be placed with institutional investors for a maximum total amount of Euro 1 billion. The new securities may be listed on one or more regulated markets. Pursuant to the EMTN Programme, bondholders that subscribe for bonds issued under the programme will be entitled to request the early reimbursement of their securities (put option) in the case of a Change of Control event.

In particular, this change of control clause may be invoked solely in one of the following circumstances: (i) ChemChina ceases to hold, directly or indirectly, individually or together with Camfin or another company controlled by Marco Tronchetti Provera or his close family members, more than 25% of Pirelli; or (ii) ChemChina ceases to be, directly or indirectly, individually or together with Camfin or another company controlled by Marco Tronchetti Provera or his close family members, the relative majority holder of the voting rights in Pirelli (i.e. more than other parties that act individually or together); or (iii) any other party (or parties acting together) appoints or removes the majority of the Board of Directors.

Any takeover by Camfin (or another company directly or indirectly controlled by Marco Tronchetti Provera or his close family members) as the parent company of Pirelli, in place of ChemChina, would not give rise to a change of control on condition that certain requirements are met, including the requirement for Marco Tronchetti Provera or a person designated by him to be the CEO of both that company and Pirelli.

Under the EMTN Programme, on 25 January 2018 Pirelli issued a new, unrated, fixed-rate bond for a total nominal amount of Euro 600 million, with a duration of 5 years and known as "*Pirelli & C. S.p.A. €600,000,000 1.375% Guaranteed Notes due 20*23". The above-mentioned Change of Control clause applies to that new bond.

2.10 *CLAUSES IN THE ARTICLES ABOUT PUBLIC OFFERS*

The Articles do not provide for exceptions to the provisions regarding the passivity rule, or application of the neutralisation rule ste out in art. 104-*bis* TUF.

2.11 *MANDATE TO INCREASE SHARE CAPITAL AND AUTHORISATIONS TO PURCHASE OWN SHARES*

With regard to the year ended 31 December 2017, the Directors were not granted with mandates to increase share capital for payment on one or more occasions, or to issue bonds convertible into ordinary or savings shares or with warrants carrying the right to subscribe shares. Similarly, the Shareholders' Meeting of the Company did not authorise any purchases of own shares.

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Lastly, it is confirmed that:

- the information required by art. 123-*bis*, para. 1, letter i) TUF (regarding "*agreements between the company and its directors […] that envisage indemnities in the event of resignation or termination without just cause or following a takeover bid*") is contained in the Compensation Report, which is available at the registered offices and on the Website;

- the information required by art. 123-*bis*, para. 1, letter l) TUF (regarding "*the rules applicable to the appointment and replacement of directors […] as well as to the amendment of the articles of association, if different to the legislation and regulations applicable in the absence of specific rules*") is described in the section of this Report on the Board of Directors (Section 4.1 below).

3. COMPLIANCE

Pirelli has adopted the Corporate Governance Code approved by the Corporate Governance Committee established by the associations of businesses (ABI, ANIA, Assonime, Confindustria) and professional investors (Assogestioni), as well as by Borsa Italiana S.p.A.[27].

The Corporate Governance Code is available to the public on the website of the Corporate Governance Committee, at the following link http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf.

As Pirelli is among the companies included in the FTSE-MIB index, the recommendations of the Corporate Governance Code specifically envisaged for those companies are applied by the Company.

This Report has essentially been prepared using the Borsa Italiana format.

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[27] Resolution adopted by the Board of Directors as part of the IPO process. Note that Pirelli has adopted the Code since it was first issued (October 1999) and the Company was not listed on the Stock Exchange during the period from 26 February 2016 to 3 October 2017.

On the Report Date, Pirelli is not subject to any non-Italian laws that might influence the corporate governance structure of the Company.

4. BOARD OF DIRECTORS

4.1 *APPOINTMENT AND REPLACEMENT OF DIRECTORS*

The provisions contained in the Articles, to which reference is made, regarding the appointment and replacement of directors are summarised below.

4.1.1 APPOINTMENT

Pursuant to art. 10 of the Articles, the Company is managed by a Board of Directors made of a maximum of fifteen members, who remain in office for three years and who may be re-elected.

The Board of Directors is appointed on the basis of lists presented by the shareholders, in which the candidates must each be listed with a sequence number.

The lists presented by shareholders, signed by those submitting them, must be filed at the registered offices of the Company at least twenty-five days prior to the date fixed for the Meeting called to resolve on the appointment of Board members. These lists are made available to the public at the registered offices, on the Website and in any other ways envisaged in a relevant Consob regulation, at least twenty-one days prior to the date of the Meeting.

Each shareholder may present or contribute to the presentation of just one list and each candidate may be included in just one list, subject otherwise to becoming ineligible.

Shareholders are only entitled to present lists if, alone or together with other shareholders, they own shares in total representing at least 1% of the share capital entitled to vote at an Ordinary Meeting, or any lower amount specified in a regulation issued by Consob, with the obligation to evidence their ownership of the number of shares needed for the presentation of lists by the deadline envisaged for the publication of such lists by the Company.

Each list filed must be accompanied by acceptances of nomination and declarations from each candidate confirming, under their own responsibility, that there are no reasons making them ineligible for or incompatible with the role, and that they satisfy any requirements established for the role concerned. These declarations must be accompanied by the *curriculum vitae* of each candidate, describing their personal and professional characteristics, indicating the administration and control appointments held by them in other companies and confirming their satisfaction of the independence requirements envisaged for the directors of listed companies by law or by the code of conduct adopted by the Company. In order to ensure gender balance, lists containing three or more candidates must include a number of candidates of different gender that at least satisfies the minimum required by law and/or any regulations in force at the time, as specified in the notice of call issued for the Meeting. Any changes arising prior to the actual date of the Meeting must be notified to the Company on a timely basis.

Any lists presented that do not comply with the above instructions will be treated as if not presented.

Each party entitled to vote may only vote for one list.

The Board of Directors is appointed as follows:

a) four-fifths of the directors to be elected are drawn from the list that obtains the majority of the votes expressed by the shareholders, as rounded down to the nearest whole number in the case of fraction number;

b) the remaining directors are drawn from the other lists, using the quota method described in the Articles.

Should several candidates obtain the same quota, the candidate elected will be drawn from the list that has not yet elected a director or that has elected the minor number of directors.

If none of those lists has elected a director yet or all of them have elected the same number of directors, the candidate elected will be drawn from the list that obtains the largest number of votes. In the event of a voting tie, again with more than one candidate obtaining the same quota, the Shareholders' Meeting will vote again and the candidate who receives the largest number of votes will be elected.

If only one list is presented, all the directors will be elected from that list.

The Board of Directors must be appointed in compliance with the regulations governing gender balance in force at the time. Should application of the list voting mechanism not ensure the minimum number of directors belonging to the less represented gender set out by laws and/or regulations in force at the time, the candidate belonging to the most represented gender and elected, indicated in the list that obtained the largest number of votes, shall be replaced by the first candidate belonging to the lesst represented gender not already elected, drawn from that list pursuant to the sequential order of presentation and so on, for each list (solely for lists that contain three or more candidates) until the minimum number of directors belonging to the less represented gender has been obtained. Lastly, if the above procedure does not ensure the result specified above, the replacement shall be made by resolution of the Shareholders' Meeting, adopted by the relative majority of the votes expressed, following presentation of the candidacies of persons belonging to the less represented gender.

Should application of the list voting mechanism not obtain the minimum number of independent directors envisaged by the laws and/or regulations in force, the non-independent candidate elected indicated with the highest progressive number in the list that obtained the largest number of votes shall be replaced by the first independent candidate not already elected from that list following the sequential order of presentation, and so on for each list until the minimum number of independent directors has been obtained, in all cases in compliance with the laws and/or regulations governing gender balance in force at the time.

For the appointment of directors who, for any reason, were not appointed in accordance with the list voting mechanism, the Shareholders' Meeting shall adopt resolutions with the majorities required by law, without prejudice in all cases to compliance with the independence requirements specified in the Articles and the gender balance requirements envisaged by the laws and/or regulations in force at the time.

4.1.2 REPLACEMENT

Should one or more directors cease from the office during the fiscal year, they shall be replaced pursuant to art. 2386 of the Civil Code, without prejudice for the compliance with the gender balance requirements envisaged by the laws and/or regulations in force at the time.

Loss of the independence requirements by a director is not a cause of removal if the number of directors still in possession of the legal independence requirements is not lower than the minimum specified by the laws and/or regulations in force.

4.1.3 SUCCESSION PLANS

Pursuant to the New Shareholders' Agreement, even in order to ensure the continuity of the Pirelli business culture, Marco Tronchetti Provera has been granted with a leading role in the procedure for identifying his successor as the CEO of Pirelli.

In fact, the following procedure will be implemented as of1 November 2019: (i) the candidates to be considered for the succession will be indicated by the Chief Executive Officer and Executive Vice Chairman to the Appointments and Succession Committee (the "**Proposed Candidates**"), (ii) a leading, independent, international HR firm will be engaged to assess the Proposed Candidates, and (iii) the Appointments and Succession Committee will resolve, on proposal of the Chief Executive Officer and Executive Vice Chairman and, in the event of a voting tie, the latter shall have the casting vote.

The Proposed Candidate positively appraised by the HR firm must be included by CNRC on the voting list for the appointment of the new Board of Directors and CNRC must ensure that, during the first meeting of the Board of Directors appointed by the Shareholders' Meeting, the non-independent directors designated by CNRC vote for and appoint the Proposed Candidate as the new Chief Executive Officer.

Should Marco Tronchetti Provera no longer be able to take part in the above activities, for any reason, the above prerogatives shall be granted to one of the directors designated by the Appointments and Succession Committee on recommendation of MTP&C.

4.2 *COMPOSITION*

The Board of Directors in charge at the Report Date was appointed by the Shareholders' Meeting held on 1 August 2017 (effective date for the appointments: 31 August 2017) and is made of 14 members: Ren Jianxin (Chairman), Marco Tronchetti Provera (Executive Vice Chairman and CEO), Yang Xingqiang, Bai Xinping, Giorgio Luca Bruno, Laura Cioli, Domenico De Sole, Ze'ev Goldberg, Tao Haisu, Marisa Pappalardo, Cristina Scocchia, Giovanni Tronchetti Provera, Fan Xiaohua and Wei Yintao.

The above Shareholders' Meeting confirmed Ren Jianxin as Chairman of the Board of Directors and, at its first meeting held on 31 August 2017, the Board of Directors confirmed Marco Tronchetti Provera as Chief Executive Officer and Executive Vice Chairman.

The composition of the Board of Directors reflects the clauses contained in the New Shareholders' Agreement, pursuant to which:

- Directors Ren Jianxin, Yang Xingqiang, Bai Xinping, Ze'ev Goldberg, Tao Haisu, Marisa Pappalardo, Fan Xiaohua and Wei Yintao were designated by CNRC;
- Directors Marco Tronchetti Provera, Giovanni Tronchetti Provera, Giorgio Luca Bruno and Laura Cioli were designated by MTP&C;
- Directors Domenico De Sole and Cristina Scocchia were appointed by Marco Polo on joint designation by CNRC and MTP&C, taking into account the indications expressed by the Joint Global Coordinators, engaged as part of the IPO procedure, regarding the professional characteristics of the directors.

At the Report Date, about 29% of Board members belong to the female gender and about 71% belong to the male gender. In addition, about 64% of directors are over 50 years of age and about 36% are between 30 and 50. The average age of Board members is about 55. The average tenure in charge of the Directors is about 4 years[28].

Pursuant to the New Shareholders' Agreement, the Board of Directors of Pirelli must be supplemented by an additional independent director, to be appointed by the minority shareholders, with the majorities established by law without application of the list voting mechanism, at the first

[28] The calculation of the tenure of the Board: (i) considered all Directors in office, except for those appointed for the first time at the Shareholders' Meeting held on 1 August 2017; and (ii) considered for each Director the date of initial appointment indicated in Table 2.

Shareholders' Meeting of Pirelli held subsequent to the First Trading Day (which will coincide with the Annual General Meeting).

Table 2 attached provides for the relevant information about each member of the Board of Directors in charge at the Report Date. In addition, a summary of their professional profiles is available on the Website.

There were no changes to the composition of the Board of Directors between the end of the Year and the Report Date.

4.3 *LIMITATIONS ON THE NUMBER OF POSITIONS HELD*

Pursuant to the orientation of the Board of Directors adopted on 31 August 2017, it is not considered compatible with the duties of a director of the Company to be a director or statutory auditor of more than five other companies other than those subject to management and coordination by the Company, or its subsidiaries or affiliates, in case of (i) companies listed on the FTSE/MIB index (or equivalent foreign index) or (ii) Italian or foreign companies that carry out financial, banking or insurance activities; furthermore, it is not considered compatible for the same director to hold more than three executive positions in companies of the types indicated in points (i) and (ii) above.

Positions held in several companies belonging to the same group are considered to be a single position and an executive position prevails over a non-executive position.

The Board of Directors is entitled to make a different assessment, properly motivated, to be published in the Report and explained appropriately therein.

Following review by the Corporate Governance, Sustainability, Control and Risks Committee, each year the Board of Directors examines the positions held by each Director (based on the information provided by that person and/or on the other information available to the Company). At the Report Date, no Director holds a number of position higher than the number set out in the orientation adopted by the Company.

Attachment A indicates the principal appointments held by the Directors in companies that do not belong to the Group at the Report Date.

4.4 *INDUCTION PROGRAM*

The Directors perform their duties autonomously and with competence, pursuing the priority objective of creating sustainable value over the medium-long term. They are aware of the responsibilities pertaining to their role and, like the Statutory Auditors, they are kept periodically informed by the competent business functions about the principal regulatory and self-regulatory changes affecting the Company and the performance of their duties.

In particular, in the context of the Board meetings, the Directors have been provided, also with support of the top management, with an explanation of the main characteristics of the activities of Pirelli and its Group, of the field in which it operates, of the sustainable management model and of the internal control and risk management system adopted by the Company. Additionally, with the listing, information about the relevant legal and regulatory framework and the specific procedures and disciplines adopted by the Company have been provided.

Further, specific induction-related activities will be structured and carried out during 2018, also in the context of the Board meetings and of the Board committee meetings.

4.5 *ROLE OF THE BOARD OF DIRECTORS*

The Board of Directors plays a central role in the guidance and management of the Company. Pursuant to art. 11 of the Articles, the Board of Directors manages the business and, for this purpose, exercises all the widest powers of management, except for those reserved by law or the Articles to the Shareholders' Meeting.

4.5.1 FUNCTIONING OF THE BOARD OF DIRECTORS

Meetings of the Board of Directors are called by the Chairman or his deputy and held at the registered offices, or in any another location specified in the notice of convening, whenever deemed appropriate by the Chairman in the interests of the Company, or when requested in writing by the Chief Executive Officer or by one-fifth of the appointed Directors. Meetings of the Board of Directors may also be called by the Board of Statutory Auditors, or by each effective auditor, following notification sent to the Chairman of the Board of Directors.

The Board of Directors in office at the Report Date met twice between the First Trading Day and the end of the Year. The average duration of each meeting was 50 minutes, with attendance by more than 90% of the Directors and more than 90% of the Independent Directors.

Given the short time between the First Trading Day and the end of the Year, no meetings reserved solely for the independent Directors were held during that period.

With regard to the current year, Pirelli has made available to the market a calendar of corporate events (also available on the Website), according to which the Board is expected to meet at least 4 times.

The Directors and Statutory Auditors receive with prior notice the documentation and information deemed necessary in order to be properly informed for the discussion of the items subject to their examination. The advance notice provided is generally deemed reasonable and appropriate. In fact, the documentation examined by the Board is usually circulated about ten days prior to the meeting. In the limited and exceptional cases in which it was not possible to transmit the documentation so far in advance, full information about the matter concerned was provided directly during the meeting, in order to ensure that informed decisions were made.

Considering the international composition of the Board of Directors, it is standard practice for the Company to translate into English and Chinese the documentation to be examined by the Board and the Committees, as well as to make a simultaneous translation service available to the participants.

If the Chairman is absent or unavailable, the chair is taken by the Chief Executive Officer; if the latter is also absent or unavailable, the chair is taken by another director appointed by the majority of those present. The Board of Directors appoints a Secretary who may also not be a Director.

For the validity of the resolutions of the Board of Directors, the meeting shall be attended by the majority of the members and the majority of the votes expressed is necessary. Resolutions, including those adopted at meetings held using telecommunications technology, are recorded in the relevant book; all minutes are signed by the Chairman and the Secretary of the meeting. All copies of and extracts from minutes not prepared by a Notary are certified true by the Chairman.

As recommended by the Corporate Governance Code, Director awareness of the business reality and dynamics of the Company and the Group is enhanced by the systematic attendance of top management at their meetings, which makes it possible to explore the matters on the agenda in appropriate detail.

Given the short period of time between the First Trading Day and the end of the Year, the Board of Directors will start as from 2018 the process of assessing its functioning and that of the Board committees.

The Articles establish that, until decided differently at a Shareholders' Meeting, the Directors are not bound by the restrictions specified in art. 2390 of the Civil Code.

4.5.2 RESERVED MATTERS

In accordance with the Articles, the Shareholders' Meeting requires a qualified majority (i.e. favourable votes by shareholders representing at least 90% of the share capital of the Company), if any of the following resolution has to be passed, in order to authorise the Board of Directors to carry out such resolutions:

- transfer the operational and administrative headquarters outside of the municipality of Milan;
- any transfer and/or deed of disposal, in any form, of Pirelli know-how (including the granting of licences).

On 31 August 2017, the Board of Directors established that all resolutions regarding the following matters arranged by Pirelli and/or any company subject to management and coordination by Pirelli (excluding intercompany transactions) must be approved (as an internal restriction of the power granted to the Chief Executive Office on that date) by the Board of Directors of the Company:

(i) obtaining or granting loans for a total value higher than Euro 200 million and with a duration of more than 12 months;

(ii) issuing financial instruments to be listed on European or non-European regulated markets or multilateral trading systems that total more than Euro 100 million and/or their delisting;

(iii) giving guarantees in favour of or in the interests of third parties for amounts higher than Euro 100 million;

(iv) signing derivative contracts *(a)* with a notional value higher than Euro 250,000,000, and *(b)* except for those having the sole object and/or effect of hedging corporate risks (e.g. interest-rate risk, exchange-rate risk, commodity market risk);

(v) purchasing or selling equity investments in subsidiaries and affiliates for amounts higher than Euro 150 million and that involve entering into (or exiting from) geographical and/or commodity markets;

(vi) purchasing or selling equity investments other than those described in point (v) above for amounts higher than Euro 250 million;

(vii) purchasing or selling businesses or lines of business that have strategic importance or, in any case, a value of more than Euro 150 million;

(viii) purchasing or selling fixed and other assets that have strategic importance or, in any case, a total value of more than Euro 150 million;

(ix) carrying out transactions of greater significance with related parties, being those satisfying the conditions envisaged in Attachment 1 to the “Procedure for Related-Party Transactions” approved by the Board of Directors of the Company on 31 August 2017, in confirmation of the resolutions adopted on 28 July 2017 by the out-going Board of Directors;

(x) defining the Company’s remuneration policy;

(xi) determining, in compliance with the Company’s internal policies and the applicable regulations, the remuneration of the executive directors and the directors with specific responsibilities and, where required, allocating the total remuneration authorised by the Shareholders’ Meeting among the members of the Board of Directors pursuant to art. 2389, para. 3, of the Civil Code;

(xii) approving the strategic, industrial and financial plans of Pirelli and the Group;

(xiii) adopting corporate governance rules for the Company and defining guidelines for the corporate governance of the Group;

(xiv) defining guidelines for the system of internal control, including the appointment of a Director responsible for overseeing the system of internal control, determining the related duties and powers;

(xv) any other matter deemed to be responsibility of the board of directors of a listed company by the Corporate Governance Code promoted by Borsa Italiana, as amended from time to time;

(xvi) approving the budget and the business plan of the Company and the Group, as well as all significant changes to those documents; and

(xvii) adopting any resolutions regarding industrial partnerships or strategic joint ventures to which Pirelli and/or any Group company are party,

it being understood that the approval of the transactions listed above is reserved solely to the Board of Directors not only if the threshold indicated for each matter are exceeded, but also if the matters listed from (i) to (ix), whether considered as a single action or as a series of coordinated actions (carried out in the context of a common executive programme or a strategic project) exceed the amounts indicated in the business plan and/or the annual budget or (solely for the matters listed from (i) to (viii)) if they were not included, listed or envisaged in the business plan or the annual budget.

As required by the Corporate Governance Code, the Board of Directors has assessed positively the adequacy of the organisational, administrative and accounting systems and structure of the Company, with particular reference to the system of internal control and risk management, making reference to the analytical work carried out by the Corporate Governance, Sustainability, Control and Risks Committee.

The Board has also evaluated the general results of operations, taking into particular account the information received from delegated bodies and comparing periodically, at least every quarter, the results obtained with those planned.

4.6 *DELEGATED BODIES: EXECUTIVE DIRECTORS*

With resolution dated 31 August 2017, the Board of Directors granted the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera with all the powers necessary to carry out deeds relating to all aspects of corporate activity, without any exceptions aside from those that the law or the Articles reserve to the Board of Directors; all with the power to grant special and general powers of attorney that give the representative the right to sign on behalf of the Company, either separately or together with others, and all other powers deemed appropriate by him in the best interests of the Company, including the right to sub-delegate.

In particular the Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera was granted with:

a) as sole signatory, powers for the ordinary management of Pirelli and the Pirelli Group, with reference to both Pirelli and any other company (including unlisted foreign companies) subject to management and coordination by Pirelli, with the following internal restrictions and therefore with the assignment of the related responsibility to the Board of Directors, if:

   (i) the threshold amounts envisaged for each of the matters indicated above are exceeded; or

   (ii) for the matters listed from (i) to (ix) in section 4.5.2 above, if the amounts indicated in the business plan and/or the annual budget are exceeded; or

   (iii) for the matters listed from (i) to (viii) in section 4.5.2 above, if they were not included, listed or envisaged in the business plan or the annual budget; and

b) the power to propose to the Board of Directors (the "**Power to Propose**") adoption of the following resolutions (together, the "**Significant Matters**"):

   (i) approval of the business plan and the budget of the Company and the Group, as well as all significant changes to those documents. The business plan and the annual budget must *(a)* address certain operational and financial aspects of Pirelli including, but not limited to, the identification of all sources of funding for such business plans and budgets, as well as the decisions about the operational activities underlying them; and *(b)* be accompanied and supported by adequate and suitable documentation describing the items contained therein;

   (ii) any resolutions regarding industrial partnerships or strategic joint ventures to which Pirelli and/or any Group company are party, in all cases following examination by the Strategies Committee,

it being understood that: (a) the power to resolve on the Significant Matters is reserved solely for the Board of Directors and/or the Shareholders' Meeting, as applicable; and (b) should the Board of Directors not approve the proposal of the Chief Executive Officer and Executive Vice Chairman, the related resolution must be motivated and, in all cases, take into account the best interests of the Company.

In light of the above, Executive Vice Chairman and Chief Executive Officer Marco Tronchetti Provera is identified as executive director.

Considering the frequency of Board meetings, the Chief Executive Officer usually reports on his work during those meetings.

4.7 *INDEPENDENT DIRECTORS*

At the Report Date, 50% of the Board of Directors consists of directors who satisfy the requirements for identification as independent: Laura Cioli, Domenico De Sole, Tao Haisu, Marisa Pappalardo, Cristina Scocchia, Fan Xiaohua and Wei Yintao. The existence of their independence requirements has been evaluated in the context of the Board meeting held on 31 August 2017, on the basis of the information provided by them at the time of their appointment, the information available to the Company and the requirements established in the TUF and recommended by the Corporate Governance Code.

At the same time of the assessment made by the Board of Directors, the Board of Statutory Auditors confirmed that it had verified, in line with the recommendations of the Corporate Governance Code, the proper application of the assessment criteria and procedures adopted by the Board of Directors to verify the independence of its Directors.

Following their appointment, the satisfaction of the independence requirements is assessed at least on an annual basis (for 2018, this activity was carried out during the Board meeting held on 26 February 2018).

As already stated, the New Shareholders' Agreement requires the Board of Directors of the Company to be integrated with an additional independent director designated by the minority shareholders at the first Ordinary Meeting held after the First Trading Day, which coincides with the Annual General Meeting.

Considering the above, the system of mandates and the ownership structure, the Board of Directors has not yet appointed a lead independent director.

5. PROCESSING OF CORPORATE INFORMATION

Pirelli has adopted and consolidated over time a compendium of rules and procedures for the proper management of corporate information, in compliance with the regulations applicable to the various types of data.

With particular reference to the prevention of market abuses, the Board of Directors of Pirelli has adopted, with effect from the date of submission to Borsa Italiana of the application for the admission of the shares of the Company to trading on the MTA, a procedure for defining the principles and rules for preventing such abuses by Pirelli, Group companies and their related parties (the "**Market Abuse Procedure**"). The objective of this procedure is to protect investors, in order to avoid the asymmetrical release of information and stop certain parties making use of information that is not in the public domain to carry out speculative transactions in the markets, as well as to protect the Company from potential liabilities arising from the conduct of parties under its control.

In particular, the Market Abuse Procedure - the full version of which is available on the Website - governs: (a) the management of "significant information", being information that may become "inside information" pursuant to art. 7 of Regulation (EU) 596/2014 ("**Inside Information**"); (b) the management and communication to the public of Inside Information; (c) the creation, keeping and updating of the register of persons who, in view of their working or professional activities or the functions they perform, have access to Inside Information; (d) the obligations regarding transactions in the shares of the Company, credit instruments issued by the Company and the derivative or other financial instruments linked to them, by parties deemed to be senior decision-makers ("internal dealing"); (e) the operational procedures and scope of application of the prohibition imposed on the Company and the persons who perform administrative, control or management functions for the Company regarding the execution of transactions in Pirelli shares, credit instruments issued by Pirelli and the derivative or other financial instruments linked to them during predetermined periods ("black out periods"); (f) any market soundings carried out or received in compliance with art. 11 of Regulation (EU) 596/2014 and the related enabling regulations.

Also following the orientations expressed by the competent authorities, the Company is about to adopt an operational regulation intended to ensure appropriate implementation of the Market Abuse Procedure and proper information flows among the parties required to comply with the Procedure. Further, again in the light of the above orientations, the Board of Directors is currently considering an update to the Procedure.

The Market Abuse Procedure also defines rules for transactions carried out by "Significant Parties" or by "Persons Closely Related to Significant Parties" in financial instruments issued by the Company, with an annual amount of at least Euro 20,000, in compliance with the applicable current regulations. In this regard, a black-out period of 30 calendar days is imposed prior to the announcement by the Company of the data contained in annual, half-yearly and periodic financial reports, during which time internal dealers are forbidden to carry out transactions in those financial instruments.

6. BOARD COMMITTEES

The role of the Board committees is to carry out analyses for, make recommendations to and/or give advice to the Board in relation to matters deemed worthy of further investigation, in order to ensure that there is an effective and informed exchange of opinions about them.

On 31 August 2017, the Board of Directors of the Company established the Strategies Committee, the Appointments and Succession Committee, the Corporate Governance, Sustainability, Control and Risks Committee, the Compensation Committee and the Related-Party Transactions Committee.

6.1 *FUNCTIONING OF COMMITTEES*

The Committees are appointed by the Board of Directors and remain in office for the entire mandate of the Board, meeting whenever deemed appropriate by the Committee Chairman, or when requested by at least one member, by the Chairman of the Board of Directors or, if appointed, by the Chief Executive Officer and, in any case, with the frequency necessary in order to properly carry out their functions.

The Strategies Committee meets at least 5 days prior to the Board meeting called to approve the annual budget and/or the business plan, receiving the related documentation at least 3 days prior to the meeting.

The Secretary of each Committee is the Secretary of the Board.

Committee meetings are called by a notice sent, by the Committee Secretary or otherwise, at the request of the Committee Chairman.

The documentation and information available (and, in all cases, the necessary information) are sent in good time to all members of the relevant Committee so that they can participate in the meeting in an informed manner.

Committee meetings are quorate when attended by the majority of appointed members and resolutions are adopted by the majority of those present. In the event of a voting tie at meetings of the Appointments and Succession Committee held to appoint a successor to the Chief Executive Officer, the outgoing Chief Executive Officer’s vote will prevail. Committee meetings may be held by conference call; their minutes are taken by the Committee Secretary and recorded in the related minute book. The Chairman of each committee informs the Board of Directors about the outcome of the meetings held.

Committee awareness of the business reality and dynamics of the Company and the Group is enhanced by the attendance of top management at their meetings, which makes it possible to explore the matters on the agenda in appropriate detail. In particular, as a practice, the Executive Vice President & Chief Human Resources Officer attends the meetings of the Compensation Committee, while the Corporate Vice President Internal Audit and the Head of Sustainability & Risks Governance attend the meetings of the Corporate Governance, Sustainability and Control and Risks Committee.

Committees - which may make use of external advisers in carrying out their functions - are granted with adequate financial resources to perform their tasks with spending autonomy. The Related-Party Transactions Committee is entitled to obtain assistance, at the expense of the Company, from one or more independent experts selected by the Committee.

Committees are entitled to access relevant business information and functions in the performance of their tasks, with support from the Secretary to the Board of Directors for this purpose.

The entire Board of Statutory Auditors is entitled to participate in the activities of the Corporate Governance, Sustainability, Control and Risks Committee and the Compensation Committee.

One member of the Board of Statutory Auditors is invited to attend the meetings of the Appointments and Succession Committee and the Strategies Committee.

The members of the Board of Statutory Auditors are invited to attend the meetings of the Related-Party Transactions Committee.

Further information about the number of meetings held by each Committee during the Year and about the attendance of each member at those meetings can be found in Table 2 attached to this Report.

7. STRATEGIES COMMITTEE

At the Report Date, the Strategies Committee is made of 7 directors (including 2 independent directors): Marco Tronchetti Provera (Chairman), Giorgio Bruno, Yang Xingqiang, Bai Xinping, Ze'ev Goldberg, Domenico de Sole and Wei Yintao.

The Strategies Committee advises and makes recommendations to the Board of Directors on the definition of strategic guidelines, as well as on the identification and definition of terms and conditions for individual transactions of strategic importance.

In particular, the Strategies Committee:

- examines the strategic, industrial and financial plans - both short and long term - of the Company and the Group before their submission to the Board of Directors;
- helps the Board to assess transactions, initiatives and activities of strategic importance including, in particular: entry into new geographical markets and businesses; (i) industrial alliances (e.g. joint ventures); (ii) special transactions (mergers, spin-offs, capital increases and capital reductions, except for those to cover losses); (iii) investment projects; (iv) industrial and/or financial restructuring projects and programmes;
- examines periodically the organisational structure of the Company and the Group, presenting any suggestions and opinions to the Board.

8. APPOINTMENTS AND SUCCESSION COMMITTEE

At the Report Date, the Appointments and Succession Committee comprises 4 directors: Marco Tronchetti Provera (Chairman), Ren Jianxin, Giovanni Tronchetti Provera and Bai Xinping. As an exception to the Corporate Governance Code, the majority of the members of this committee are non-executive directors (albeit not independent). This is partly because the committee addresses not only matters relating to appointments, but also those regarding top management succession; in addition, committee membership takes account of the fact that the New Shareholders' Agreement has established a structured procedure for identifying the successor to Marco Tronchetti Provera as the Chief Executive Officer of Pirelli (see section 4.1.3).

In particular, the Appointments and Succession Committee:

- prepares opinions for the Board of Directors on the size and composition of the Board and makes recommendations about the professional roles whose presence on the Board is deemed appropriate;

- prepares opinions for the Board of Directors on the adoption and/or amendment by the Board of its orientation towards the number of appointments considered compatible with effective performance as a director of the Company;

- makes recommendations to the Board of Directors about any issues regarding application of the prohibition of competition envisaged in art. 2390 of the Civil Code, should the Shareholders' Meeting - for organisational reasons - authorise in advance, on a general basis, exceptions to this prohibition;

- recommends candidates to the Board of Directors, should it be necessary to co-opt new Directors to replace Independent Directors;

- recommends "emergency" top management succession plans to the Board of Directors;

- prepares opinions for the Board of Directors on the designation of candidates (including persons to be coopted) for the position of Chief Executive Officer;

- over proposal of the Chief Executive Officer, identifies criteria for the succession plans covering top and senior management in general, in order to guarantee the continuity of business strategies.

9. RELATED-PARTY TRANSACTIONS COMMITTEE

At the Report Date, the Related-Party Transactions Committee is made of 3 independent directors: Domenico De Sole (Chairman), Marisa Pappalardo e Cristina Scocchia.

The Related-Party Transactions Committee provides advice and makes recommendations to the Board of Directors about transactions with related parties, with the sole exception of matters concerning the remuneration of directors and executives with strategic responsibilities, which are addressed by the Compensation Committee.

In particular, the Related-Party Transactions Committee:

- prepares advance opinions on the procedures governing the identification and management of related-party transactions arranged by Pirelli and/or by its subsidiaries, as well as their amendment;

- prepares advance, reasoned opinions, if expressly requested, on the interest of Pirelli in carrying out a specific related-party transaction and on the reasonableness and substantial fairness of the relevant conditions;

- in the case of significant transactions with related parties, the committee is involved in the related negotiations and the analytical phase via the receipt of complete and timely information, with the right to request information and to make observations to the persons responsible for carrying out the negotiations or analyses.

10. COMPENSATION COMMITTEE

At the Report Date, the Compensation Committee is made of 3 directors (including 2 independent directors): Tao Haisu (Chairman); Laura Cioli (Director with suitable knowledge and experience of financial matters or remuneration policies) and Bai Xinping. The Committee will be integrated with the appointment of the independent Director to be elected at the Annual General Meeting (see section 4.2).

This Committee has advisory and supervisory functions and makes recommendations to ensure the definition and application within the Group of compensation policies that, on the one hand, attract, motivate and retain human resources with the professional qualities required to pursue profitably the objectives of the Group and, on the other, are capable of aligning the interests of management with those of the shareholders.

In particular, the Compensation Committee:

- helps the Board of Directors to define the General Policy for Group Remuneration, making recommendations in this regard;

- assesses periodically the adequacy, overall consistency and concrete application of the General Policy for Remuneration, making reference in this last regard to the information provided by the chief executive officers; makes recommendations to the Board of Directors on this matter;

- with regard to the executive directors and the other directors with specific responsibilities, makes recommendations or expresses opinions to the Board: (i) about their remuneration, consistent with the General Policy for Remuneration; (ii) about setting performance objectives linked to the variable element of that remuneration; (iii) about the definition of any no-competition agreements; (iv) about the definition of any agreements for the termination of working relationships, having regard to the principles established in the General Policy for Remuneration;

- with regard to the executives with strategic responsibilities, checks the consistency of their remuneration with the General Policy for Remuneration and expresses an opinion on it pursuant to the Procedure for Related-Party Transactions;

- helps the Board of Directors to examine proposals to the Shareholders' Meeting for the adoption of compensation plans based on financial instruments;

- monitors application of the decisions adopted by the Board, checking in particular the effective achievement of the established performance objectives;

- examines and submits to the Board of Directors the Annual Compensation Report that, by name for the members of the management and control bodies and in aggregate for the executives with strategic responsibilities: (i) provides adequate information about each component of their remuneration; and (ii) explains in detail all the remuneration paid during the year, for whatever reason and in whatever form, by the Company and its subsidiaries.

The Compensation Committee is granted with the functions of the Related-Party Transactions Committee (discussed above), envisaged pursuant to the Consob regulations and the procedures for related-party transactions adopted by the Company, for matters concerning the remuneration of directors with specific responsibilities and executives with strategic responsibilities.

The directors part of the Compensation Committee do not attend the meetings held to make recommendations to the Board about their own remuneration.

11. REMUNERATION OF THE DIRECTORS

The system for remunerating Group management is designed to attract, motivate and retain key resources. It is defined in a way that aligns the interests of management with those of the shareholders, pursuing the priority objective of creating sustainable value over the medium-long term via an effective and verifiable link between remuneration, on the one hand, and individual and Group performance on the other.

Even after the delisting in 2016, the Company maintained a remuneration structure consistent with the general criteria specified in art. 123-*ter* TUF. Subsequent to the First Trading Day, the Board of Directors has adopted a new 2018 remuneration policy for the Company that complies with the above regulations applicable to listed companies and with the Corporate Governance Code. The related report will be presented at the Annual General Meeting in order to obtain the opinion of shareholders.

Information about the remuneration policy can be found in the Compensation Report prepared pursuant to art. 123-*ter* TUF, which is made available to the public on the basis and by the deadlines envisaged by current laws and regulations, including by publication on the Website.

12. CORPORATE GOVERNANCE, SUSTAINABILITY, CONTROL AND RISKS COMMITTEE

At the Report Date, the Corporate Governance, Sustainability, Control and Risks Committee is made of 3 independent directors: Fan Xiaohua (Chairman), Laura Cioli and Cristina Scocchia, all with suitable experience of financial and accounting matters or risk management. The Committee will be integrated with the appointment of the independent Director to be elected at the Annual General Meeting (see section 4.2).

The Corporate Governance, Sustainability, Control and Risks Committee, which incorporates the functions of the "control and risks committee", helps the Board of Directors to assess and make decisions about the system of internal control and risk management, as well as the approval of periodic financial reports, as required by art. 7 of the Corporate Governance Code.

In particular, the Corporate Governance, Sustainability, Control and Risks Committee:

- assists the Board of Directors by expressing an opinion on the (i) definition of guidelines for the system of internal control and risk management, so that the principal risks faced by the Company and its subsidiaries are properly identified and appropriately measured, management and monitored; (ii) determination of the extent to which those risks are compatible with managing the Company in a manner consistent with the strategic objectives identified, having regard for the risks that might be significant in terms of the sustainability of the business over the medium-long term; (iii) identification of an executive director responsible for supervising the functioning of the system of internal control and risk management, considering the characteristics of the business and the desired risk profile; (iv) assessment, each year or more frequently, of the adequacy of the system of internal control and risk management, considering the characteristics of the business and the desired risk profile, as well as the effectiveness of its functioning in practice; (v) approval, each year or more frequently, of the work plan prepared by the internal audit manager and the compliance function manager; (vi) description, in the report on corporate governance, of the essential elements of the system of internal control and risk management and the methods of coordination adopted by the parties involved, expressing an opinion on their overall adequacy; (vii) assessment, having heard the Board of Statutory Auditors, of the results presented by the legal auditor in the letter of recommendations provided to management, if applicable, and the report on fundamental matters identified during the legal audit work, if applicable;

- expresses an opinion on proposals concerning the appointment, revocation, assignment of duties and determination of the remuneration, consistent with Company policies, of the Internal Audit Manager, as well as on the adequacy of the resources allocated to the latter in order to carry out the assigned functions;

- assesses, together with the administrative managers of the Company and the chief reporting officer, after having heard the Board of Statutory Auditors and the auditing firm, the proper and consistent application of the accounting policies adopted by the Group for the preparation of the consolidated financial statements;
- at the request of the director responsible, expresses opinions on specific aspects regarding the identification of the main business risks, as well as on the design, implementation and management of the system of internal control and risk management;
- examines the periodic reports prepared by the internal audit manager and the compliance function manager;
- monitors the autonomy, adequacy, effectiveness and efficiency of the internal audit function;
- requests, if deemed appropriate, the performance of checks in specific operational areas, informing the Chairman of the Board of Statutory Auditors at the same time;
- reports to the Board of Directors on the work performed and on the adequacy of the system of internal control and risk management at least every six months, at the time of approving the financial statements and the half-year report;
- at the request of the Board, supports with appropriate preparatory work the evaluations and decisions of the Board of Directors concerning the management of risks arising from any detrimental facts that may have come to its attention;
- monitors compliance with and the periodic update of the corporate governance rules, as well as compliance with any codes of conduct adopted by the Company and its subsidiaries. In particular, the committee proposes procedures and related timing for the annual self-assessment of the Board of Directors;
- monitors sustainability matters relating to the conduct of the business and the dynamics of its interactions with all stakeholders;
- defines and recommends “sustainability” guidelines to the Board of Directors and monitors compliance with any related codes of conduct adopted by the Company and its subsidiaries;
- helps the Board of Directors to prepare and subsequently examine and approve the sustainability report.

13. SYSTEM OF INTERNAL CONTROL AND RISK MANAGEMENT

The system of internal control and risk management is designed to contribute, by identifying, managing and monitoring the principal risks faced by the Company, to the conduct of a healthy and proper business, consistent with the objectives established by the Board of Directors. The system of internal control and risk management allows the identification, measurement, management and monitoring of the principal risks, as well as the reliability, accuracy, trustworthiness and timeliness of financial information.

The Board of Directors is responsible for the adoption of an adequate system of internal control and risk management, carrying out the duties assigned to it by the Corporate Governance Code with support from the Corporate Governance, Sustainability, Control and Risks Committee.

A more complete description of the system of internal control adopted by Pirelli can be found in the Report on the responsible management of the value chain. Additionally, in this regard, the Board of Statutory Auditors has issued an attestation about the administration and accounting systems adopted by the significant subsidiaries of Pirelli to ensure that the economic, financial and cash flow data required for the preparation of the consolidated financial statements is received properly by the management of Pirelli and its auditors.

13.1 *RESPONSIBLE DIRECTOR*

The Board has designated Marco Tronchetti Provera as the director responsible for supervising the functioning of the internal control system (the "**Responsible Director**").

The Responsible Director is tasked with supervising the functioning of the system of internal control and risk management and implementing the related guidelines formulated by the Board of Directors, with support from the Corporate Governance, Sustainability, Control and Risks Committee, ensuring that all actions necessary for the implementation of the system are taken.

In particular, the Responsible Director:

- ensures identification of the principal business risks, taking into account the characteristics of the activities carried out by the Company and its subsidiaries, and submits them periodically to the Board of Directors for examination;
- implements the guidelines formulated by the Board of Directors, supervising the design, implementation and management of the system of internal control and risk management and checking constantly its adequacy and effectiveness;
- ensures that this system adapts to any changes in operating conditions and the legislative and regulatory framework;
- may request the internal audit function to audit specific operating areas and compliance with the internal rules and procedures for the conduct of business operations; and

- reports in a timely manner to the Corporate Governance, Sustainability, Control and Risks Committee (or to the Board of Directors) on issues and critical situations identified during his work or that came to his attention, so that the Committee (or the Board) can take appropriate action.

13.2 *INTERNAL AUDIT FUNCTION*

The Company has established an internal audit department, managed by Maurizio Bonzi, who has been granted with duties essentially consistent with those set out in the Corporate Governance Code.

In particular, this function is tasked with assessing the adequacy and functioning of the control, risk management and corporate governance processes, through an independent and objective assurance and advisory activities.

The internal audit function:

- verifies, both on a continuous basis and in relation to specific needs and in accordance with international standards, the effective operation and suitability of the System of Internal Control and Risk Management - suggesting any corrective actions - by implementing an audit plan, approved each year by the Board of Directors, based on a structured process of analysis and prioritisation of the principal risks;
- carries out verifications, also on request of the Corporate Governance, Sustainability, Control and Risks Committee, of the Board of Statutory Auditors and of the Responsible Director, on specific operating areas and on compliance with the internal rules and procedures for the conduct of business operations;
- prepares periodic reports on its assessment of the suitability of the System of Internal Control and Risk Management. These reports are sent, at least every quarter, to the Board of Statutory Auditors, the Corporate Governance, Sustainability, Control and Risks Committee, and the Responsible Director, and, at least every six months, to the Board of Directors;
- receives and analyses reports obtained in accordance with the whistle-blowing procedures established by the Group and regarding any cases of corruption/violation of the principles of internal control and/or the precepts of the Code of Ethics, Equal Opportunities, corporate rules and regulations, or any other actions or omissions that, directly or indirectly, might result in economic or financial losses for or damage to the reputation of the Group and/or its subsidiaries;
- provides adequate support to the Supervisory Bodies established pursuant to art. 6 of Decree 231/2001;

- provides advice and support to the relevant Company departments – without exercising any decision-making or authorisation responsibilities – regarding *inter alia*: (i) the reliability of their systems for safeguarding corporate assets; (ii) the adequacy of their procedures for recording, controlling and reporting administrative activities; (iii) the assignment of engagements to the firm of legal auditors and to other firms in its network.

13.3 *COMPLIANCE FUNCTION*

Operating within the Corporate Affairs and Compliance Department, the Compliance Function works with the Legal departments and other business functions to ensure that internal regulations, processes and business activities are constantly aligned with the applicable regulatory framework, participating actively in the identification of any non-conformity risks that might give rise to court-imposed and administrative penalties, with a consequent loss of reputation.

13.4 *SYSTEM OF RISK MANAGEMENT AND CONTROL OVER FINANCIAL INFORMATION*

Pirelli has implemented a specific and detailed system of internal control and risk management, supported by a dedicated IT application, covering the process of preparing its half-yearly and annual separate and consolidated financial information, in order to safeguard corporate assets and ensure compliance with the relevant laws and regulations, as well as the efficiency and effectiveness of business operations and the reliability, accuracy and timeliness of financial information.

In particular, the financial reporting process is carried out by applying appropriate administrative and accounting procedures created in accordance with the criteria established by the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The administrative/accounting procedures adopted for the preparation of financial statements and all other financial disclosures are created under the responsibility of the Chief Financial Officer, who periodically (and in any case, on preparation of the separate/consolidated financial statements) checks their adequacy and proper application.

In order to permit certification by the Chief Financial Officer, the companies and the significant processes that generate economic, financial or cash flow information have been mapped. Group companies and significant processes are identified each year on the basis of quantitative and qualitative criteria. Quantitative criteria include the identification of those Group companies whose aggregate value, in relation to the processes selected, exceeds a predetermined threshold of materiality.

Qualitative criteria include the review of those processes and of those companies that, as determined by the Chief Financial Officer, may be exposed to risk despite not falling within the quantitative parameters described above.

Risks/control objectives have been identified for each selected process involved in the preparation of the financial statements and related disclosures, as well as with regard to the effectiveness/efficiency of the system of internal control in general.

Detailed verification work and specific responsibilities have been defined for each control objective.

A system for supervising the verification work carried out has been implemented through a chain-of-certifications mechanism; any problems that emerge during the evaluation process are the subject of action plans whose implementation is monitored at subsequent reporting dates.

Lastly, the Chief Executive Officers and Chief Financial Officers of subsidiaries issue a quarterly confirmation of the reliability and accuracy of the data submitted for the preparation of consolidated financial statements.

Shortly before the Board meetings held to approve the consolidated data as of 30 June and 31 December, the Chief Financial Officer discusses the results of the verification work carried out with the Chief Financial Officers of each Group company.

The Internal Audit Department carries out periodic audits to verify the adequacy of the design and the effective operation of the controls over companies and processes. These audits are performed using samples selected applying materiality criteria.

13.5 *DIRECTOR RESPONSIBLE FOR SUSTAINABILITY MATTERS*

The Board has assigned to Director Giorgio Luca Bruno the role of Director responsible for sustainability matters. In that role, he is entrusted with supervising the sustainability matters associated with the conduct of business activities and the related dynamics of interactions with all stakeholders, as well as with implementing the guidelines defined by the Board of Directors, with assistance from the Corporate Governance, Sustainability, Control and Risks Committee.

13.6 *231 MODEL AND CODE OF ETHICS*

The Company has adopted the organisation and management model envisaged by Decree 231 dated 8 June 2001, as amended (the "**231 Model**"), in order to create a system of rules designed to prevent illegal conduct that might be significant for the purposes of applying the above regulations and, as a consequence, has established a Supervisory Body (the "**Supervisory Body**").

The Company has not extended adoption of the 231 Model to its foreign subsidiaries as that model might not be compatible with their current national regulations and, therefore, would not eliminate in full the risk of incurring penalties as a consequence of their activities.

The 231 Model comprises: (a) a general part covering topics relating, *inter alia*, to the applicability and application of Decree 231/2001, the composition and functioning of the Supervisory Body, and the system of penalties applicable in the event of violations of the standards of conduct specified in the 231 Model, and (b) special parts containing the general principles of conduct and the control protocols for each type of identified offence deemed significant for the Company.

The Supervisory Body was appointed by the Board of Directors on 31 August 2017 and comprises Carlo Secchi (Chairman), Antonella Carù (Serving Auditor), Maurizio Bonzi and Alberto Bastanzio (the last mentioned in view of their respective roles as Corporate Vice President Internal Audit and Corporate Vice President Corporate Affairs, Compliance and Company Secretary). The Supervisory Body satisfies the autonomy, independence, professionalism and continuity of action requirements specified by law for that body.

Pirelli has adopted a Code of Ethics that sets out principles for the required conduct of directors, statutory auditors, executives and employees of the Group and, in general, all those that work in Italy and abroad on behalf of or for the benefit of the Group, or that engage in business relations with the Group, each in the context of their own functions and responsibilities.

13.7 *AUDIT COMPANY*

The company engaged to perform the legal audit of the accounts of the Company is PricewaterhouseCoopers S.p.A. (the "**Auditing Firm**"), with registered and administrative offices at via Monte Rosa 91, Milan, recorded on the Register of Legal Auditors established pursuant to art. 6 et seq of Decree 39/2010, as implemented by Decree 144 of the Ministry of the Economy and Finance dated 20 June 2012.

In particular, the Ordinary Shareholders' Meeting held on 27 April 2017 engaged the Auditing Firm to perform the legal audit of the accounts of Pirelli, pursuant to art. 14 of Decree 39/2010, as amended by Decree 135/2016, and art. 2409-*bis* et seq of the Civil Code, for the three-year period 2017, 2018 and 2019.

The Ordinary Shareholders' Meeting held on 1 August 2017 confirmed the above appointment to perform the legal audit of the accounts, establishing that, with effect from the admission of Pirelli shares to trading on the MTA, such appointment would entail: (i) the legal audit of the accounts (including verification that the accounting records are properly kept and that the results of operations are properly reflected in the accounting entries) pursuant to arts. 13 and 17 of Decree 39/2010 for the financial years 2017-2025, in relation to the separate financial statements of the Company, the consolidated financial statements of the Group and the additional related activities; and (ii) the limited examination of the abridged consolidated half-year financial statements of Pirelli & C. S.p.A. for the six-month periods ending on 30 June 2018-2025.

13.8 *CHIEF REPORTING OFFICER*

The Board of Directors has assigned to Francesco Tanzi, with effect from the First Trading Day and after receiving a favourable opinion from the Board of Statutory Auditors, the role of executive responsible for the preparation of corporate and accounting documentation pursuant to art. 154-*bis* TUF (the "**Chief Reporting Officer**"). The Board of Directors has also verified that the Chief Reporting Officer is an expert in administration, finance and control matters and satisfies the honourability requirements established for the directors.

The Chief Reporting Officer puts suitable administrative and accounting procedures in place for the preparation of the separate and consolidated financial statements, as well as of all other financial communications.

The Company deeds and communications made public to the market that contain accounting information, including interim data, must be accompanied by a written declaration from the Chief Reporting Officer confirming that it corresponds to the supporting documentation, records and accounting entries.

In particular, the Chief Reporting Officer, together with the Chief Executive Officer, certifies in specific reports accompanying the separate financial statements, the consolidated financial statements and the abridged half-year financial statements:

- the adequacy and effective application of the administrative and accounting procedures during the period to which the documents refer;
- that the documents have been prepared in accordance with the international accounting standards endorsed by the European Union pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- the conformity of the documents with the accounting records and entries;
- the suitability of the documents to present a true and fair view of the economic and financial position and cash flows of the Company and, taken as a whole, of all the companies included in the consolidation;

- for the separate and consolidated financial statements, that the report on operations includes a reliable analysis of performance and the results of operations, as well as of the situation of the Company and, taken as a whole, the companies included in the consolidation, together with a description of the principal risks and uncertainties to which they are exposed;

- for the abridged half-year financial statements, that the interim report on operations contains a reliable analysis of the information required by para. 4 of art. 154-*ter* TUF.

14. INTERESTS OF THE DIRECTORS AND RELATED-PARTY TRANSACTIONS

As required by art. 2391-*bis* of the Civil Code and the Related Parties Regulation, on 6 November 2017 – in confirmation of the resolutions adopted on 31 August 2017 - the Board of Directors resolved to adopt the procedure for related-party transactions (the "**RPT Procedure**"), following the unanimous favourable opinion expressed by the Related-Party Transactions Committee. The RPT Procedure establishes rules for the approval and execution of the related-party transactions arranged directly by Pirelli or by its subsidiaries.

In particular, the RPT Procedure distinguishes:

1) transactions of insignificant amount (with a value not exceeding Euro 150,000);

2) transactions of greater significance, being those exceeding the thresholds envisaged in attachment 3 to the Related Parties Regulation or those that, although not exceeding such thresholds, given their nature, strategic importance, size or commitments, have a significant impact on the activities of the Company or the Group, or might affect the operational autonomy of the Company ("Transactions of Strategic Significance"); and

3) transactions of minor significance, different from transactions of greater significance and transactions of insignificant amount;

establishing stricter rules for the transactions of greater significance, with regard to both their authorisation process and the information provided to the market. The Related-Party Transactions Committee (composed of independent directors) is required to express an opinion on all transactions of greater or minor significance, in terms of the interest of the Company in carrying out the transaction, as well as the reasonableness and substantial correctness of the related conditions. This opinion is binding for all transactions of greater or minor significance.

The approval process envisaged by the RPT Procedure is not required, on the other hand, for transactions of insignificant amount. The RPT Procedure also envisages certain exemptions, as well as the possibility of adopting framework resolutions and, in urgent cases, of making exceptions to the obligations established in the RPT Procedure.

The full text of the RPT Procedure is available on the Website. Periodically and at least every three years, the Board of Directors - having received the opinion of the Related-Party Transactions Committee - considers the need to revise the Procedure.

15. BOARD OF STATUTORY AUDITORS

15.1 *APPOINTMENT, REPLACEMENT AND DURATION IN OFFICE*

At the Report Date, the Board of Statutory Auditors is made of five Effective Auditors and three Alternate Auditors who are required to satisfy current regulatory requirements; in this regard it shall be considered that the subjects and sectors of activity closely related to those of the company are those indicated in the corporate objects, with particular reference to companies or bodies operating in the financial, industrial, banking, insurance and real estate fields and of services in general.

The Ordinary Meeting appoints the Board of Statutory Auditors and determines its remuneration.

In order to enable the minority to elect an Effective Auditor (who will be the Chairman of the Board of Statutory Auditors) and an Alternate Auditor, the Board of Statutory Auditors is appointed on the basis of lists presented by the shareholders, in which each candidate is listed with a sequence number. Each list contains a number of candidates that does not exceed the number of members to be elected.

Shareholders are only entitled to present a list if, alone or together with other shareholders, they hold at least 1% of the shares entitled to vote at an Ordinary Meeting, or any lower amount required by a regulation issued by Consob for the presentation of lists of candidates for appointment to the Board of Directors. Each shareholder may present or contribute to the presentation of just one list.

The lists of candidates, signed by those presenting them, must be filed at the registered offices of the Company at least twenty-five days prior to the date fixed for the Meeting called to appoint the members of the Board of Statutory Auditors, unless more time is allowed for the presentation of candidates in the cases envisaged by law and/or the regulations. These lists are made available to the public at the registered offices, on the Website and in any other ways envisaged in a relevant Consob regulation, at least twenty-one days prior to the date of the Meeting.

Each candidate may be included on just one list, subject otherwise to becoming ineligible.

Each list comprises two sections: one for candidates Effective Auditors and the other for candidates Alternate Auditors. The first candidate in each section must be a registered Legal Auditor who has worked as a legal auditor for not less than three years. In compliance with the regulations in force from time to time concerning gender balance, lists - considering both sections - that contain three or more candidates must include candidates of different gender in both sections for Effective Auditors and Alternate Auditors.

Each party entitled to vote may only vote for one list. The members of the Board of Statutory Auditors are elected as follows:

1) four Effective Auditors and two Alternate Auditors are drawn, in the sequence listed, from the list that obtained the largest number of votes (the majority list);

2) the remaining Effective Auditor and Alternate Auditor are drawn, in the sequence listed, from the list that obtained the second largest number of votes (the minority list); should several lists obtain the same number of votes, a new vote limited to just those lists is held by all those entitled to vote that are present at the Meeting, with the elections of the candidates from the list that obtains the relative majority of the votes cast.

Should application of the list voting mechanism not obtain, considering the Effective and Alternate Auditors separately, the minimum number of statutory auditors belonging to the less represented gender envisaged by the laws and/or regulations in force at the time, the candidate belonging to the most represented gender and elected, indicated with the highest progressive number of each section from the list that obtained the largest number of votes, is replaced by the first candidate belonging to the less represented gender not already elected from the same section of that list, pursuant to the sequential order of presentation.

An Effective Auditor is replaced, in the event of death, resignation or forfeiture, by the first Alternate Auditor drawn from the same list. If this replacement does not allow the Board of Statutory Auditors to be reconstructed in compliance with current regulations, including those governing gender balance, recourse is made to the second Alternate Auditor drawn from the same list. If, subsequently, it becomes necessary to replace another Effective Auditor drawn from the list that obtained the largest number of votes, recourse is always made to the other Alternate Auditor on that list. Should it be necessary to replace the Chairman of the Board of Statutory Auditors, the chair is taken by the second auditor on the same list as the Chairman to be replaced, on condition in all cases that the replacement satisfies the requirements for the position established by law and/or the Articles and complies with the gender balance requirements envisaged by the laws and/or regulations in force at the time; if it is not possible to make replacements in accordance with the above criteria, a Shareholders' Meeting is called to reconstruct the Board of Statutory Auditors with resolutions adopted by a relative majority of the votes cast.

When the Shareholders' Meeting shall appoint the Effective and/or Alternate Auditors necessary to reconstruct the Board of Statutory Auditors, the procedure is the following: if it is necessary to replace auditors elected from the majority list, the appointment is made by a relative majority of the votes cast, without any list requirements and without prejudice, in all cases, to compliance with the gender balance requirements envisaged by the laws and/or regulations in force at the time; if, on the other hand, it is necessary to replace auditors elected from the minority list, the Meeting replaces them by a relative majority of the votes cast, choosing - where possible - among the candidates indicated on the list from which the auditor to be replaced was drawn and, in all cases, in compliance with the principle guaranteeing representation for the minorities that, pursuant to the Articles, are entitled to participate in the appointment of the Board of Statutory Auditors, without prejudice in all cases to compliance with the gender balance requirements envisaged by the laws and/or regulations in force at the time. The principle guaranteeing representation for the minorities is respected if the auditors elected were previously candidates on the minority list or on lists other than that which, at the time of appointing the Board of Statutory Auditors, obtained the largest number of votes.

If only one list is presented, the Meeting votes on it; if the list obtains the relative majority of votes cast, the candidate Effective Auditors and Alternate Auditors named in the respective sections of the list are elected; the person named first on the list becomes the Chairman of the Board of Directors.

For the appointment of statutory auditors who, for any reason, were not appointed in accordance with the above procedure, the Shareholders' Meeting adopts resolutions with the majorities required by law, without prejudice in all cases to compliance with the gender balance requirements envisaged by the laws and/or regulations in force at the time. Outgoing Statutory Auditors may be re-elected.

15.2 *COMPOSITION*

On 14 May 2015, the Ordinary Meeting appointed (using the list voting mechanism as, at the time, the Company was listed on the stock exchange) Francesco Fallacara (appointed by the minorities), Fabio Artoni and Antonella Carù, as Effective Auditors, and Andrea Lorenzatti, Fabio Facchini and Giovanna Oddo, as Alternate Auditors until the date of the Shareholders' Meeting called to approve the financial statements for the year ended on 31 December 2017.

On 15 March 2016, following the resignation at the time of the delisting of Antonella Carù and Andrea Lorenzatti, the Ordinary Meeting resolved to increase the number of Effective Auditors to five and consequently appointing Fabrizio Acerbis, Giovanni Bandera and David Reali as Effective Auditors until the date of the Shareholders' Meeting called to approve the financial statements for the year ended on 31 December 2017.

On 1 August 2017, following the resignation for professional reasons of Effective Auditor Fabrizio Acerbis, the Ordinary Meeting reconstructed the Board of Statutory Auditors by appointing Antonella Carù as a Effective Auditor. On 31 August 2017, the Board of Statutory Auditors verified that Effective Auditors Francesco Fallacara, Antonella Carù and Fabio Artoni satisfied the relevant independence requirements.

On 30 August 2017, Effective Auditors David Reali and Giovanni Bandera resigned for professional reasons with effect from the date of the Shareholders' Meeting called to resolve on their replacement. The Board of Statutory Auditors was therefore reconstructed by the appointment of two new Effective Auditors at the Shareholders' Meeting held on 5 September 2017.

The Board of Statutory Auditors in office at the Report Date is made of the following members: Francesco Fallacara, Fabio Artoni, Antonella Carù, Alberto Villani, Luca Nicodemi, Fabio Facchini and Giovanna Oddo.

Pursuant to the new Articles the number of alternate statutory auditors is three with one resulting vacancy. Since, according to the relevant agenda, the entire Board of Statutory Auditors will be renewed by the upcoming Shareholders' Meeting approving the financial statements 2017, it was not necessary to proceed with an immediate integration of the Board.

The professional profiles of the members of the Board of Statutory Auditors are summarised on the Website.

Except as indicated above with reference to the Meeting held on 14 May 2015, the Board of Statutory Auditors was elected without application of the above-mentioned list voting mechanism, which will be applied from the first renewal of that Board subsequent to the First Trading Day. In particular, that renewal will take place at the Annual General Meeting.

The remuneration of the statutory auditors is discussed in the Compensation Report.

During the period between the First Trading Day and the end of the Year, the Board of Statutory Auditors of Pirelli has met 3 times, with each meeting having an average duration of about 2 hours.

At the Report Date, about 29% of the members of the Board of Statutory Auditors belong to the female gender and about 71% belong to the male gender (respectively 20% and 80% considering just the Effective Auditors). In addition, 80% of the Effective Auditors are over 50 years of age and the remaining 20% are between 30 and 50. The average age of both the members of the Board of Statutory Auditors taken as a whole and ust the Effective Auditors is about 54.

Table 3 attached provides for the relevant information about each member of the Board of Statutory Auditors in charge at the Report Date. In addition, a summary of their professional profiles is available on the Website.

16. INFORMATION FLOWS TO THE DIRECTORS AND STATUTORY AUDITORS

On 28 July 2017, the Board of Directors of Pirelli adopted a procedure for information flows to the Directors and Statutory Auditors, in order to (i) guarantee the transparent management of the business, (ii) establish conditions for the effective and efficient management and control of the activities of the Company and the operations of the business by the Board of Directors, and (iii) provide the Board of Statutory Auditors with the sources of information needed for the efficient performance of its supervisory role. On 31 August 2017, the Board of Directors confirmed adoption of the above procedure.

The flow of information to the Directors and Statutory Auditors is assured, preferably, by the transmission of documents on a timely basis and, in any case, with sufficient frequency to ensure compliance with the disclosure requirements established by law and the Articles, and in accordance with deadlines consistent with the timetables set for each Board meeting.

These documents may be integrated by verbal explanations given by the Chairman, the Executive Directors or top managers of the Group in the context of the board meetings, or at specific informal meetings organised to examine topics of interest relating to the management of the Company.

In all cases, the Directors and Statutory Auditors receive the information published by Pirelli in accordance with the regulations governing corporate disclosures (such as press releases and reports) and investment proposals (prospectuses, howsoever described).

In addition to the matters reserved for examination and/or approval by the Board of Directors of the Company pursuant to the law and the Articles, the flow of information to the Directors and Statutory Auditors contains information about: (I) the general results of operations and the outlook for the future; (ii) the activities carried out, with particular reference to the transactions (a) of greater strategic, economic, financial and investment interest, (b) with related parties, and (c) that are atypical or unusual; (iii) the instructions given in the exercise of management and coordination activities pursuant to arts. 2497 et seq. of the Civil Code, and (iv) any other activities, transactions or events that it is deemed appropriate to bring to the attention of the Directors and Statutory Auditors. When the information flows relate to Inside Information and/or Significant Information, they must take place in accordance and compliance with the procedures indicated in the Market Abuse Procedure.

17. RELATIONS WITH SHAREHOLDERS

Pirelli considers that financial communications have strategic importance for consolidating the relationship of trust existing with the financial community. Pirelli maintains constant dialogue with Shareholders, Bondholders, institutional and individual investors, Analysts and, more generally, with the Italian and international financial community through the Investor Relations function, in order to promote equal, transparent, timely and accurate communications.

Following the return to the stock exchange, the “Investors” section of the Website has been expanded with new content of interest to the financial market: the strategy (“Equity Story”), economic-financial data (including the carve-out financial statements for 2014, 2015 and 2016), and the opinions on Pirelli expressed by financial analysts (“Consensus”). The Investor Relations Department also promotes periodic meetings with Shareholders and Investors in Italy and abroad.

18. SHAREHOLDERS' MEETINGS

Pursuant to art. 7 of the Articles, ordinary and extraordinary Shareholders' Meetings of the Company are held in single call. Their resolutions are adopted with the majority required by law, with the sole exception of the authorisation of the Board of Directors to carry out the deeds listed below, which requires a qualified majority (votes in favour of shareholders representing at least 90% of the share capital of the Company):

- transfer the operational and administrative headquarters outside of the municipality of Milan;
- any transfer and/or deed of disposition, in any form, of Pirelli know-how (including the granting of licences).

Parties entitled to vote may be represented by proxy, given in accordance with the procedures envisaged by law and the regulations in force.

Proxies may be notified to the Company via electronic means by: (i) using the specific section of the Website indicated by the Company in the notice of call; (ii) sending a e-mail to the certified e-mail address indicated by the Company in the notice of call.

The notice of call may also limit to one of the above methods the specific procedure usable in relation to the Meeting called by that notice.

For each Meeting, the Company designates one or more persons to which those entitled to vote at the Meeting may grant a proxy, with voting instructions for all or just some of the motions on the agenda. The proxy does not apply to motions for which no voting instructions were given. The persons designated to receive proxies for the Meeting are specified in the related notice of call, together with relevant procedures and deadlines.

The Ordinary Meeting for the approval of the financial statements must be called, in accordance with the law, by no later than 180 days from the end of the financial year.

In the situations envisaged by law and in accordance with the related procedures, the directors must call a Meeting without delay when requested by shareholders representing at least one-twentieth of share capital.

The shareholders requesting the Meeting must prepare a report on their proposals regarding the matters to be discussed. At the time of publishing the notice of call for the Meeting and in accordance with the procedures envisaged by law, the Board of Directors must make the report prepared by the shareholders available to the public, together with its considerations, if any.

In the cases, in the manner and with the timing envisaged by law, shareholders that, individually or together, represent at least one-fortieth of share capital may request the integration of the items of the agenda, indicating in their request the additional topics proposed by them, or proposing resolutions on matters already on the agenda.

A notice is published about the addition of items to the agenda or the presentation of additional proposed resolutions on matters already on the agenda, by the legal deadlines, in the manner established for publication of the notice of call.

Shareholders requesting additions to the agenda must prepare and send to the Board of Directors, by the final deadline for the presentation of requests for additions, a report explaining their reasons for the proposed resolutions on the matters they wish to discuss, or their reasons for the additional proposed resolutions presented in relation to matters already on the agenda. At the time of publishing the notice about the additions to the agenda and in accordance with the procedures envisaged by law, the Board of Directors must make the report prepared by the shareholders available to the public, together with its considerations, if any.

The Meeting quorum and the validity of resolutions are governed by law.

The right to attend Meetings and vote is governed by the relevant current legislation and is certified by a communication sent to the Company, by an authorised intermediary with reference to its accounting records, on behalf of the party entitled to vote. This certification is based on the evidence existing at the end of the accounting day on the seventh trading day prior to the date fixed for the Meeting. The additions and deductions recorded on those accounts subsequent to that deadline are not relevant when determining the legitimacy of the right to vote at the Meeting. The communication must be received by the Company by the end of the third trading day prior to the date fixed for the Meeting, or by any different deadline established by the applicable regulations. Shareholders are still entitled to attend and vote if the communication is received by the Company after the above deadlines, on condition that it is received before business commences at the Meeting.

Ordinary and Extraordinary Shareholders' Meetings are chaired by the Chairman of the Board of Directors or, if absent or unavailable, by the Chief Executive Officer. If the above persons are absent, the chair is taken by another person appointed by a majority of the share capital represented at the Meeting.

The Chairman of the Meeting is assisted by a Secretary, appointed by a majority of the share capital represented at the Meeting, who does not need to be a shareholder; assistance from the Secretary is not necessary when the minutes of the Meeting are taken by a Notary.

The Chairman of the Meeting chairs the Meeting and, in accordance with the law and the Articles, moderates its course. For this purpose, the Chairman - *inter alia* - verifies that the Meeting has been properly convened, verifies the identity of those attending and their right to attend, directly or by proxy; verifies the legal quorum for voting; directs the proceedings, with the right to change the order of discussion of the items indicated in the notice of call. The Chairman also adopts suitable measures to ensure orderly discussions and voting, determining the related procedures and checking the results.

Meeting resolutions are evidenced by the minutes signed by the Chairman of the Meeting and by the Secretary of the Meeting or the Notary. The minutes of Extraordinary Meetings must be taken by a Notary designated by the Chairman of the Meeting. All copies of and extracts from minutes not prepared by a Notary are certified true by the Chairman of the Board of Directors.

In addition to the law and the Articles, the course of the Shareholders' Meetings is governed by the Meeting Regulation approved at the Shareholders' Meeting held on 1 August 2017, which took effect from the first day of trading in the shares of the Company on the MTA organised and managed by Borsa Italiana S.p.A.

19. CHANGES SINCE THE END OF THE YEAR

There have not been any changes to the structure of corporate governance since the end of the Year, except as already indicated in the previous sections, if applicable.

TABLE 1: SIGNIFICANT SHAREHOLDINGS

Listed below are the parties who, according to Consob publications at the publication date of this Report, hold shares with voting rights at Ordinary Shareholders' Meetings of more than 3% of the ordinary capital.

SIGNIFICANT SHAREHOLDINGS			
Declarant	**Direct shareholder**	**% on ordinary capital**	**% on voting capital**
China National Chemical Corporation	Marco Polo International Italy S.p.A.	63.11 %	63.11 %

N.B.: Information on the shareholders who, directly or indirectly, hold ordinary shares of more than 3% of the share capital with voting rights at the Company's ordinary shareholders' meetings is taken from the Consob website. In that regard, note that information published by Consob on its website, in accordance with the notifications made by the parties subject to the obligations of Art. 120 TUF and the Issuer Regulations, may deviate significantly from the actual situation, as the obligation of notification of changes in the percentage of shareholdings held does not apply to a change in this percentage alone, but only when the holding "exceeds" or "falls below" pre-determined thresholds (3%, 5% and subsequent multiples of 5% up to the threshold of 30% and, above this threshold, 50%, 66.6% and 90%). Therefore, for example, a shareholder (*i.e.* the declarant) who declares they hold 5.1% of the capital with voting rights may increase their shareholding up to 9.9%, without being required to notify Consob and the Company, as per Art. 120 TUF.

It is furthermore specified that the Articles of Association of the Company do not allow a majority of voting rights or the issue of shares with multiple votes.

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

Board of Directors[29]													**Control, Risks, Sustainability and Corporate Governance Committee**[30]		**Remuneration Committee**[31]		**Appointments Committee**		**Strategies Committee**		**RPT Committee**	
Position	**Members**	**Year of birth**	**Date of first appointment ***	**In office since**[32]	**In office until**	**List** (**)	**Exec.**	**Non-exec.**	**Indep. Code**	**Indep. TUF**	**No. of other positions *****	(*)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)
Chairman	Ren Jianxin	1958	20 October 2015	31 August 2017	Meeting of balance sheet as at 31 December 2019	**-**		**x**			See App. A	**1/2**					**-**	**M**				
Chief Executive Officer and Executive Vice Chairman •◊	Marco Tronchetti Provera	1948	07 May 2003[33]	31 August 2017	Meeting of balance sheet as at 31 December 2019	**-**	**x**				See App. A	**2/2**					**-**	**C**	**-**	**C**		
Director	Yang Xingqiang	1967	20 October 2015	31 August 2017	Meeting of balance sheet as at 31 December 2019	**-**		**x**			See App. A	**2/2**							**-**	**M**		
Director	Bai Xinping	1968	02 September 2015	31 August 2017	Meeting of balance sheet as at 31 December 2019	**-**		**x**			See App. A	**2/2**			**1/1**	**M**	**-**	**M**	**-**	**M**		
Director	Giorgio Luca Bruno	1960	15 March 2016	31 August 2017	Meeting of balance sheet as at 31 December 2019	**-**		**x**			See App. A	**2/2**							**-**	**M**		

29 The new Shareholders' Agreement provides for an additional independent Director be added to the Board of Directors, who shall be appointed by minorities at the first ordinary shareholders' meeting held after the First Trading Day.

30 The Control, Risks, Sustainability and Corporate Governance Committee shall be integrated with the director appointed by the first shareholders' meeting of the Company.

31 The Remuneration Committee shall be integrated with the director appointed by the first shareholders' meeting of the Company.

32 The Board of Directors in office at the Report Date was appointed by the Ordinary Shareholders' Meeting held on 01 August 2017, effective as of 31 August 2017.

33 Marco Tronchetti Provera took the position of general partner (socio accomandatario) at Pirelli & C. Limited Joint-Stock Company (società in accomandita per azioni) on 29 April 1986. On 07 May 2003, the Company was transformed into joint-stock company (società per azioni). Consequently, given the non-applicability of the figure of general partners (soci accomandatari), the Directors were appointed.

Board of Directors[29]													Control, Risks, Sustainability and Corporate Governance Committee[30]		Remuneration Committee[31]		Appointments Committee		Strategies Committee		RPT Committee	
Position	**Members**	**Year of birth**	**Date of first appointment ***	**In office since[32]**	**In office until**	**List** (**)	**Exec.**	**Non-exec.**	**Indep. Code**	**Indep. TUF**	**No. of other positions *****	(*)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)
Director	Laura Cioli	1963	01 August 2017	31 August 2017	Meeting of balance sheet as at 31 December 2019	**-**		**x**	**x**	**x**	See App. A	**2/2**	**1/1**	**M**	**1/1**	**M**						
Director	Domenico De Sole	1944	01 August 2017	31 August 2017	Meeting of balance sheet as at 31 December 2019	**-**		**x**	**x**	**x**	See App. A	**2/2**							**-**	**M**	**2/2**	**C**
Director	Ze'ev Goldberg	1960	02 September 2015	31 August 2017	Meeting of balance sheet as at 31 December 2019	**-**		**x**			See App. A	**2/2**							**-**	**M**		
Director	Tao Haisu	1949	01 August 2017[34]	31 August 2017	Meeting of balance sheet as at 31 December 2019	**-**		**x**	**x**	**x**	See App. A	**1/2**			**1/1**	**C**						
Director	Marisa Pappalardo	1960	01 August 2017	31 August 2017	Meeting of balance sheet as at 31 December 2019	**-**		**x**	**x**	**x**	See App. A	**2/2**									**2/2**	**M**
Director	Cristina Scocchia	1973	01 August 2017	31 August 2017	Meeting of balance sheet as at 31 December 2019	**-**		**x**	**x**	**x**	See App. A	**2/2**	**1/1**	**M**							**2/2**	**M**
Director	Giovanni Tronchetti Provera	1983	01 August 2017	31 August 2017	Meeting of balance sheet as at 31 December 2019	**-**		**x**			See App. A	**2/2**					**-**	**M**				

[34] Tao Haisu was a Director of Pirelli from 20 October 2015 to 15 March 2016.

Board of Directors[29]													Control, Risks, Sustainability and Corporate Governance Committee[30]		Remuneration Committee[31]		Appointments Committee		Strategies Committee		RPT Committee	
Position	**Members**	**Year of birth**	**Date of first appointment ***	**In office since[32]**	**In office until**	**List (**)**	**Exec.**	**Non-exec.**	**Indep. Code**	**Indep. TUF**	**No. of other positions *****	(*)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)
Director	Fan Xiaohua	1974	01 August 2017	31 August 2017	Meeting of balance sheet as at 31 December 2019	**-**		**x**	**x**	**x**	See App. A	**2/2**	**1/1**	**C**								
Director	Wei Yintao	1971	01 August 2017	31 August 2017	Meeting of balance sheet as at 31 December 2019	-		**x**	**x**	**x**	See App. A	**2/2**							**-**	**M**		
DIRECTORS CEASED DURING THE YEAR																						
No Directors ceased to hold the office as of the First Trading Day.																						
Number of Board of Directors meetings during the Year as of the First Trading Day: 2 Audit & Risk Committee: 1 / Remuneration Committee: 1 / Appointments Committee: 0 / Strategies Committee: 0 / RPT Committee: 2																						
Indicate the *quorum* required for the submission of lists by the minority for the election of one or more Members (as per Art. 147-*ter* TUF): 1% of the share capital with voting rights at ordinary shareholders' meetings.																						

The following symbols should be entered in the "Position" column:

• This symbol indicates the Director in charge of the Internal Control and Risk Management System.

◊ This symbol indicates the main responsible of the management of the Company (Chief Executive Officer or CEO).

* Date of first appointment means the date on which the Director was appointed to the issuer's BoD for the very first time.

** This column indicates the list from which each Director was taken ("**M**": majority list; "**m**": minority list; "**BoD**": list submitted by the BoD).

*** This column indicates the number of Director or Statutory Auditor positions held by the interested party in other companies listed on regulated markets, including foreign markets, in financial companies, banks, insurance companies or very large companies. The posts are listed in full in the Corporate Governance Report.

(*). This column indicates the Directors' attendance at meetings of the BoD and its committees respectively (indicate the number of meetings attended over total number of meetings held; e.g. 6/8; 8/8 etc.).

(**). This column indicates the Director's position in the Committee: "**C**": Chairman; "**M**": member.

TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Board of Statutory Auditors														
Position	**Members**	**Year of birth**	**Date of first appointment ***	**In office since**	**In office until**	**List ****	**Indep. Code**	**Attendance at Board of Statutory Auditors meetings *****	**Attendance at BoD meetings**	**Attendance at CRSCG Committee meetings**	**Attendance at Remuneration Committee meetings**	**Attendance at Appointments Committee meetings**	**Attendance at Strategies Committee meetings**	**Attendance at RPT Committee meetings**	**No. of other positions ******
Chairman	Francesco Fallacara	1964	14 May 2015	14 May 2015	Meeting of balance sheet as at 31 December 2017	**m**	x	3/3	2/2	0/1	1/1	-	-	2/2	See App. A
Effective Auditor	Fabio Artoni	1960	14 May 2015	14 May 2015	Meeting of balance sheet as at 31 December 2017	**M**	x	3/3	2/2	1/1	1/1	-	-	2/2	See App. A
Effective Auditor	Antonella Carù	1961	14 May 2015	01 August 2017	Meeting of balance sheet as at 31 December 2017	**-**	x	3/3	2/2	1/1	1/1	-	-	1/2	See App. A
Effective Auditor	Luca Nicodemi	1973	05 September 2017	05 September 2017	Meeting of balance sheet as at 31 December 2017	**-**	x	3/3	2/2	1/1	1/1	-	-	2/2	See App. A
Effective Auditor	Alberto Villani	1962	05 September 2017	05 September 2017	Meeting of balance sheet as at 31 December 2017	**-**	x	2/3	2/2	1/1	1/1	-	-	2/2	See App. A
Alternate Auditor	Fabio Facchini	1955	14 May 2015	14 May 2015	Meeting of balance sheet as at 31 December 2017	**M**	x	-							See App. A
Alternate Auditor	Giovanna Oddo	1967	14 May 2015	14 May 2015	Meeting of balance sheet as at 31 December 2017	**M**	x	-							See App. A
AUDITORS CEASED DURING THE YEAR															
No Statutory Auditors ceased to hold the office as of the First Trading Day.															
Number of Board of Statutory Auditors meetings during the year as of the First Trading Day*:* 3															
Indicate the *quorum* required for the submission of lists by the minority for the election of one or more Members (*as per* Art. 148 TUF): 1% of the shares with voting rights at ordinary shareholders' meetings.															

* Date of first appointment means the date on which the Auditor was appointed to the issuer's Board of Statutory Auditors for the very first time.

** This column indicates the list from which each Auditor was taken ("**M**": majority list; "**m**": minority list).

*** This column indicates the Auditors' attendance at Board of Statutory Auditors meetings (indicate the number of meetings attended over the total number of meetings held; e.g. 6/8; 8/8 etc.).

**** This column indicates the number of Director or Statutory Auditor posts held by the interested party pursuant to Art. 148-*bis* TUF and the relevant implementing provisions of the Consob Issuer Regulations. The full list of posts is published by Consob on its *website* pursuant to Art. 144-*quinquiesdecies* of the Consob Issuer Regulations.

**** This column indicates the number of Director or Statutory Auditor posts held by the interested party pursuant to Art. 148-bis TUF and the relevant implementing provisions of the Consob Issuer Regulations. The full list of posts is published by Consob on its website pursuant to Art. 144-quinquiesdecies of the Consob Issuer Regulations.

ANNEX A

SECTION I: LIST OF THE MAIN POSITIONS HELD BY THE DIRECTORS IN OTHER COMPANIES NOT BELONGING TO THE PIRELLI GROUP ON THE REPORT DATE

Name and surname	**Company**	**Position in the Company**
Ren Jianxin	China National Bluestar Co. Ltd.	Chairman of the Board of Directors
	China National Chemical Corporation	Chairman of the Board of Directors
	Syngenta AG	Chairman of the Board of Directors
	TP Industrial Holding S.p.A.	Chairman of the Board of Directors
Marco Tronchetti Provera	Camfin S.p.A.	Chairman of the Board of Directors and CEO
	Marco Tronchetti Provera & C. S.p.A.	Chairman of the Board of Directors
	Nuove Partecipazioni S.p.A.	Chairman of the Board of Directors
	RCS MediaGroup S.p.A.	Director
	TP Industrial Holding S.p.A.	Vice-Chairman of the Board of Directors
Yang Xingqiang	ADAMA Agricultural Solutions Ltd.	Chairman of the Board of Directors
	China National Chemical Corporation	President
	Marco Polo International Italy S.p.A.	Director
	TP Industrial Holding S.p.A.	Director
Bai Xinping	Aeolus Tyre Co. Ltd.	Chairman of the Board of Directors
	China National Chemical Corporation	Vice-President
	China National Chemical Equipment Co. Ltd.	Chairman of the Board of Directors
	China National Tire & Rubber Corporation	Chairman of the Board of Directors and President
	CNRC International Holding (HK) Ltd.	Director
	CNRC Capitale Ltd.	Director
	CNRC International Ltd.	Director
	Fourteen Sundew S.a.r.l.	Director
	Marco Polo International Italy S.p.A.	Chairman of the Board of Directors
	TP Industrial Holding S.p.A.	Director
Giorgio Luca Bruno	Camfin S.p.A.	Director
	Marco Polo International Italy S.p.A.	CEO
	Nuove Partecipazioni S.p.A.	CEO
	Prometeon Tyre Group S.r.l.	Chairman of the Board of Directors and CEO
	TP Industrial Holding S.p.A.	CEO

Laura Cioli	Ansaldo Energia S.p.A.	Director
	Brembo S.p.A.	Director
	Sprintitaly S.p.A.	Director
Domenico De Sole	Ermenegildo Zegna S.p.A.	Director
	Newell Brands	Director
	Sotheby's	Director
	Tom Ford International	Chairman of the Board of Directors
Ze'ev Goldberg	Marco Polo International Italy S.p.A	Director
Tao Haisu	China Global Natural Resources Investment Funds	Director
	Mercuria Energy Group	Asia Executive Director
Marisa Pappalardo	Finstar S.p.A.	Director
Cristina Scocchia	Elica S.p.A.	Director
	EssilorLuxottica S.A.	Director
	KIKO S.p.A.	CEO
	Luxottica S.p.A.	Director
Giovanni Tronchetti Provera	Camfin S.p.A.	Director
	Marco Polo International Italy S.p.A.	Director
	Marco Tronchetti Provera & C. S.p.A.	Director
	Nuove Partecipazioni S.p.A.	Director
	TP Industrial Holding S.p.A.	Director
Fan Xiaohua	Aeolus Tire Co. Ltd.	Director
Wei Yintao	-	-

SECTION II: LIST OF THE MAIN POSITIONS HELD BY THE STATUTORY AUDITORS IN OTHER COMPANIES ON THE REPORT DATE

Name and surname	Company	Position in the company
Francesco Fallacara	Maire Tecnimont S.p.A.	Chairman of the Board of Statutory Auditors
	Ro. Co. Edil. S.r.l.	Effective Auditor
	Hira film S.r.l.	Effective Auditor
Fabio Artoni	Mag JLT S.r.l.	Effective Auditor
	Ecosesto S.p.A.	Effective Auditor
	Camfin S.p.A.	Effective Auditor
	Pastificio Castiglioni S.p.A.	Chairman of the Board of Statutory Auditors

	Elba S.p.A.	Chairman of the Board of Statutory Auditors
	Antrim S.p.A.	Chairman of the Board of Statutory Auditors
	Alucart S.r.l.	Effective Auditor
	Alhof di A. Hofmann S.p.A.	Effective Auditor
	Finser S.p.A.	Chairman of the Board of Statutory Auditors
	V.I.P. S.p.A.	Chairman of the Board of Statutory Auditors
	Barry Callebaut Italia S.p.A.	Chairman of the Board of Statutory Auditors
	Barry Callebaut Manufactoring Italia S.p.A.	Chairman of the Board of Statutory Auditors
	TP Industrial Holding S.p.A.	Chairman of the Board of Statutory Auditors
	Euro TLX SIM S.p.A.	Effective Auditor
	Driver Italia S.p.A.	Effective Auditor
	Dolphin S.r.l.	Chairman of the Board of Statutory Auditors
	Chromavis S.p.A.	Chairman of the Board of Statutory Auditors
	Falck Energy S.p.A.	Effective Auditor
	VIP Logistics S.p.A.	Chairman of the Board of Statutory Auditors
	Emma S.p.A.	Effective Auditor
	London Stock Exchange Group Holdings Italia S.p.A.	Effective Auditor
	Marco Polo International Italy S.p.A.	Effective Auditor
	Prometeon Tyre Group S.r.l.	Chairman of the Board of Statutory Auditors
	Elite S.p.A.	Effective Auditor
	Foodelicious S.r.l.	Effective Auditor
	Cassa di Compensazione e Garanzia S.p.A.	Effective Auditor
	Pirelli Industrie Pnematici S.r.l.	Effective Auditor
	Gatelab S.r.l.	Alternate Auditor
	Tetis S.p.A.	Alternate Auditor
	AMFIN HOLDING S.P.A.	Effective Auditor
Antonella Carù	Autogrill S.p.A.	Effective Auditor
	Autogrill Advanced Business Service S.p.A.	Effective Auditor
Luca Nicodemi	F.C. Internazionale S.p.A.	Chairman of the Board of Statutory Auditors
	Inter Media S.p.A.	Chairman of the Board of Statutory Auditors
	Inter Brand S.r.l.	Chairman of the Board of Statutory Auditors
	Buccellati S.p.A.	Chairman of the Board of Statutory Auditors
	Mario Buccellati Italia S.r.l.	Chairman of the Board of Statutory Auditors
	Restiani S.p.A.	Chairman of the Board of Statutory Auditors

	Nordest SGR S.p.A.	Chairman of the Board of Statutory Auditors
	Augens SGR S.p.A.	Chairman of the Board of Statutory Auditors
	Italian Creation Group S.p.A.	Chairman of the Board of Statutory Auditors
	JMACC S.p.A.	Chairman of the Board of Statutory Auditors
	CPC S.r.l.	Effective Auditor
	Dainese S.p.A.	Effective Auditor
	Corneliani S.p.A.	Effective Auditor
	Savills SGR S.p.A.	Effective Auditor
	Corob S.p.A.	Effective Auditor
	Imprima S.p.A. (già Color Wind S.p.A.)	Effective Auditor
	Holding di Piergiorgio Coin S.r.l.	Effective Auditor
	One Audit S.p.A.	Effective Auditor
	Guazzotti S.r.l.	Effective Auditor
	Pillarstone Italy Holding S.p.A.	Alternate Auditor
	POC Holding S.p.A.	Effective Auditor
	Wise SGR S.p.A.	Alternate Auditor
	Pillarstone Italy S.p.A.	Alternate Auditor
	De Fonseca S.p.A:	Director
	DUEMMEI S.R.L.	Chairman of the Board of Statutory Auditors
	BORMIOLI PHARMA S.r.l.	Chairman of the Board of Statutory Auditors
	BORMIOLI PHARMA BIDCO S.P.A.	Chairman of the Board of Statutory Auditors
Alberto Villani	AGB Nielsen Media Research Holding S.p.A.	Chairman of the Board of Statutory Auditors
	BTSR International S.p.A.	Chairman of the Board of Statutory Auditors
	Fratelli Consolandi S.r.l.	Chairman of the Board of Statutory Auditors
	HDP S.p.A.	Chairman of the Board of Statutory Auditors
	12 Capital PartnerS SGR S.p.A.	Chairman of the Board of Statutory Auditors
	Selecta S.p.A.	Chairman of the Board of Statutory Auditors
	Selecta Taas S.p.A.	Chairman of the Board of Statutory Auditors
	Quattroduedue S.p.A.	Chairman of the Board of Statutory Auditors
	Riva & Mariani Group S.p.A.	Chairman of the Board of Statutory Auditors
	Tenuta Montemagno Soc. Agricola S.p.A.	Chairman of the Board of Statutory Auditors
	Bennet S.p.A.	Effective Auditor
	Bennet Holding S.p.A.	Effective Auditor
	Carcano Antonio S.p.A.	Effective Auditor
	DE' Longhi Capital Services S.r.l.	Effective Auditor

	DE' Longhi Appliances S.r.l.	Effective Auditor
	EFFE 2005 Gruppo Feltrinelli S.p.A.	Effective Auditor
	FINMEG S.r.l.	Effective Auditor
	Gallerie Commerciali Bennet S.p.A.	Effective Auditor
	INTEK Group S.p.A.	Effective Auditor
	Kiepe Electric S.p.A.	Effective Auditor
	Lambda Stepstone S.r.l.	Effective Auditor
	Meg Property S.p.A.	Effective Auditor
	Nuova GS S.p.A.	Effective Auditor
	Over Light S.p.A.	Effective Auditor
	Vetus Mediolanum S.p.A.	Effective Auditor
	San Remo Games S.r.l.	Sole Auditor
	Viator S.p.A. in liq.ne	Alternate Auditor
	Immobiliare Andronica S.p.A.	Alternate Auditor
	Impresa Luigi Notari S.p.A.	Alternate Auditor
	Compagnia Padana per Investimenti S.p.A.	Alternate Auditor
	Borgogestion S.r.l.	Sole Director
	Royal Immobiliare S.r.l.	Sole Director
	Calvi S.p.A.	Director
	Pamal S.r.l.	Director and CEO
	SO.SE.A. S.r.l.	Director
	Vianord Engineering Société par action simplifiée	Director
Fabio Facchini	Ali Group S.r.l.	Effective Auditor
	Ali Holding S.r.l.	Effective Auditor
	Aliaslab S.r.l.	Effective Auditor
	Costa Edutainment S.p.A.	Effective Auditor
	Dea Capital S.p.A.	Effective Auditor
	Minetti S.p.A.	Effective Auditor
	Mundipharma Pharmaceuticals S.r.l.	Effective Auditor
	Massimo Zanetti Beverage Group S.p.A..	Chairman of the Board of Statutory Auditors
	Nova Foods S.r.l.	Sole Auditor
	Prysmian PowerLink S.r.l.	Effective Auditor
	RCF Group S.p.A.	Chairman of the Board of Statutory Auditors
	Royal Seeds S.r.l.	Director

	Fondazione Silvio Tronchetti Provera	Auditor
Giovanna Oddo	Tiglio II S.r.l. in liquidazione	Liquidator
	M.S.M.C. Immobiliare Due S.r.l. in liquidazione	Liquidator
	Centrale Immobiliare S.r.l.	Liquidator
	Trixia S.r.l.	Chairman of the Board of Statutory Auditors
	Gromis S.r.l. in liquidazione	Liquidator
	Aida S.r.l. in liquidazione	Liquidator
	Ganimede Due S.r.l. in liquidazione	Liquidator
	Lupicaia S.r.l. in liquidazione	Liquidator
	Iniziative Retail S.r.l. in liquidazione	Liquidator
	Pirelli Sistemi Informativi S.r.l.	Effective Auditor
	Iniziative Immobiliari S.r.l. in liquidazione	Liquidator
	Riva De Ronchi S.r.l. in liquidazione	Liquidator
	Nuove Partecipazioni S.p.A.	Effective Auditor
	Geolidro S.p.A.	Chairman of the Board of Statutory Auditors
	Pirelli Servizi Amministrazione e Tesoreria S.p.A.	Effective Auditor
	Manifatture Milano S.p.A.	Effective Auditor
	Marco Tronchetti Provera & C. S.p.A.	Effective Auditor

REMUNERATION REPORT

INTRODUCTION

This Remuneration Report ("Report") is broken down into two sections:

- Section I: "Policy" for financial Year 2018 ("2018 Policy") and
- Section II: "Statement" for financial Year 2017 ("2017 Statement").

The Report has been prepared pursuant to art. 123 ter of the Italian Consolidated Law on Finance and to art. 84-Quater of the so-called "Issuers Regulation" of CONSOB and also based on the Scheme 7-bis of Annex 3 A of the Regulation of Issuers. While preparing the report, we took in due consideration the recommendation of the European Commission on remuneration of the Directors of listed companies and the recommendations on remuneration of the Corporate Governance Code issued by Borsa Italiana S.p.A. which was endorsed by Pirelli.

The Report has also been adopted for the purposes established under article 14 of the Procedure for the Transactions with Related Parties of Pirelli

The 2018 Policy sets out principles and guidelines which are followed by Pirelli in order to (i) determine and (ii) monitor the application of the remuneration policies, as presented below, concerning:

- Directors holding special offices and Managers with strategic responsibilities of Pirelli & C.;
- The Senior Managers and Executives of the Group.

The 2017 Statement, submitted to the Shareholders' Meeting for information purposes, provides the final figures on remuneration for Year 2017.

In order to facilitate the understanding and the reading of the Report, please find below a glossary of some of the recurring terms:

Directors holding special offices: means the Directors of Pirelli & C. who hold the office of Chairman and Executive Vice Chairman and CEO. For the purposes of the Policy, the Directors holding special offices in other Pirelli Companies, who are also executives of the Group (excepting the case where a resolution of the Board of Directors of Pirelli & C. classifies them "Managers with strategic responsibilities"), are, as regards their role, Executive o Senior Managers.

Directors not holding special offices: means all the Directors of Pirelli & C. who are not Directors holding special offices.

For the purposes of the Policy, the Directors not holding special offices in other Pirelli Companies, who are also executives of the Group (excepting the case where a resolution of the Board of Directors of Pirelli & C. classifies them "Managers with strategic responsibilities"), are, as regards their role, Executive o Senior Managers.

Annual Total Direct Compensation at Target: means the sum of the following components, regardless of the fact that they are paid by Pirelli & C. or by another Company of the Group:

(i) Gross annual fixed component of the remuneration;

(ii) annual variable component (MBO) which the beneficiary would receive in the case where the objectives at target are achieved;

(iii) annualisation of the medium-to-long term variable component (LTI), which the beneficiary may receive in the case where the objective set for multiple years at target are achieved in addition to the annual rolling mechanism for the deferred pro-quota payment of the accrued MBO and payment of an increase of the full accrued MBO based on the consistency over time (which means during the year following the year of accrual of the MBO) in achieving the yearly objectives at target.

Remuneration Committee: means the Remuneration Committee of Pirelli & C..

Board of Directors: means the Board of Directors of Pirelli & C..

Managers with strategic responsibilities: means the managers, identified through an express resolution by the Board of Directors of Pirelli & C., who hold the power or the responsibility for planning and supervising the operations of the Company or the power to adopt decisions which may affect the evolution or the future perspective of the Company itself or more generally of Pirelli.

Executive: means the managers of the Italian Pirelli Companies or the employees of foreign Companies of the Group who hold a comparable position or a role to those held by an Italian manager.

Pirelli Group or Pirelli: means all the Companies included within the scope of consolidation of Pirelli & C. S.p.A..

Management: means all the Directors holding special offices, the Managers with strategic responsibilities, the Senior Managers and the Executives.

MBO: means the annual variable component of the remuneration which may be obtained in consideration of the achievement of certain pre-set business objectives as explained in paragraph 5 below.

2018-2020 LTI Plan: means the Long Term Incentive Cash Plan explained in paragraph 5 below.

Retention Plan: means the Retention Plan explained in paragraph 7 below.

GAS: means the gross annual fixed component of the remuneration for the individuals who are employed by a Company of Pirelli Group under an employment contract.

Senior Managers: means the first report persons to (i) the Directors holding special offices who are assigned specific duties and (ii) the Executive Vice President whose activity has a significant impact on the business results.

Company: means Pirelli & C. S.p.A..

Top Management: means all the Directors holding special offices and the Managers with strategic responsibilities.

REMUNERATION POLICY FOR YEAR 2018

1. PRINCIPLES AND REVIEW OF THE RISKS

The Policy is intended to attract, motivate and retain resources that have the professional skills necessary to successfully pursue the corporate objectives of Pirelli. Pirelli, in fact, defines and implements a Policy which is characterised by the following:

- as regards Top Managers and Senior Managers, by a strong pull on the third quartile of the corresponding employment market (as measured by the standard benchmark);
- as regards Executives, in line with the relevant market practice .

The Annual Total Direct Compensation at Target represents the comparison benchmark.

The Policy is defined so as to align the interests of Management with those of Shareholders, pursuing the priority objective of creating sustainable value, in the medium to long term period, by establishing an actual and verifiable link, between remuneration, on the one hand and the performance of the individuals and Pirelli on the other.

The structure of the Management remuneration, which is defined also on the basis of domestic and International benchmarks prepared by Companies specializing in Executive Compensation, consists of three main elements:

- Gross annual fixed component;
- annual variable component (MBO);
- medium-to-long term variable component (LTI), intended for rewarding the performance of Pirelli Group during the 2018-2020 period.

The MBO and LTI variable components are established - by keeping in account the benchmarks for each position - as a percentage of the fixed component, which will raise based on the role held by the beneficiary.

The variable remuneration of the Management is based on short and medium-to-long term objectives which are established under annual and multi-annual Plans that are disclosed to the Market.

Please refer to paragraph 5 “MBO and LTI Plan” for further details on the operation of said variable components.

As this regards, it has to be underlined that the process for managing the risks is fully integrated in the strategic planning process in order to ensure that the objectives provided for achieving the variable incentives shall not expose Pirelli to managerial approaches which are not consistent with the acceptable level of risk (the so-called risk appetite) which is defined by the Board of Directors upon approval of the Plans.

The structure of the remuneration of the Management is defined so to ensure a balance of its components.

Part of the variable remuneration which is accrued in form of MBO is deferred for supporting the consistency over time of the results (and it thus subject to the “risk” of payment) with a potential “rewarding” increasing scheme (please refer to paragraph 5 for an analytical description).

The definition of a mix of objectives, which include also certain non-financial objectives, for the medium/long term variable portion, avoids the prevalence of a single performance objective. Furthermore, the existence of objectives for achieving a significant part of the LTI incentives based on economic/financial parameters accrued over three years (and without, therefore, any intermediate accounting) avoid any adoption of certain behaviours which are intended only to reach the short term objectives for receiving the annual incentives.

Please refer to the specific paragraphs describing, for each category, the relevant structures of any further component of the remuneration (Severance Indemnities, Non compete agreement, Retention Plan, non-financial bonuses).

2. “PROCESS” FOR DEFINING AND IMPLEMENTING THE POLICIES AND INVOLVED ENTITIES

The definition of the Policy is the result of a clear and transparent process, in which the Remuneration Committee and the Board of Directors play a key role. The policy is actually adopted and approved on a yearly basis - following a proposal by the Remuneration Committee - by the Board of Directors which submits it to the consultation vote of the Shareholders’ Meeting -.

The Board of Statutory Auditors expresses its opinion on the Policy, namely for the part concerning the remuneration of the Directors holding special offices.

The Remuneration Committee, the Board of Statutory Auditors and the Board of Directors will supervise its implementation. For this purpose, at least once a year, when the Statement on Remuneration is presented, the head of the Human Resources department provides his reports on the compliance with the Policy to the Remuneration Committee, whose Chairman shall report, in turn, to the Board of Directors.

The 2018 Policy, which was proposed by the Remuneration Committee and then approved by the Board of Directors, following the favourable opinion of the Board of Statutory Auditors, during the meeting held on February 26, 2018 - is now submitted to the Shareholders’ Meeting for its consultation vote.

For the sake of completeness, please remind that, under current statutory provisions, the Board of Directors is responsible for providing (or if required by the Law, proposing to the Shareholders’ Meeting) the adoption of incentive schemes by allocating financial instruments or option rights to financial instruments which, if approved, shall be disclosed to the public at the latest in the Annual

Report on Remuneration (without prejudice for any further transparency duties established under the relevant legislation). As of the date of this Report, the Company does not provide any incentive plan based on financial instruments.

3. REMUNERATION COMMITTEE

Composition

The Remuneration Committee is appointed by the Board of Directors (who appoints also its Chairman) and will hold office throughout the mandate of the Board of Directors.

As of the date of this Report, the Committee is formed by three members, who are all non-executives, in majority independent, and in line with the provision of the Corporate Governance Code, the Chairman of the Committee is an independent director.

The Board of Directors, on August 31, 2017, adopted the resolution that the committee will be integrated by appointing the Director who will be elected by the minorities during the first Shareholders' Meeting which will follow the listing of the Company.

As of the date of this Report, the Committee is formed by the following persons. Tao Haisu (Chairman), Bai Xinping and Laura Cioli, whose appropriate experience in financial and remuneration matters was assessed by the Board of Directors upon her appointment.

The full Board of Statutory Auditors is entitled to take part in the works of the Remuneration Committee.

The Secretary of the Board of Directors shall act as Secretary of the Remuneration Committee.

Responsibilities of the Remuneration Committee

The Committee has consultation, proposing and supervisory duties for ensuring the definition and the application, within the Group, of the remuneration policies which are intended to attract, motivate and retain resources that have the professional skills necessary to successfully pursue the corporate objectives of the Group and, on the other hand, which are suitable to align the interests of the Management with the interests of the Shareholders.

Namely, the Remuneration Committee:

- Supports the Board of Directors in defining the General Remuneration Policy of the Group, by providing its proposals on the matter;
- measures, on a regular basis, the overall appropriateness, consistency and the actual implementation of the General Remuneration Policy, employing the information provided by

the chief executive officers for that purpose and submits the relevant proposal to the Board of Directors;

- as regards the executive directors and the Directors holding special offices, it submit proposals or provides its opinion to the Board on the following matters:
    - their remuneration, in line with the General Remuneration Policy;
    - the setting of certain performance objectives linked to the variable component of said remunerations;
    - the definition of non compete agreement, if any;
    - the definition of any agreement for the termination of the labour contract also based on the principles laid down by the General Remuneration Policy;
- as regards the Managers with strategic responsibilities it checks the consistency of their remuneration with the General Remuneration Policy and provides its opinion on it also under the procedure for the Transactions with Related Parties;
- provides support to the Board of Directors in reviewing the proposals of the Shareholders' Meeting on the adoption of remuneration schemes based on financial instruments;
- monitors the implementation of the decisions adopted by the Board assessing, in particular, the actual achievement of the established performance objectives;
- reviews and submits to the Board of Directors the Annual Remuneration Report, which, on an individual base for the members of the governing and supervisory bodies and in aggregate form for the Managers with strategic responsibilities:
    a. provides an appropriate picture of each item which form the remuneration;
    b. analytically lists the remuneration paid by the Company and its subsidiaries during the relevant period at any title and in any form.

Please refer the Report on Corporate Governance and Ownership Structure for details on the operation procedures of the Remuneration Committee.

4. CONTENTS OF THE 2018 POLICY

As highlighted in the preamble, the Policy defines principles and guidelines which:

(i) the Board of Directors complies with for defining the remuneration of the Directors of Pirelli & C., namely the Directors holding special offices and Managers with strategic responsibilities;

(ii) Pirelli refers to for defining the remuneration of the Senior Managers and more generally of the Executives.

5. MBO AND LTI PLAN

MBO

The scope of the MBO plan covers the whole management, excepting some specific cases, and may be extended to those who will be hired by the Group during the year and/or whose internal career leads to an Executive position.

The annual variable component (so-called MBO) is the remuneration for the performance of the beneficiary in the short term, typically on an annual basis.

The objectives of the MBO for the Directors holding special offices who are assigned specific duties and for the Managers with strategic responsibilities are established by the Board of Directors (without the concerned officers taking part in the meetings which decide on this matter) following the proposal of the Remuneration Committee and are linked to the performance, on an annual basis, of Pirelli.

The objectives of the Senior Management and of the Executives are, on the other hand, defined by their direct supervisor, jointly with the Human Resources Department and the Planning and Controlling Department. For these roles, differently from the Top Management, certain objectives lined to the economic performance of their unit/department or quantity objectives linked to specific individual performance parameters may be assigned.

At the end of the relevant year and based on the final performance, the Human Resources Department, with the support of the Planning and Controlling Department, shall assess the level of achievement of the objectives.

The accrual of the annual variable component is subject to the achievement of a financial access condition (the so-called on/off condition), which is defined based on the role held by the beneficiary. The incentive is then calculated on the base of certain objectives which are also defined with regards to the role held by the beneficiary.

The objectives for the different roles of the Management and the relevant weight at target are listed below.

Role	Objective	Weight at target
Executive Vice Chairman and CEO and Managers with strategic responsibilities	Group NFP (before dividends) as of 31 December 2018	On/off condition
	Group Adjusted Ebit	40%
	Group NFP (before dividends) as of 31 December 2018	40%
	Group EBT	20%
Senior Manager/Executive of Headquarter	Group NFP (before dividends) as of 31 December 2018	On/off condition
	Group Adjusted Ebit	40%
	Group NFP (before dividends) as of 31 December 2018 or one or more functional objectives with Group "scope"	40%
	Group EBT	20%
Senior Manager/Executive of Region/BU	Group NFP (before dividends) as of 31 December 2018 if BU; Region NFP if Region responsibility; DSO for Sales Managers[35]	On/off condition
	Region/EU Adjusted Ebit	From 20% to 50%
	Functional objective/s with Region/BU/Group "scope"	From 20% to 50%
	Group EBT	From 10% to 20%

The objectives at target represent a performance which is perfectly aligned to the corresponding objectives disclosed to the market. The on/off condition is fixed with a "tolerance margin" against the budget value.

[35] In case of failure to meet of the on/off condition Region NFP or DSO, it is provided the activation of the on/off condition Group NFP with a 25% reduction of the total accrued payout.

Please find below the target disclosed to the market on February 26, 2018:

FY 2018 OUTLOOK_

€ million

	2017A	2018E
Revenues	5,352	≥+6% YoY ~+10% Net of FX
High Value weight	*58%*	*~60%*
Adjusted EBIT w/o start-up[1]	927	>€ 1,0 bln
High Value weight	*~83%*	*≥83%*
Start-up costs	*50*	*~40*
Adjusted EBIT[2]	876	~€1,0 bln
Net financial position / Adjusted EBITDA w/o start-up costs[3]	2.7X	~2.3X
CapEx on Revenues	9.1%	~8%

– ~50% High Value capacity increase (Europe, NAFTA, APac and LatAm)
– ~25% mix & quality
– ~25% maintenance & other

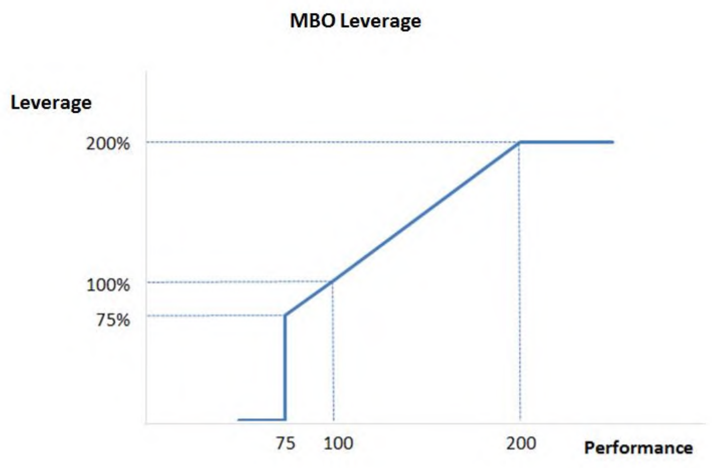
1 EBIT adjusted excluding PPA amortization, non recurring, one-off, extraordinary items and start-up costs; 2 EBIT adjusted excluding PPA amortization, non recurring, one-off and extraordinary items; 3 EBITDA adjusted excluding non recurring, one-off, extraordinary items and start-up costs

Each objective provides and access threshold to which the payment of an incentive equal to the 75% of the potential incentive at target is linked; a cap of the payable sum is also provided.

The range of the objectives is established according to the following general rules:

- for each objective, the delta between target and maximum is always at least 1.5 times the delta between the target level and the “access threshold” level;
- the 25% penalization percentage of the reward upon the achievement of the objective at the “access threshold” level, is always higher than the tolerance margin represented by the difference in percentage between the “access threshold” result and the “target” result.

The final summary of the incentive between access threshold and target and between target and maximum is carried out by linear interpolation.



The incentive percentages for the different roles of the Management are listed below.

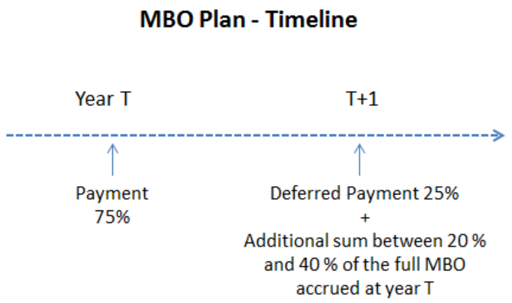
Accrued Incentive			
Role	When meeting the objectives at access threshold	When meeting the objectives at target	When meeting the objectives at maximum level (cap)
Executive Vice Chairman and CEO	75% of the incentive at target	125% of the remuneration for the main executive office	200% of the incentive at target
Managers with strategic responsibilities	75% of the incentive at target	From 50% to 75% of the GAS	200% of the incentive at target
Senior Manager/Executive	75% of the incentive at target	From 20% to 40% of the GAS based on the role	200% of the incentive at target

<u>Deferred payment of the MBO</u>

The payment of 25% of any accrued MBO is deferred by 12 months and is subject to the achievement of the MBO objectives set for the following year. Namely:

- In the case where the year following the year of accrual of the MBO no MBO accrued, the portion of MBO deferred from the previous year is finally “lost”;
- In the case where the year following the year of accrual of the MBO the MBO accrued up to the access threshold, the portion of MBO deferred from the previous year is paid;
- In case of achievement, during the following year, of the MBO between target and maximum level, it is provided the payment - in addition to the restitution of the MBO portion deferred from the previous year - of an additional sum between 20% and 40% of the full MBO accrued during

the previous year (for intermediate results, during the following year, between target an maximum the increase of the MBO of the previous year shall be calculated by linear interpolation).



LTI Plan

The 2018-2020 LTI Plan is extended to the whole Management (excepting specific cases such as, for example, the Managers of the Internal Audit department) and may be extended also to those who during the three year term become members of the Group Management and/or whose internal career leads to an Executive position. In this case, the inclusion is subject to the condition to be part of the Plan for at least one full year and the percentage of incentives are reconfigured on the number of months of actual participation to the Plan.

The 2018-2020 LTI Plan provides and incentive (the so-called "LTI Bonus") subject to the achievement of multiple year objectives and established on a percentage basis of the gross annual fixed component; (GAS) received by the beneficiary as of the date on which the admission the the Plan thereof was granted. Said incentive percentage raises based on the role held and takes in due account the reference benchmarks for each role.

Each objective provides and access threshold to which the payment of an incentive equal to the 75% of the respective portion of potential incentive at target is linked- and a cap of the payable sum.

The LTI Bonus, in case of achievement of all the objectives at the maximum level cannot exceed a sum which is twice the incentive which may be received in case of achievement of the target objectives.

In case of failed achievement of the access threshold level of each objective, the beneficiary will not accrue any right to the payment of the relevant incentive portion.

The incentive percentages for the different roles of the Management are listed below.

Accrued Incentive			
Role	When meeting the objectives at access threshold	When meeting the objectives at target	When meeting the objectives at maximum level (cap)
Vice Chairman and CEO	75% of the incentive at target	250% of the remuneration for the main executive office	200% of the incentive at target
Managers with strategic responsibilities	75% of the incentive at target	From 167% to 200% of the GAS	200% of the incentive at target
Senior Manager/Executive	75% of the incentive at target	From 50% to 167% of the GAS based on the role	200% of the incentive at target

The objectives of the LTI plan shared between all the different roles of the Management and their relevant weight at target are listed below.

Target	Weight at target
Deleveraging (Net Financial Position/Ebitda adjusted ratio) < 2 as of 31.12.2020	On/off condition
Group ROS (which is measured as the ratio between Group Adjusted EBIT accrued during the three year term and the turnover accrued during the three year term).	30%
"Absolute" total Shareholder Return measured as: (average value of the share during the last half of 2020 – average value of the share during the last quarter of 2017 + paid dividends) and (average value of the share during the last half of 2020)	40%
"Relative" Total Shareholder Return against a selected panel of peers (Michelin, Nokian and Continental)	20%
Sustainability Index: measured against the placing of Pirelli in the Dow Jones Sustainability World Index, ATX Auto Components industry. This objective is subject to the achievement of the access threshold of at least one of the above economic/financial objectives (if only such objective is met, then no pro-quota of any three year incentive shall be therefore paid)	10%

The target level of the economic/financial objectives is in line with the objectives of the 2018-2020 Industrial Plan which were disclosed at the time to the market. As regards the objectives at "relative" performance the target level is set a particularly challenging levels.

Role	Target	Target Objective
Executive Vice Chairman and CEO and Managers with strategic responsibilities	Deleveraging (Net Financial Position/Ebitda adjusted ratio)	On/off condition < 2 as of 31.12.2020
	Group ROS (which is measured as the ratio between Group Adjusted EBIT accrued during the three year term and the turnover accrued during the three year term).	Coherent with the targets disclosed to the market, as indicated below
	"Absolute" total Shareholder Return measured as : (average value of the share during the last half of 2020 – average value of the share during the last quarter of 2017 + paid dividends) and (average value of the share during the last half of 2020)	+48,4%
	"Relative" Total Shareholder Return against a selected panel of peers (Michelin, Nokian and Continental)	Performance equal to the weighted average of the panel performance
	Sustainability Index: measured against the placing of Pirelli in the Dow Jones Sustainability World Index, ATX Auto Components industry. This objective is subject to the achievement of the access threshold of at least one of the above economic/financial objectives (if only such objective is met, then no pro-quota of any three year incentive shall be therefore paid)	Placing in the highest decile

Below the targets disclosed to the market for the three-years period 2018-2020

TARGETS_

€ Mln

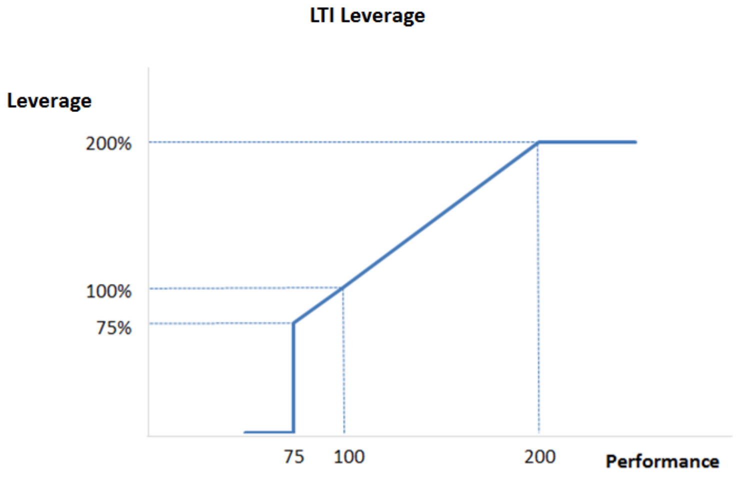
	2016A	2020E
Revenues	**4,976**	**≥ 9% CAGR 16-20**
High Value weight on Revenues	*55%*	*~63%*
Adjusted EBITDA margin[1]	**21.7%**	**~ 23% ÷ ~ 24%**
Adjusted EBIT margin[2,3]	**17.0%**	**~ 18.5% ÷ ~ 19.5%**
High Value weight on EBIT	*81%*	*~ 85%*
CapEx on Revenues	**~ 6.8%**	**~ 7.0%** on average '17-20
Net financial position/ Adjusted EBITDA	**4.6X**	**< 2.0X**
ROI[4]	**27%**	**~ 35%**

[1] EBITDA margin adjusted excluding non recurring, one-off and extraordinary items; [2] EBIT margin adjusted excluding PPA amortization, non recurring, one-off and extraordinary items; [3] Margin to be impacted by start-up costs up to 1% in 2017 and 2018; [4] ROI calculated as EBIT Adjusted / average Net Invested Capital w/o financial assets and intangibles from PPA

The range of the objectives is established according to the following general rules:

- for each objective, the delta between target and maximum is always at least 1.5 times the delta between the target level and the “access threshold” level;
- the 25% penalization percentage of the reward upon the achievement of the objective at the “access threshold” level, is always higher than the tolerance margin represented by the difference in percentage between the “access threshold” result and the “target” result.

With regards to the TSR and ROS objectives, any intermediate result between the access threshold and the target value or between the target value and the maximum value, the final figures of the performance will be established by linear interpolation.



The full cost of the LTI Plan is included in the economics of the Industrial Plan, so that the cost thereof will be “self financed” by the achievement of the results.

The LTI Plan has also retention purposes.

In case of termination of the employment contract due to any case and occurred before the end of the three year period, the entitled person is therefore excluded from the LTI Plan and therefore the bonus shall not be paid, not even pro-quota.

As regards Directors holding special offices or who are assigned specific duties (this is the case of the Executive Vice Chairman and CEO Mr. Tronchetti Provera) who leave their office due to expiration of the mandate and who subsequently are not even appointed directors the pro-quota payment of the LTI Bonus is allowed.

Claw back clauses

The annual (MBO) and multi-annual (LTI) plans intended for: Directors holding special offices who are assigned specific duties and the Managers with strategic responsibilities provide, among the other terms, certain so-called claw-back mechanisms.

In particular, and without prejudice for any further statutory remedy granted for the protection of the interests of the Company, it will be provided the execution with said individuals of certain contractual covenants which allow Pirelli to request the (full or partial) refund, within three years of their payment, of any incentive paid to the individuals who, by fraud or gross negligence, carried out (or take part in the commission of) any facts, as listed below and concerning the economic/financial indicators included in the Annual Financial Report and which lead to a subsequent comparative report and are adopted as parameters for establishing the variable rewards of said incentive plans:

(i) proven and significant errors which cause a failed compliance with the accounting principles that Pirelli declares to apply, or

(ii) Assessed fraudulent behaviours intended to obtain a specific representation of the equity-financial status, the economic result or the financial flows of Pirelli.

6. INDEMNITY IN CASE OF RESIGNATION, DISMISSAL OR TERMINATION OF THE CONTRACT

Pirelli Group has the policy to not enter with any Director, Manager with strategic responsibilities, Senior Manager and Executive, any agreement which may ex ante govern the economic matters linked to the early termination of the contract by decision of the Company or the individual (the so-called "parachutes").

Any agreement executed in case of termination of the current relationship with Pirelli Group for any reason which is not a dismissal for cause. The line of Pirelli is in fact to seek agreements capable to reach an amicable termination of the contract. Without prejudice, in any case for the statutory and/or contractual obligations, the agreements for the termination of the contract with Pirelli Group are inspired by the reference benchmarks for the matter and within the limits defined by the case law and the practice of the Country where the agreement was reached.

The Company defines within its organisation certain criteria which must be followed also by the other companies of the Group for managing any early termination agreements for the contracts with executives and/or Directors holding special offices.

Directors holding special offices who are assigned specific duties and are not parties of executive contracts, Pirelli does not provide the payment of any extraordinary indemnity or remuneration linked to the end of the mandate. The payment of a specific indemnity may be allowed, subject to review by the competent corporate bodies, in the following cases:

- termination decided by the Company and not for cause;

- termination for cause decided by the Director, consisting of, by way of example, the significant change of the role or of the granted powers and/or any case of "Hostile" Take-over.

In such cases, the amount of the indemnity is 2 years of the gross annual salary, which consists of the sum of the gross annual fixed salaries for the offices held in the Group, the average of the annual variable salaries (MBO) which have been accrued during the previous three year term and of the Severance Indemnities on the above sums as specified in the following paragraph 10.

7. NON COMPETE AGREEMENT AND RETENTION PLAN

The Group may enter with its Managers with strategic responsibility and with Senior Managers and Executives vested with particularly critical duties non compete agreements[36] which entail the payment of a GAS-related consideration to be determined by the duration and the extent of the restrictions arising from said agreements.

The obligation refers to the industry in which the Group trades upon the definition of the agreement and to the geographical scope. The scope varies based on the position held at the moment when the agreement is executed and may reach, in certain cases deemed especially critical, such as the Managers with strategic responsibilities, a geographical scope which covers all the main countries in which the Group is active.

The Executive Vice Chairman and CEO does not hold a non compete agreement.

Furthermore a medium-to-long term retention plan is provided for the Managers with strategic responsibilities and for a selected number of Senior Managers and Executives whose contribution for the implementation of the new Strategic Plan is deemed to be particularly significant.

For the Managers with strategic responsibilities, the Retention Plan provides the payment of a consideration geared on the Total Direct Compensation 2017 at target of each participant and up to a max of 2.3 times it. The consideration is organised in 4 annual instalments of increasing amount in order to obtain the highest retention effect possible, with the payment of the last instalment scheduled in 2021. The payment of each instalment is subject to the condition that the manager remains in the company as of the date of each payment.

The Executive Vice Chairman and CEO does not participate to the Retention plan.

8. THE REMUNERATION OF THE DIRECTORS OF PIRELLI & C.

The Board of Directors includes:

(i) Directors holding special offices who may also be assigned specific duties;

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[36] Mr Giorgio Luca Bruno, Company's Director, is a party to a non compete agreement and a recipient of the retention plan exclusively as a Group's Executive.

(ii) Directors not holding special offices.

The mere assignment to Directors of powers for emergency cases only does not, by itself, configure them as Directors holding special offices.

The Shareholders' Meeting of Pirelli held on 01 August 2017, upon the appointment of the Board of Directors, defined an overall consideration - pursuant to art. 2389 paragraph 1 ICC - for the remuneration of the Directors appointing to the Board of Directors the task to establish the allocation thereof. Namely, the Shareholders' Meeting approved an overall gross annual salary of Euro 2 million which was then allocated by the Board of Directors as follows:

Corporate Body	Office	Gross Annual Salary
Board of Directors	Member of the Board	60 thousand Euro
Control, Risks, Sustainability and Corporate Governance Committee	Chairman	30 thousand Euro
	Member	25 thousand Euro
Remuneration Committee	Chairman	30 thousand Euro
	Member	25 thousand Euro
Strategies Committee	Chairman	50 thousand Euro
	Member	30 thousand Euro
Appointments and Succession Committee	Chairman	50 thousand Euro
	Members	30 thousand Euro
Committee for the Transactions with Related Parties	Chairman	60 thousand Euro
	Members	40 thousand Euro
Supervisory Body	Chairman	60 thousand Euro
	Members	40 thousand Euro
Director in charge for the sustainability matters		70 thousand Euro

In line with the best practices, no variable component of the remuneration is provided for the Directors not holding special offices.

Furthermore, the Directors are entitled to be refunded of the costs incurred due to their office.

Still in line with the best practices a so-called D&O (Directors & Officers) Liability insurance policy is provided for covering the third party civil liability of the corporate bodies, of the Managers with strategic responsibilities, the Senior Managers and Executives during the performance of their duties, intended to hold Pirelli harmless from any obligation arising from the related damages, as established under the provisions of the applicable national collective labour contract and the legislation on mandate, excluding the cases of fraud or gross negligence.

As regards the Directors not holding special offices, no insurance, or welfare or pension cover is provided in addition to the statutory ones.

9. THE BOARD OF AUDITORS

The remuneration of this control body is established by the Shareholders' Meeting as a fixed annual sum. In particular, during Year 2015, in occasion of the renewal of the Board of Statutory Auditors, the gross annual fixed salary of its Chairman was set at Euro 75 thousand and the salary of the other members at Euro 50 thousand.

For the Auditor appointed as a member of the Supervisory Body, the Board of Directors, following its renewal, set his gross Annual Salary at Euro 40 thousand.

Furthermore, the Statutory Auditors are entitled to be refunded of the costs incurred due to their office.

In line with the best practices a so-called D&O (Directors & Officers) Liability insurance policy is provided for covering the third party civil liability of the corporate bodies, of the Managers with strategic responsibilities, the Senior Managers and Executives during the performance of their duties, intended to hold Pirelli harmless from any obligation arising from the related damages, as established under the provisions of the applicable national collective labour contract and the legislation on mandate, excluding the cases of fraud or gross negligence.

10. REMUNERATION OF THE DIRECTORS HOLDING SPECIAL OFFICES

Upon their appointment or during the first following meeting, the Remuneration Committee proposes to the Board of Directors the remuneration due to the Directors holding special offices.

In the case where the Director holds special offices, but no special responsibilities are appointed to him (as of the date of this Report, the Chairman, Mr. Ren Jianxin), his remuneration as Director consists only of a gross annual fixed component;; the Board of Directors granted to the Chairman Mr. Ren Jianxin a gross remuneration for his office amounting to the gross yearly sum of 400 thousand Euro.

As regards the Directors not holding special offices who are not vested with special responsibilities no insurance, or welfare or pension cover is provided in addition to the statutory ones.

The remuneration of the Directors holding special offices who are also vested with special responsibilities is established according to the following criteria.

Component	Criterion
Fixed component for all the offices held in Pirelli	- established by the Board of Directors for the whole mandate at an overall annual sum, which includes therefore also any fixed component for other executive offices in the Pirelli Group; - Not exceeding one third of the Annual Total Direct Compensation at Target.
Yearly incentive (MBO)	- Access Threshold: 75% of the MBO at target; - MBO at target: 125% of the remuneration; - MBO Max (cap): 200% of the MBO at target.
LTI Incentive	- Access Threshold: 75% of the LTI at target; - LTI at target: 250%; - LTI Max (cap): 200% of the LTI at target.
Annualized medium-to-long term variable component	- consisting of the LTI bonus and of the annual rolling mechanism for the deferred payment of the portions of the accrued MBO and grant of an increase of the whole accrued MBO in function of the level of achievement of the MBO during the following year; - not lower than 50% of the overall variable component.

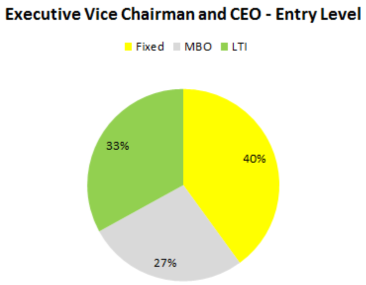
As of the date of this Report the Executive Vice Chairman and CEO Mr. Marco Tronchetti Provera is the only director holding special offices who also has special responsibilities.

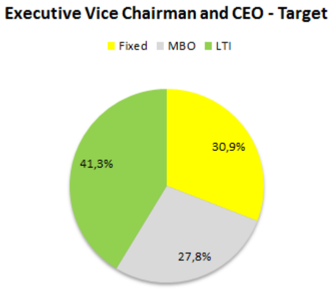
During 2018, the structure of the remuneration for the Executive Vice Chairman and CEO Mr. Marco Tronchetti Provera was reviewed with a reduction of the fixed component in consideration of an increase of the variable component seeking to achieve a further strengthening of the alignment of the interests of the management with those of the shareholders.

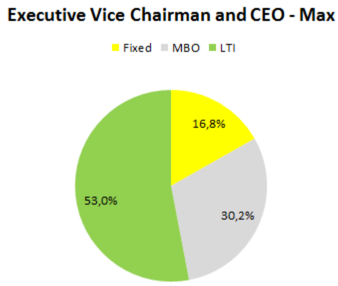
The gross annual fixed component of the Executive Vice Chairman and CEO Mr. Marco Tronchetti Provera was fixed at Euro 2,400,000. This remuneration for the main executive office is increased by the remuneration for the offices of Member of the Board of Pirelli & C. S.p.A. (Euro 60,000) and

Chairman of the Appointments and Succession and Strategies Committees (jointly, Euro 100,000).[37]

As regards the weight of the different components, the structure of the compensation package of the Executive Vice Chairman and CEO in case of achievement of the MBO annual objectives for 2018, 2019 and 2020 and the three-year objectives of the LTI Plan 2018-2020 (i) at the Access Threshold, (ii) at target and (iii) at maximum level is reported below.







Annualized structure of the remuneration of the Executive Vice Chairman and CEO			
	Achievement of the objectives at access threshold	Achievement of the objectives at target	Achievement of the objectives at maximum level (cap)
Fixed component	40%	30,9%	16,8%
Annual variable component (MBO)	27%	27,8%	30,2%
Annualized medium-to-long term variable component	33%	41,3%	53%
Total	100%	100%	100%

Based on the deferral by 12 months of the payment of a portion of the MBO bonus with the risks and opportunities recalled in paragraph 1 and specified in paragraph 5, the accrual of a portion of the medium-to-long term variable component stated in the chart is subject to the level of achievement of the results of Year 2019 and will be, if required, paid during 2020.

Furthermore, for the Directors holding special offices and vested with special responsibilities, in the case where are not employed under an executive labour contract (as of the date of this report the Executive Vice Chairman and CEO Mr. Marco Tronchetti Provera), the Board of Directors

[37] Up to 31 December 2017, the structure of the remuneration of the Executive Vice Chairman and CEO Mr. Marco Tronchetti Provera was structured as follows: (i) fixed component; in Pirelli & C. S.p.A. Euro 900,000; (ii) fixed component in Pirelli Tyre S.p.A. Euro 2,000,000; (iii) to which the remunerations or the offices of Member of the Board in Pirelli & C. S.p.A. (Euro 60,000) and Chairman of the Appointments and Succession and Strategies Committees (jointly, Euro 100,000) were added.
The MBO variable component with Access Threshold 75% of the MBO at target; MBO at target 100% of the remuneration received in Pirelli Tyre S.p.A.; maximum MBO (cap): 250% of the MBO at target.
The LTI variable component with Access Threshold 75% of the LTI at target; MBO at target 250% of the remuneration received in Pirelli Tyre S.p.A.; maximum LTI (cap): 200% of the LTI at target.

provided, with an approach which is similar to the one followed in the statutory provisions and/or in the National Collective Contract for the Italian executives of the Group:

- The payment of a Directors' Severance Indemnity (T.F.M.) under art. 17, 1st paragraph, letter c) of T.U.I.R. (the Italian Consolidated Law on Income Tax) no. 917/1986 whose features are similar to those of the Employees' Severance Indemnity (TFR) under art. 2120 ICC which the Law requires to pay to the Italian executives of Pirelli Group and including the welfare contributions charged to the employer which are due to Welfare Institutions or Funds in case of an executive labour contract;

- a policy providing cover for (i) any accident which may involve him during the performance of his duties and (ii) any extra-professional accidents whose premiums shall be borne by the Company;

- an indemnity for total disability and death due to illness;

- additional benefits which are typical of the office and currently granted to managers with strategic responsibilities and/or Senior Managers within the Group (company car).

The Remuneration Committee and the Board of Directors with the support of independent companies specializing in Executive Compensation carry out the analysis of the positioning, of the composition and more in general of the competitiveness of the remuneration of the Directors holding special offices based on methodological approaches which allow a thorough assessment, even if within the typical limitations of the benchmarking analyses, the complexity of the roles from an organizational perspective, in the light of the special responsibilities vested and also of the impact of the individual on the final business results.

In particular, reference is made to different components (industry, location, etc.) in defining the panel of benchmark companies which is updated on an yearly basis.

The sample of benchmark companies used for the analysis of the competitiveness and for reviewing the remuneration of the Executive Vice Chairman and CEO of Pirelli & C. consists, on one hand, of 8 Companies of the "Car and Tyre" industry and on the other of 28 European "Large Cap" companies.

The 8 companies which form the "Car and Tyre" panel are:

BMW	Daimler	Michelin	Renault
Continental	Fca	Peugeot	Volkswagen

The 28 companies which form the “Large Cap Europe” panel are:

Burberry Group	Heineken	MAN	Renault
Carrefour	Henkel	Michelin	Repsol YPF
Continental	Hermes Intl.	Pernod-Ricard	Richemont
Danone	Iberdrola	Peugeot	Rolls-Royce
Electrolux	Imperial Tobacco Group	Philips	Telecom Italia
E ON	Linde	Reckitt Benckiser Group	Volvo
Fca	Luxottica	Reed Elsevier	WPP

11. MANAGERS WITH STRATEGIC RESPONSIBILITIES

As of the date of publication of the Policy the following Managers with strategic responsibilities are in office:

Executive Vice President and Chief Financial Officer Francesco Tanzi;

Executive Vice President and Chief Planning and Controlling Officer Maurizio Sala;

Executive Vice President and Chief Human Resources Officer Gustavo Bracco;

Executive Vice President and Strategic Advisor Technology Maurizio Boiocchi;

Executive Vice President and Chief Commercial Officer Roberto Righi;

Senior Vice President Manufacturing Francesco Sala;

Executive Vice President Business Unit Prestige & Motorsport & COO Region Europe Andrea Casaluci;

Executive Vice President Pirelli Digital Luigi Staccoli

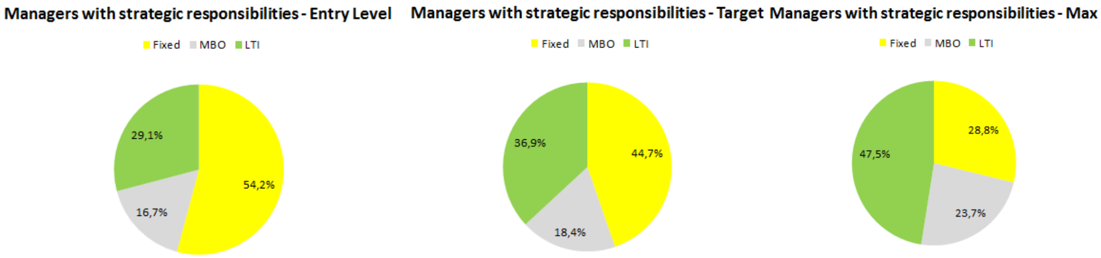
As of the date of publication of the Policy no General Managers are in offices.

In establishing the remuneration and its single components, the following criteria were considered:

Role	Component	Criterion
Managers with strategic responsibilities	Gross annual fixed component	- established at the time recruitment, may be updated on a regular basis in order to take in due consideration the performance, any new responsibilities, the evolution of the remuneration market concerning the position held by the specific individual; - Not exceeding 50% of the Annual Total Direct Compensation at Target.
	Yearly incentive (MBO)	- Access Threshold: 75% of the MBO at target; - MBO at target: from 50% to 75% of the GAS; - MBO Max (cap): 200% of the MBO at target.
	LTI Incentive	- Access Threshold: 75% of the LTI at target; - LTI at target: from 167% to 200% of the GAS; - LTI Max (cap): 200% of the LTI at target.
	Annualized medium-to-long term variable component	not lower than 60% of the overall variable component
	Benefits	- Benefits typically granted to the Pirelli Executives
	Other components	- supplementary pension funds which provide for the Company the payment to a pension fund of a sum equal to 4% of the gross annual salary received up to a gross cap of Euro 150 thousand; - health and life insurance policy which are additional to the cover provided under the National Collective Labour Contract for Executives of Manufacturing and Service Companies.

As regards the Managers with strategic responsibilities, the Remuneration Committee measures the alignment of the remuneration with the Policy.

As regards the weight of the different components, the structure of the compensation package of the Managers with strategic responsibilities in case of achievement of the MBO annual objectives for 2018, 2019 and 2020 and the three-year objectives of the LTI Plan 2018-2020 (i) at the Access Threshold, (ii) at target and (iii) at maximum level is reported below.



Annualised structure of the remuneration of Managers with strategic responsibilities			
	Achievement of the objectives at access threshold	Achievement of the objectives at target	Achievement of the objectives at maximum level (cap)
Fixed component	54.2%	44.7%	28.8%
Annual variable component (MBO)	16.7%	18.4%	23.7%
Annualized medium-to-long term variable component	29.1%	36.9%	47.5%
Total	100%	100%	100%

Based on the deferral by 12 months of the payment of a portion of the MBO bonus with the risks and opportunities recalled in paragraph 1 and specified in paragraph 5, the accrual of a portion of the medium-to-long term variable component stated in the chart is subject to the level of achievement of the results of Year 2019 and will be, if required, paid during 2020.

Also the analysis of the remuneration of Managers with strategic responsibilities is carried out with the support of independent companies specializing in Executive Compensation whose definition is reviewed on a yearly basis and disclosed in occasion of the annual Report on remunerations. In particular, reference is made to different components (industry, location, etc.) in defining the panel of benchmark companies which is updated on an yearly basis.

As regards the Managers with strategic responsibilities, the reference market employed for assessing the competitiveness of their respective remunerations includes more than 200 Companies of the following European Countries: Belgium, France, Germany, Italy, Spain, Netherlands, UK.

12. SENIOR MANAGERS AND EXECUTIVES.

The remuneration of Senior Managers and more in general of Executives consists of the following elements:

- a gross annual fixed component (the so-called GAS);

- a annual variable component (so-called MBO);

- a medium-to-long term variable component (consisting of the LTI bonus and of the annual rolling mechanism for the deferred payment of the portions of the accrued MBO and grant of an increase of the whole accrued MBO in function of the level of achievement of the MBO during the following year);

- benefits which are granted under the corporate practice (i.e. cars)

Furthermore, the following is granted to the Executives and the Senior Managers with Italian labour contract:

- supplementary pension funds which provide for the Company the payment to a pension fund of a sum equal to 4% of the gross annual salary received up to a gross cap of Euro 150 thousand;

- health and life insurance policy which are additional to the cover provided under the National Collective Labour Contract for Executives of Manufacturing Goods and Service Companies.

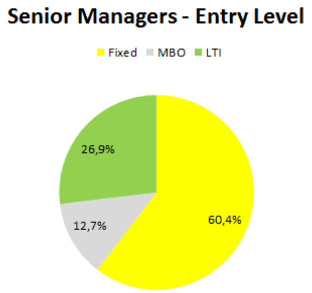
In establishing the remuneration and its individual components of Senior Managers and Executives, Pirelli Group takes in consideration the following criteria:

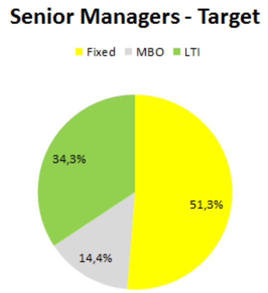
a. the fixed component: (i) for Senior Managers its weight is generally 60% of the Annual Total Direct Compensation at Target and (ii) for Executives its weight generally does not exceed 75% of the Annual Total Direct Compensation at Target;

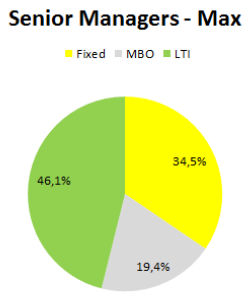
b. an accrued yearly incentive (MBO) which, at target, represents a percentage of the GAS which is no lower of 20% of said remuneration;

c. the weight of the annualized medium-to-long term variable component is not lower than 60% of the overall variable component. As regards the LTI bonus a cap to the maximum attainable incentive equal to 2 times the bonus at target is provided.

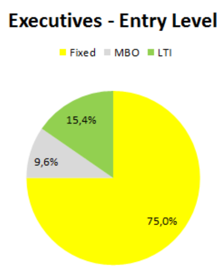
We provide below the structure of the remuneration for Senior Managers and Executive (globally intended) highlighting the weight of the different components (which are annualized) of their compensation package, in case of achievement of the MBO annual objectives for 2018, 2019 and 2020 and the three year objectives of the LTI Plan 2018-2029 (i) at access threshold, (ii) at target and (iii) at maximum level.

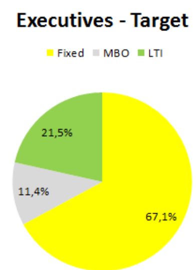


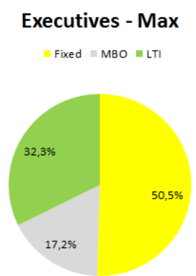




Annualized structure of the remuneration of the Senior Managers			
	Achievement of the objectives at access threshold	Achievement of the objectives at target	Achievement of the objectives at maximum level (cap)
Fixed component	60.4%	51.3%	34.5%
Annual variable component (MBO)	12.7%	14.4%	19.4%
Annualized medium-to-long term variable component	26.9%	34.3%	46.1%
Total	100%	100%	100%







Annualized structure of the remuneration of Executives			
	Achievement of the objectives at access threshold	Achievement of the objectives at target	Achievement of the objectives at maximum level (cap)
Fixed component	75%	67.1%	50.5%
Annual variable component (MBO)	9.6%	11.4%	17.2%
Annualized medium-to-long term variable component	15.4%	21.5%	32.3%
Total	100%	100%	100%

Based on the deferral by 12 months of the payment of a portion of the MBO bonus with the risks and opportunities recalled in paragraph 1 and specified in paragraph 5, the accrual of a portion of the medium-to-long term variable component stated in the chart is subject to the level of achievement of the results of Year 2019 and will be, if required, paid during 2020.

Also the analysis of the remuneration of Executives and Senior Managers is carried out with the support of independent companies specializing in Executive Compensation which considers the position held by the single Manager and the relevant Country.

As regards the Head of Internal Audit, please note that, in line with the best practices, the Board of Directors at the proposal of the Control, Risks, Sustainability and Corporate Governance Committee provided a higher weight of the fixed component over the variable component. By the way, the Head of Internal Audit (and, generally, the Managers of the Internal Audit department) are not part of the LTI Incentive Plan, but he is merely a beneficiary of the annual incentive plan linked to mainly quality objectives whose assessment is a responsibility of the Control, Risks, Sustainability and Corporate Governance Committee and of the Board of Directors, at the proposal of the Director in charge of supervising the internal control system.

13. CHANGES TO THE POLICY FROM THE PREVIOUS FINANCIAL YEAR

The Policy was prepared on the base of the previous application experiences and takes in due consideration the statutory requirements adopted by CONSOB, and the adoption, occurred in 2018 of a new Long Term Incentive Cash Plan for 2018-2020 ("LTI Plan") and of a Retention Plan intended to provide support for the new Industrial Plan, which was disclosed to the market at the time of the Listing of Pirelli. Furthermore the Policy takes in due account the review of the structure of the remuneration of the Executive Vice Chairman and CEO with a reduction of the fixed component in consideration of an increase of the variable component.

This Policy is submitted to the Shareholders' Meeting of Pirelli for the first time after the admission to listing of the Company which was granted on 04 October 2017, and, therefore, it is not possible to measure any change from the Policy of the previous term.

14. OTHER INFORMATION

Under the resolution issued by Consob no. 18049 of 23 December 2011 please note that:

- the Company did not receive any support from any advisory company and/or external experts in preparing the 2018 Policy;
- Pirelli does not currently provide any financial incentive scheme;
- Pirelli, in defining the 2018 Policy, did not use any specific remuneration policies of other companies as a benchmark. As regards the structure of the remuneration for each role the criteria for selecting the reference benchmark are stated.

The chart no. 7-bis, adopted by the CONSOB resolution no. 18049 of 23 December 2011 provides that the Report on Remuneration, in the section provided by art. 123-ter on the members of the governing bodies and the Managers with strategic responsibilities, includes at least the information listed in the above mentioned chart. The table below provides the required information and the section of the Report which includes them:

Information required under chart 7-bis	Paragraphs which - namely - provide the required information
a) bodies or individuals involved in the preparation and approval of the Policy on remuneration, specifying their respective roles, as well as the bodies or individuals in charge of the correct implementation of said Policy.	2. "Process" for defining and implementing the policies and involved entities 3. Remuneration Committee
b) the possible action of a Remuneration Committee or any other committee responsible for the matter, providing a description of its composition (naming the non-executive and independent members), responsibilities and the operation procedures;	2. "Process" for defining and implementing the policies and involved entities 3. Remuneration Committee
c) the names of any independent advisor involved in the preparation of the Policy on Remuneration;	14. Other Information
d) the purposes sought with the Policy on Remuneration, its founding principles and any change of the policy on remuneration from the previous financial year;	1. Principles and review of the risks 13. Changes to the Policy on remuneration from the previous financial year.
e) the description of the policies on fixed and variable components of the remuneration, with special regards to the specification of the relevant weight within the overall remuneration and making a distinction between variable components of short and medium-to-long term;	The structure of the remuneration of the various individuals is described in the paragraphs providing a description of the different fixed/variable weights; short term variable/medium-to-long term variable 5. MBO and LTI PLAN 8. The remuneration of the Directors of Pirelli & C. 9. The Board of Auditors 10. Remuneration of the Directors holding special offices 11. Managers with strategic responsibilities 12. Senior Managers and Executives The following paragraphs provides a detail of the operation of the variable components of the remuneration:

f) the policy followed for the non-monetary benefits;	Paragraphs for the different roles 8. The remuneration of the Directors of Pirelli & C. 10. Remuneration of the Directors holding special offices 11. Managers with strategic responsibilities 12. Senior Managers and Executives
g) as regards the variable components, a description of the performance objectives based on which they are assigned, making a distinction between short term and medium-to-long term variable components and information on the link between the change in results and the change in remuneration;	5. MBO and LTI PLAN
h) the criteria employed for assessing the performance objectives based on which shares, options, other financial instruments or other variable components of the remuneration are based;	5. MBO and LTI PLAN
i) information intended to highlight the alignment of the Policy on Remuneration with the achievement of the long-term interests of the company and with the risk management policy, in the case where it is formalized;	1. Principles and review of the risks 5. MBO and LTI PLAN And also for the different roles 8. The remuneration of the Directors of Pirelli & C. 9. The Board of Auditors 10. Remuneration of the Directors holding special offices 11. Managers with strategic responsibilities 12. Senior Managers and Executives
j) the terms for the accrual of the rights (the so-called vesting period), any deferred payment system, stating the deferral period and the criteria employed for establishing said periods and, if provided, the ex post correction mechanisms;	Pirelli does not currently provide any financial incentive scheme. As regards the deferral mechanisms for the monetary variable components please refer to Paragraph: 5. MBO and LTI PLAN
k) information on the optional provision of clauses for keeping the financial instruments in the portfolio after their acquisition, stating the retention periods and the criteria employed for establishing such periods;	Pirelli does not currently provide any stock incentive scheme
l) the policy concerning the indemnities in case of termination of the office or of the labour contract, specifying which circumstances may lead the right to arise and any link between said obligations and the performance of the company;	6. Indemnity in case of resignation, dismissal or termination of the contract 7. Covenants to not compete and Retention Plan

m) information on the provision of any insurance, welfare or pension covers, which are not the statutory covers;	Paragraphs for the different roles 8. The remuneration of the Directors of Pirelli & C. 9. The Board of Auditors 10. Remuneration of the Directors holding special offices 11. Managers with strategic responsibilities 12. Senior Managers and Executives
n) the remuneration policy optionally followed as regards: (i) to independent Directors, (ii) the participation to committees (iii) specific offices (chairman, vice chairman, etc.);	8. The remuneration of the Directors of Pirelli & C.
o) whether the remuneration policy was defined by taking the remuneration policies of other companies as reference, and if positive the criteria employed for selecting said companies	14. Other Information

2017 REMUNERATION REPORT

1. PRINCIPLES

The 2017 Remuneration Report sets out the Policy implemented by the Pirelli Group during the 2017 financial year with reference to remuneration and provides actual amounts of remunerations in relation to the various persons concerned, without prejudice to the transparency obligations envisaged by other applicable legal or regulatory provisions. It is recalled that the Company's ordinary shares were listed on 4 October 2017. Therefore, it should be noted that with reference to 2017, when the Company was not listed, the Company had not formally adopted a Remuneration Policy pursuant to Article 123-ter of the Consolidated Finance Act (TUF - Testo Unico della Finanza), and therefore, it is not possible to duly express a consistent judgement with the Policy approved in the previous year. However, it should be noted that the Pirelli Remuneration structure for 2017, as from 4 October 2017, is generally consistent with the principles contained in the Policy for 2018.

2. THE "TABLE": REMUNERATION SCHEME FOR MEMBERS OF THE ADMINISTRATIVE AND CONTROL BODIES, GENERAL MANAGERS AND EXECUTIVES WITH STRATEGIC RESPONSIBILITIES.

The following tables set out:

- by name, remuneration paid to Directors, Statutory Auditors and General Managers;
- in aggregate form, remuneration to Executives with strategic responsibilities[38]. As of 31 December 2017 the following Executives held positions with strategic responsibilities: Maurizio Boiocchi (EVP and *Strategic Advisor Technology)*, Andrea Casaluci (EVP *Business Unit Prestige & Motorsport* and *COO Region Europe),* Roberto Righi (EVP and *Chief Commercial Officer)*, Francesco Sala (*Senior Vice President Manufacturing)*, Maurizio Sala (EVP and *Chief Planning and Controlling Officer)*, Luigi Staccoli (EVP Pirelli *Digital*), Francesco Tanzi (EVP and *Chief Financial Officer*), Gustavo Bracco (EVP and Chief Human Resources Officer), Giorgio Luca Bruno (*EVP M&A, Corporate Development and* Diversified Businesses[39]).
- Salaries are reported on an accruals basis and evidence is provided, in the notes to the tables, of the appointment (for example, where a Director participates in more than one Board

[38] Point b) of Section II of Schedule 7-bis of Annex 3 A of the so-called Issuers' Regulations provides that the so-called Remuneration Report is structured into two parts:
a) salaries of members of the administrative and control bodies and General Managers;
b) salaries of any other Executives with strategic responsibilities who have received, in the reporting year, an overall salary (obtained by adding monetary salaries and salaries based on financial instruments) greater than the highest overall salary attributed to the persons indicated in point a).
For Executives with strategic responsibilities other than those indicated in point b) information is provided at aggregate level in special tables, identifying the number of persons to whom it refers instead of names".

[39] Starting from 1st January, 2018 Giorgio Luca Bruno no longer qualifies as Executive with strategic responsibilities.

Committee) for which the salary is received and the subsidiary and/or Associate Company (with the exception of those waived or transferred to the Company).

The tables include all persons who, following admission to official listing, held these positions during the 2017 year, even if for a fraction of the year. Board Directors who ceased to hold office before the start of trading of the Company's shares on the Telematic Stock Exchange (Mercato Telematico Azionario) are not included. In this regard, it should be noted that the above mentioned Directors are entitled to receive an attendance fee amounting to € 1,000 for each meeting of the Company's governing bodies they have taken part in.

Non-monetary benefits, where they are received, are also identified on an accruals basis, and reported in relation to the "taxable income criteria" of the *assigned* benefit.

In particular, it should be noted that, as mentioned above:

- those who were Directors of the Company during the 2017 year, accrued/received (on an accruals basis) a salary established in accordance with the criteria set out in paragraph 6 of the 2018 Policy; moreover, for the period going from January 1st 2017 and October 3, 2017 remuneration of Directors amounted to an attendance fee of € 1,000 for each meeting of the Company's governing bodies they have taken part in

- those who, during 2017, were Directors holding special offices (Vice Chairman and Chief Executive Officer and Chairman) accrued/received (on an accruals basis) a salary established in accordance with the criteria set out in paragraph 10 of the 2018 Policy;

- Executives with strategic responsibilities received/accrued salaries pertaining to the 2017 year in accordance with the criteria set out in paragraph 11 of the 2018 Policy;

- each member of the Supervisory Body, in office up to 30th August, 2017 received/accrued a salary pertaining to the 2017 year amounting to EUR 25,000 gross per annum and the Chairman compensation equal to EUR 40,000 gross per annum. With effect from August 31, 2017, the Board of Directors, as reported in the 2018 Policy, approved a salary for the Chairman of the Supervisory Board of EUR 60,000 gross per annum and EUR 40,000 gross per annum for each board member;

- each member of the Board of Statutory Auditors received/accrued a salary pertaining to the 2017 year in line with that provided for by the Shareholders' Meeting at the time of appointment (in addition to a gross annual salary of EUR 40,000 paid to the Serving Auditor called upon to be a member of the Supervisory Body);

- *Senior Managers* and *Executives* received/accrued salaries pertaining to the 2017 year in accordance with the criteria set out in paragraph 12 of the 2018 Policy.

It should be noted that for Executives with strategic responsibilities and more generally for other members of the *Group's Senior Management,* Pirelli has introduced non-competition agreements to protect *strategic and operational* know-how. The Executive Vice Chairman and CEO does not hold a non-competition agreement.

Taking into account the events occurred during the year 2017 (among which, in particular: the capital increase by Marco Polo International Italy SpA, the refinancing, the completion of the segregation of the industrial business, the discontinuation of the industrial business result, the beginning and the completion of the listing process), the report about the total incentive is shown below without evidence of the original target and the related result, taking into account the adjustments made to these values in order to sterilize (in positive and negative) the effects of the aforementioned extraordinary transactions not included in the 2017 budget at the time of its approval, in order to reward the actual performance.

Executive Vice Chairman and CEO and Key managers	
Objectives	Weight
Group PFN before dividends	*on/off condition*
Group EBIT (*after* restructuring costs)	30%
Group Net Cash Flow di Gruppo (*before dividends*)	50%
Group Ebt	20%

Office	2017 MBO plan structure	Incentive score
Executive Vice Chairman and CEO	- access threshold: 75% of the incentive at target - At target: 100% of the remuneration for the most important executive office (in Pirelli Tyre S.p.A) - Cap: 250% of the target incentive	164,97
Key Managers	- access threshold: 75% of the incentive at target - At target: from 50% to 75% of the GAS - CAP: 200% of the target incentive	139,97

In line with the structure of the variable incentive described in the Policy, only 75% of the accrued 2017 MBO bonus is paid, while the payment of the remaining 25% is deferred by 12 months and is subject to the achievement of the MBO objectives for 2018, and in particular:

(a) in the event that no MBO is accrued in 2018, the deferred and accrued share of the 2017 MBO would be definitively lost;

(b) in the event that the 2018 MBO is accrued at “entry threshold” level, the accrued and deferred 2017 MBO share shall be paid;

lastly, if the 2018 MBO is accrued at least at target performance level - in addition to payment of the accrued and deferred 2017 MBO share - an additional amount would be paid, equal to a percentage of the entire accrued 2017 MBO. This percentage would vary from a minimum of 20% (if the 2018 MBO is accrued at target performance level) to a maximum of 40% (if the 2018 MBO is accrued at maximum performance level), with linear interpolation between the two extremes.

LTI Plan

Following the Board of Directors' resolution of July 28, 2017, the LTI Plan 2016-2018 was closed in advance due to the Company's listing. The Board of Directors therefore re-proportioned the objectives for the two-year period 2016-2017 and, as for the 2017 MBO, neutralized the positive and negative effects of the extraordinary transactions that particularly occurred during the year 2017. Following the final balance after the end of the 2017 financial year, an incentive equal to 16.67% of the target performance bonus was recognized to the participants of the plan, considered that the on/off condition (Creation of positive value) was achieved.

First name and surname	Position	Period of the position covered	End of term of office date	Fixed compensation	Compensation for participation in committees	Non equity variable compensation		Non monetary benefits	Other compensation	Total	Fair Value of equity compensation	Indemnity for end of term of office or of employment relationship
						Bonuses and other incentives	**Profit-sharing**					
Marco Tronchetti Provera	Executive Vice Chairman and Chief Executive Officer	01/01/2017 - 31/12/2017	Shareholders' Meeting to approve the financial statement for the year ended 31 December 2019	**2.927.630,00**	**24.384,00**	**4.671.359,00**	**0,00**	**140.902,00**	**0,00**	**7.764.275,00**	**0,00**	**0,00**
Of which is compensated in Pirelli & C. S.p.A.				927.630,00 (1)	24.384,00 (3)			140.902,00 (4)		1.092.916,00		
Of which is compensated by Subsidiaries and Associates				2.000.000,00 (2)		4.671.359,00				6.671.359,00		
Ren Jianxin	The Chairman	01/01/2017 - 31/12/2017	Shareholders' Meeting to approve the financial statement for the year ended 31 December 2019	**420.630,00**	**7.315,00**		**0,00**			**427.945,00**	**0,00**	**0,00**
Of which is compensated in Pirelli & C. S.p.A.				420.630,00 (5)	7.315,00 (6)					427.945,00 (7)		
Of which is compensated by Subsidiaries and associates										0,00		
Yang Xingqiang	Director	01/01/2017 - 31/12/2017	Shareholders' Meeting to approve the financial statement for the year ended 31 December 2019	**22.630,00**	**7.315,00**	**0,00**	**0,00**	**0,00**	**0,00**	**29.945,00**	**0,00**	**0,00**
Of which is compensated in Pirelli & C. S.p.A.				22.630,00 (8)	7.315,00 (9)					29.945,00 (7)		
Of which is compensated by Subsidiaries and associates												
Bai Xinping	Director	01/01/2017 - 31/12/2017	Shareholders' Meeting to approve the financial statement for the year ended 31 December 2019	**30.630,00**	**20.726,00**	**0,00**	**0,00**	**0,00**	**0,00**	**51.356,00**	**0,00**	**0,00**
Of which is compensated in Pirelli & C. S.p.A.				30.630,00 (10)	20.726,00 (11)					51.356,00 (7)		
Of which is compensated by Subsidiaries and Associates												
Giorgio Luca Bruno	Director	01/01/2017 - 31/12/2017	Shareholders' Meeting to approve the financial statement for the year ended 31 December 2019	**627.630,00**	**7.315,00**	**648.075,00**	**0,00**	**16.600,00**	**47.068,00**	**1.346.688,00**	**0,00**	**0,00**
Of which is compensated in Pirelli & C. S.p.A.				627.630,00 (12)	7.315,00 (9)	648.075,00		16.600,00 (13)	47.068,00 (14)	1.346.688,00		
Of which is compensated by Subsidiaries and Associates												

First name and surname	Position	Period of the	End of term of office date	Fixed compensation	Compensation for participation	Non equity variable compensation		Non monetary benefits	Other compensation	Total	Fair Value of equity	Indemnity for end of term of
Laura Cioli	Director	31/08/2017 - 31/12/2017	Shareholders' Meeting to approve the financial statement for the year ended 31 December 2019	**18.630,00**	**12.192,00**	**0,00**	**0,00**	**0,00**	**0,00**	**30.822,00**	**0,00**	**0,00**
Of which is compensated in Pirelli & C. S.p.A.				18.630,00 (15)	12.192,00 (16)					30.822,00		
Of which is compensated by Subsidiaries and Associates												
Domenico De Sole	Director	31/08/2017 - 31/12/2017	Shareholders' Meeting to approve the financial statement for the year ended 31 December 2019	**18.630,00**	**21.945,00**	**0,00**	**0,00**	**0,00**	**0,00**	**40.575,00**	**0,00**	**0,00**
Of which is compensated in Pirelli & C. S.p.A.				18.630,00 (15)	21.945,00 (17)					40.575,00		
Of which is compensated by Subsidiaries and Associates												
Fan Xihaoua	Director	31/08/2017 - 31/12/2017	Shareholders' Meeting to approve the financial statement for the year ended 31 December 2019	**18.630,00**	**7.315,00**	**0,00**	**0,00**	**0,00**	**0,00**	**25.945,00**	**0,00**	**0,00**
Of which is compensated in Pirelli & C. S.p.A.				18.630,00 (15)	7.315,00 (18)					25.945,00		
Of which is compensated by Subsidiaries and Associates												
Ze'ev Goldberg	Director	01/01/2017 - 31/12/2017	Shareholders' Meeting to approve the financial statement for the year ended 31 December 2019	**27.630,00**	**7.315,00**	**0,00**	**0,00**	**0,00**	**0,00**	**34.945,00**	**0,00**	**0,00**
Of which is compensated in Pirelli & C. S.p.A.				27.630,00 (19)	7.315,00 (8)					34.945,00		
Of which is compensated by Subsidiaries and Associates												
Marisa Pappalardo	Director	31/08/2017 - 31/12/2017	Shareholders' Meeting to approve the financial statement for the year ended 31 December 2019	**18.630,00**	**9.753,00**	**0,00**	**0,00**	**0,00**	**0,00**	**28.383,00**	**0,00**	**0,00**
Of which is compensated in Pirelli & C. S.p.A.				18.630,00 (15)	9.753,00 (20)					28.383,00		
Of which is compensated by Subsidiaries and Associates												

First name and surname	Position	Period of the	End of term of office date	Fixed compensation	Compensation for participation	Non equity variable compensation		Non monetary benefits	Other compensation	Total	Fair Value of equity	Indemnity for end of term of
Cristina Scocchia	Director	31/08/2017 - 31/12/2017	Shareholders' Meeting to approve the financial statement for the year ended 31 December 2019	**18.630,00**	**15.849,00**	**0,00**	**0,00**	**0,00**	**0,00**	**34.479,00**	**0,00**	**0,00**
Of which is compensated in Pirelli & C. S.p.A.				18.630,00 (15)	15.849,00 (21)					34.479,00		
Of which is compensated by Subsidiaries and Associates												
Tao Haisu	Director	31/08/2017 - 31/12/2017	Shareholders' Meeting to approve the financial statement for the year ended 31 December 2019	**17.630,00**	**7.315,00**	**0,00**	**0,00**	**0,00**	**0,00**	**24.945,00**	**0,00**	**0,00**
Of which is compensated in Pirelli & C. S.p.A.				17.630,00 (22)	7.315,00 (23)					24.945,00		
Of which is compensated by Subsidiaries and Associates												
Giovanni Tronchetti Provera	Director	31/08/2017 - 31/12/2017	Shareholders' Meeting to approve the financial statement for the year ended 31 December 2019	**112.732,00**	**7.315,00**	**30.754,00**	**0,00**	**9.328,00**	**0,00**	**160.129,00**	**0,00**	**0,00**
Of which is compensated in Pirelli & C. S.p.A.				18.630,00 (15)	7.315,00 (6)					25.945,00		
Of which is compensated by Subsidiaries and Associates				94.102,00 (25)		30.754,00		9.328,00 (25)		134.184,00		
Wei Yintao	Director	31/08/2017 - 31/12/2017	Shareholders' Meeting to approve the financial statement for the year ended 31 December 2019	**18.630,00**	**7.315,00**	**0,00**	**0,00**	**0,00**	**0,00**	**25.945,00**	**0,00**	**0,00**
Of which is compensated in Pirelli & C. S.p.A.				18.630,00 (15)	7.315,00 (9)					25.945,00		
Of which is compensated by Subsidiaries and Associates												
Executives with strategic responsibilities	(27)		/	**4.988.379,00**	**0,00**	**5.145.397,00**	**0,00**	**106.347,00**	**257.750,00**	**10.497.873,00**	**0,00**	**0,00**
Of which is compensated in Pirelli & C. S.p.A.				1.925.724,00 (27)		1.783.485,00		47.768,00 (28)	62.750,00 (29)	3.819.727,00		
Of which is compensated by Subsidiaries and Associates				3.062.655,00		3.361.912,00		58.579,00 (28)	195.000,00 (29)	6.678.146,00		

First name and surname	Position	Period of the	End of term of office date	Fixed compensation	Compensation for participation	Non equity variable compensation		Non monetary benefits	Other compensation	Total	Fair Value of equity	Indemnity for end of term of
Francesco Fallacara	Chairman of the Board of Statutory Auditors	01/01/2017 - 31/12/2017	Shareholders' Meeting to approve the financial statement for the year ended 31 December 2017	**75.000,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**75.000,00**	**0,00**	**0,00**
Of which is compensated in Pirelli & C. S.p.A.				75.000,00						75.000,00		
Of which is compensated by Subsidiaries and Associates												
Antonella Carù	Serving Auditor	01/08/2017 - 31/12/2017	Shareholders' Meeting to approve the financial statement for the year ended 31 December 2017	**20.959,00**	**30.014,00**	**0,00**	**0,00**	**0,00**	**0,00**	**50.973,00**	**0,00**	**0,00**
Of which is compensated in Pirelli & C. S.p.A.				20.959,00	30.014,00 (30)					50.973,00		
Of which is compensated by Subsidiaries and Associates												
Fabio Artoni	Serving Auditor	01/01/2017 - 31/12/2017	Shareholders' Meeting to approve the financial statement for the year ended 31 December 2017	**57.000,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**57.000,00**	**0,00**	**0,00**
Of which is compensated in Pirelli & C. S.p.A.				50.000,00						50.000,00		
Of which is compensated by Subsidiaries and Associates				7.000,00 (31)						7.000,00		
Luca Nicodemi	Serving Auditor	05/09/2017 - 31/12/2017	Shareholders' Meeting to approve the financial statement for the year ended 31 December 2017	**16.164,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**16.164,00**	**0,00**	**0,00**
Of which is compensated in Pirelli & C. S.p.A.				16.164,00						16.164,00		
Of which is compensated by Subsidiaries and Associates										0,00		
Alberto Villani	Serving Auditor	05/09/2017 - 31/12/2017	Shareholders' Meeting to approve the financial statement for the year ended 31 December 2017	**16.164,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**16.164,00**	**0,00**	**0,00**
Of which is compensated in Pirelli & C. S.p.A.				16.164,00						16.164,00		
Of which is compensated by Subsidiaries and Associates										0,00		
*****												
Total compensated in Pirelli & C. S.p.A.				**4.308.831,00**	**193.383,00**	**2.431.560,00**		**205.270,00**	**109.818,00**	**7.248.862,00**		

First name and surname	Position	Period of the	End of term of office date	Fixed compensation	Compensation for participation	Non equity variable compensation		Non monetary benefits	Other compensation	Total	Fair Value of equity	Indemnity for end of term of
Total compensated by Subsidiaries and Associates				**5.163.757,00**		**8.064.025,00**		**67.907,00**	**195.000,00**	**13.490.689,00**		
Total				**9.472.588,00**	**193.383,00**	**10.495.585,00**		**273.177,00**	**304.818,00**	**20.739.551,00**		

(1) Of which: EUR 14,630 as Director of Pirelli & C. S.p.A.; EUR 900,000 as Executive Vice Chairman and Chief Executive Officer of Pirelli & C. S.p.A. and EUR 13,000 as attendance fees for participation in corporate bodies meetings from 1/1/2017 to 3/10/2017

(2) As Chairman and Chief Executive Officer of Pirelli Tyre S.p.A..

(3) Of which: EUR 12,192 as Chairman of the Appointments and Successions Committee of Pirelli & C. S.p.A. and EUR 12,192 as Chairman of the Strategies Committee of Pirelli & C. S.p.A.

(4) Of which EUR 126,318 referring to an insurance policy in line with what indicated in the 2018 remuneration policy, EUR 5,632.00 referring to Company car, EUR 6,000 referring to payments for supplementary pension, and EUR 2,952 referring to payments for health insurance.

(5) Of which EUR 400,000 as Chairman of Pirelli & C. S.p.A., EUR 14,630 as Director of Pirelli & C. S.p.A.and EUR 6,000 as attendance fees for participation in corporate bodies meetings from 1/1/2017 to 3/10/2017

(6) As a member of the Appointments and Successions Committee of Pirelli & C. S.p.A.

(7) Compensation paid back to the company concerned

(8) Of which EUR 8,000 as attendance fees for participation in corporate bodies meetings from 1/1/2017 to 3/10/2017 and EUR 14,630 as Director of Pirelli & C. S.p.A. from 4/10/2017 to 31/12/2017

(9) As a member of the Strategies Committee of Pirelli & C. S.p.A.

(10) Of which EUR 16,000 as attendance fees for participation in corporate bodies meetings from 1/1/2017 to 3/10/2017 and EUR 14,630 as Director of Pirelli & C. S.p.A. from 4/10/2017 to 31/12/2017

(11) Of which EUR 6,096 as a member of the Compensation Committee of Pirelli & C. S.p.A. and EUR 7,315 as a member of the Appointments and Successions Committee of Pirelli & C. S.p.A. and EUR 7,315 as a member of the Strategies Committee of Pirelli & C. S.p.A

(12) Of which EUR 13,000 as attendance fees for participation in corporate bodies meetings from 1/1/2017 to 3/10/2017 and EUR 14,630 as Director of Pirelli & C. S.p.A. as of 4/10/2017 and EUR 600,000 as Executive with strategic responsibilities for Pirelli & C. S.p.A. (until 31/12/2017). It should be noted that this does not include the remuneration received from Prelios S.p.A., a company that at 31 December 2017 did no longer appear among the associated companies

(13) Of which EUR 3,132 relating to an insurance policy, EUR 4,516 relating to the Company car, EUR 6,000 relating to contributions for supplementary pension and EUR 2,952 relating to payments of a health insurance

(14) of which EUR 17,068 as Director in charge of Sustainability and EUR 30,000 as a pro-quota payment for non-competition agreement as long as the employment relationship is on-going

(15) Of which: EUR 4,000 as attendance fees for participation in corporate bodies meetings from 31/8/2017 to 3/10/2017 and EUR 14,630 as Director of Pirelli & C. S.p.A. as from 4/10/ 2017.

(16) Of which EUR 6,096 as a member of the Committee for Audit, Risks, Sustainability and Corporate Governance ("CCRSCG") and EUR 6,096 as a member of the Compensation Committee

(17) Of which EUR 7,315 as a member of the Strategies Committee and EUR 14,630 as Chairman of the Related-Party Transactions Committee ("RPTC")

(18) As Chairman of the CCRSCG

(19) Of which EUR 13,000 as attendance fees for participation in corporate bodies meetings from 1/1/2017 to 3/10/2017 and EUR 14,630 as Director of Pirelli & C. S.p.A. as from 4/10/ 2017.

(20) As a member of the RPTC

(21) Of which EUR 6,096 as a member of the CCRSCG and EUR 9,753 as a member of the RPTC

(22) Of which: EUR 3,000 as attendance fees for participation in corporate bodies meetings from 31/8/2017 to 3/10/2017 and EUR 14,630 as Director of Pirelli & C. S.p.A. as from 4/10/ 2017.

(23) As Chairman of the Committee for Audit, Risks, Sustainability and Corporate Governance of Pirelli S.p.A.

(24) As manager of Pirelli Tyre S.p.a. during the fiscal year 2017

(25) Of which: EUR 2,612 for the Company car, EUR 3,764 referring to payments for supplementary pension and EUR 2,952 referring to payments for healt insurance

(26) At 31 December 2017 the Executives with strategic responsibilities were: Maurizio Boiocchi, Gustavo Bracco, Giorgio Luca Bruno, Andrea Casaluci (appointed on 6 November 2017), Roberto Righi, Francesco Sala, Maurizio Sala, Luigi Staccoli, e Francesco Tanzi. Giuliano Menassi was Key Manager until 6 November 2017 and therefore the remuneration the latter received for the year is indicated. The remuneration paid to Andrea Casaluci (appointed Key manager on 6 November 2017) is included in the table and related to the whole year. It should be noted that the remuneration paid to Giorgio Luca Bruno is not included in this item, in that it is indicated in the table under his name.

(27) In the total amount are summed EUR 11,000 paid to Gustavo Bracco as attendance fees for participation in corporate bodies meetings from 01/01/2017 to 31/08/2017

(28) These amounts refer to an insurance policy, health insurance policy, Company car, housing, and payments to supplementary pension funds.

(29) These amounts refer to the pro-quota payment set forth in the non-competition agreement as long as the employment relationship is on-going.

(30) As member of the Supervisory Board from 1/1/2017.

(31) As Statutory Auditor of Pirelli Industrie Pneumatici S.r.l. and Driver Italia S.p.A.

3. MONETARY INCENTIVE PLANS FOR MEMBERS OF THE BOARD OF DIRECTORS AND EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

For a description of the monetary incentive plans, see paragraph 5 of the Remuneration Policy.

The variable incentive scheme of Pirelli envisages that the payment of 25% of any MBO accrued is deferred by 12 months and is subject to the achievement of MBO objectives for the following year. In particular: - in the event that no MBO has matured in the following year, the deferred MBO share of the previous year is definitively "lost"; - in the event that the MBO has matured in the following year at the level of the access threshold, the MBO share deferred from the previous year is returned; - in the event of the MBO achieving between the target level and the maximum level in the following year, payment- in addition to the return of the MBO share deferred from the previous year - of an additional amount between 20% and 40% of the entire MBO matured in the previous year (for results earned in the following year between the target and maximum levels, the increase in the previous year MBO bonus shall be calculated by linear interpolation).

First name and surname	Position	Plan	Bonus for the year			Bonus for the previous year			Other bonuses
			Payable/ Paid out	Deferred	Deferment period	No longer payable	Payable / Paid out	Still deferred	
Marco Tronchetti Provera	Executive Vice Chairman and Chief Executive Officer	MBO 2017	3,013,016.00	824,843.00	-	-	469,680.00	-	0,00
		LTI Plan 2016-2018 (1)	833,500.00	0,00	-	-	-	-	0,00
Giorgio Luca Bruno	Director (2)	MBO 2017	387,201.00	104,976.00	-	-	64,543.00	-	0,00
		LTI Plan 2016-2018	155,898.00	0,00	-	-	-	-	0,00
Giovanni Tronchetti Provera	Director (3)	MBO 2017	19,304.00	5,199.00	-	-	3,709.00	-	0,00
		LTI Plan 2016-2018	6,251.00	0,00	-	-	-	-	0,00
Key managers	Director (4)	MBO 2017	2,939,660.00	829,397.00	-	-	402,829.00	-	0,00
		LTI Plan 2016-2018	998,425.00	0,00	-	-	-	-	0,00
(I) Compensation in the company preparing the financial report (5)		MBO 2017	1,294,675.00	379,665.00	-	-	139,032.00	-	0,00
		LTI Plan 2016-2018	379,305.00	0,00	-	-	-	-	0,00
(II) Compensation from Subsidiaries and Associates		MBO 2017	5,064,506.00	1,384,750.00	-	-	801,729.00	-	0,00
		LTI Plan 2016-2018	1,614,769.00	0,00	-	-	-	-	0,00
(III) Total			8,353,255.00	1,764,415.00	-	-	940.761,00	-	0,00

(1) The 2016-2018 LTI Plan was closed ahead of time following a deliberation of the Board of Directors on 28 July 2018 and the pro-quota payment of the award matured.

(2) Giorgio Luca Bruno is included in the MBO and LTI variable incentive plans as Executive with strategic responsibilities for Pirelli & C. S.p.A. until 31 December 2017.

(3) Giovanni Tronchetti Provera is included in the variable incentive MBO and LTI Plans as Executive of Pirelli Tyre S.p.A..

(4) As of 31 December 2017 the following were Executives with strategic responsibilities: Maurizio Sala, Francesco Tanzi, Giorio Luca Bruno, Luigi Staccoli, Maurizio Boiocchi, Gustavo Bracco, Roberto Righi, Francesco Sala and Andrea Casaluci. It should be noted that Giuliano Menassi was an Executive with strategic responsibilities from 1/1/2017 to 6/11/2017 and therefore the amount includes the variable incentive paid to the latter. It should also be noted that Giorgio Luca Bruno no longer qualifies as Executive with

strategic responsibilities as of 1 January 2018 and the amount referring to the variable component in the remuneration of the latter is not included in the total amount herein, in that it is indicated in the table under his name, as a Director of the Company.

4. SCHEDULE RELATING TO EQUITY INVESTMENTS OF THE MEMBERS OF THE ADMINISTRATIVE AND CONTROL BODIES AND EXECUTIVES WITH STRATEGIC RESPONSIBILITIES.

The table below provides disclosures on any equity investments held in Pirelli & C. S.p.A. and in its Subsidiary Companies, by those who, even for a fraction of the year, have held the position of:

- member of the Board of Directors;
- member of the Board of Statutory Auditors;
- Executive with strategic responsibilities.

In particular, it indicates, for each member of the Board of Directors and Board of Statutory Auditors and cumulatively for other Executives with strategic responsibilities, with regard to each company in which shares are held, the number of shares, by category:

- held at the end of the prior year;
- purchased during the reporting year;
- sold during the reporting year;
- held at the end of the reporting period.

In this regard, the title of possession and the manner in which it is held are also specified.

It includes all the persons who, during the reporting year, held [40]positions as members of the administrative and control bodies or as Executives with strategic responsibilities, even for a fraction of the year.

1) Shareholdings of the members of the administrative and control bodies and General Managers

Surname and first name	Position	Company in which share is held	No of shares held at 31/12/2016	No of shares purchased/under written	No of shares sold	No of shares held at 31/12/2017
Giorgio Luca Bruno	Director	Pirelli & C.	0	500*	-	500

* Shares purchased at the listing of the Company on 4 October 2017

[40] The Directors who have ceased to hold office before the start of trading of the Company's shares on the Telematic Stock Exchange (Mercato Telematico Azionario) are not included. These Directors are entitled to receive an attendance fee amounting to € 1,000 for each meeting of the Company's governing bodies they have taken part in.

2) Shareholdings of other Executives with strategic responsibilities

Number of Key Managers	Company in which share is held	No of shares held at 31/12/2016	No of shares purchased/underwritten	No of shares sold	No of shares held at 31/12/2017
-	-	(1)	-	-	-

CONSOLIDATED FINANCIAL STATEMENTS

AT DECEMBER 31, 2017

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

Note		12/31/2017	of which related parties (note 42)	12/31/2016	of which related parties (note 42)
9	Property, plant and equipment	2,980,294		3,556,635	
10	Intangible assets	5,893,704		6,496,889	
11	Investments in associates and J.V.	17,480		47,010	
12	Other financial assets	229,519		198,691	
13	Deferred tax assets	111,553		147,964	
15	Other receivables	204,051	*12,007*	226,868	*6,641*
16	Tax receivables	27,318		11,864	
27	Derivative financial instruments	878		-	
	Non-current assets	**9,464,797**		**10,685,921**	
17	Inventories	940,668		1,055,639	
14	Trade receivables	652,487	*62,731*	679,321	*2,790*
15	Other receivables	400,538	*36,482*	275,622	*6,184*
18	Securities held for trading	33,027		48,597	
19	Cash and cash equivalents	1,118,437		1,532,977	
16	Tax receivables	35,461	*60*	64,395	
27	Derivative financial instruments	27,770		23,989	
	Current assets	**3,208,388**		**3,680,540**	
38	**Assets held for sale**	**60,729**		**-**	
	Total Assets	**12,733,914**		**14,366,461**	
20.1	**Equity attributable to owners of the Group:**	**4,116,758**		**3,134,085**	
	- Share capital	1,904,375		1,342,281	
	- Reserves	2,035,991		1,656,741	
	- Net income (loss) for the period	176,392		135,063	
20.2	**Equity attributable to non-controlling interests:**	**60,251**		**140,773**	
	- Reserves	60,936		128,211	
	- Net income (loss) for the period	(685)		12,562	
20	**Total Equity**	**4,177,009**		**3,274,858**	
23	Borrowings from banks and other financial institutions	3,897,089		5,945,999	*561*
25	Other payables	74,435		87,421	
21	Provisions for liabilities and charges	127,124		170,992	
13	Provisions for deferred tax liabilities	1,216,635		1,452,169	
22	Employee benefit obligations	274,037		368,100	
26	Tax payables	2,399		3,374	
27	Derivative financial instruments	54,963		-	
	Non-current liabilities	**5,646,682**		**8,028,055**	
23	Borrowings from banks and other financial institutions	559,168		642,047	*772*
24	Trade payables	1,673,642	*197,954*	1,498,492	*22,586*
25	Other payables	565,254	*16,437*	783,079	
21	Provisions for liabilities and charges	45,833		45,987	
26	Tax payables	48,416	*9,895*	41,773	
27	Derivative financial instruments	17,910		52,170	
	Current liabilities	**2,910,223**		**3,063,548**	
	Liabilities held for sale	**-**		**-**	
	Total Liabilities and Equity	**12,733,914**		**14,366,461**	

CONSOLIDATED INCOME STATEMENT *(In thousands of euro)*

Note		1/1 - 12/31/2017	of which related parties (note 42)	1/1 - 12/31/2016	of which related parties (note 42)
29	**Revenues from sales and services**	**5,352,283**	*10,833*	**4,976,396**	*3,468*
30	Other income	628,533	*230,618*	696,225	*2,279*
	- of which non-recurring events	-		*41,734*	
	Changes in inventories of unfinished, semi-finished and finished products	140,258		(22,406)	
	Raw materials and consumables used (net of change in inventories)	(1,859,837)	*(46,536)*	(1,540,516)	
31	Personnel expenses	(1,034,647)	*(11,004)*	(986,308)	*(8,954)*
	- of which non-recurring events	*(2,578)*		-	
32	Amortisation, depreciation and impairment	(371,457)		(342,584)	
33	Other costs	(2,184,660)	*(374,951)*	(2,096,733)	*(29,703)*
	- of which non-recurring events	*(70,076)*		*(23,728)*	
	Increase in fixed assets for internal work	3,110		2,378	
	Operating income (loss)	**673,583**		**686,452**	
34	Net income (loss) from equity investments	(6,855)		(20,019)	
	- share of net income (loss) of associates and j.v.	*(8,252)*	*(8,252)*	*(1,227)*	*(1,227)*
	- gains on equity investments	*5,997*		*8,297*	
	- losses on equity investments	*(14,434)*		*(33,739)*	
	- dividends	*9,834*		*6,650*	
35	Financial income	128,540	*35,320*	42,806	*209*
36	Financial expenses	(491,150)	*(41,070)*	(469,996)	
	- of which non-recurring events	*(61,244)*		*(25,390)*	
	Net income (loss) before tax	**304,118**		**239,243**	
37	Tax	(40,848)		(75,256)	
	- of which non-recurring events	*103,881*		*1,280*	
	Net income (loss) from continuing operations	**263,270**		**163,987**	
38	Net income (loss) from discontinued operations	(87,563)	*(9,547)*	(16,362)	
	Total net income (loss)	**175,707**		**147,625**	
	Attributable to:				
	Owners of the parent company	176,392		135,063	
	Non-controlling interests	(685)		12,562	
39	**Total earnings/(loss) per share (in euro per share)**	**0.206**		**0.191**	
	Earnings/(loss) per share related to continuing operations (in euro per share)	0.309		0.219	
	Earnings/(loss) per share related to discontinued operations (in euro per share)	(0.103)		(0.028)	

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

		1/1 - 12/31/2017	1/1 - 12/31/2016
A	**Net income (loss) for the period**	**175,707**	**147,625**
Other components of comprehensive income:			
	B - Items that will not be reclassified to income statement:		
	- Net actuarial gains (losses) on employee benefits	(14,656)	(46,567)
	- Tax effect	(9,291)	3,289
	Total B	**(23,947)**	**(43,278)**
	C - Items reclassified / that may be reclassified to income statement:		
	Exchange differences from translation of foreign financial statements		
	- Gains / (losses) for the period	(166,763)	(177,769)
	- (Gains) / losses reclassified to income statement	80,208	-
	- Tax effect	-	12,598
	Fair value adjustment of other financial assets available for sale:		
	- Gains / (losses) for the period	40,486	(16,487)
	- (Gains) / losses reclassified to income statement	1,439	(26)
	Fair value adjustment of derivatives designated as cash flow hedges:		
	- Gains / (losses) for the period	(59,757)	(1,428)
	- (Gains) / losses reclassified to income statement	45,265	4,325
	- Tax effect	2,983	(1,449)
	Share of other comprehensivie income related to associates and JVs net of tax	(2,915)	2,707
	Total C	**(59,054)**	**(177,529)**
D	**Total components of comprehensive income (B+C)**	**(83,001)**	**(220,807)**
A+D	**Total comprehensive income (loss) for the period**	**92,706**	**(73,182)**
	Attributable to:		
	- Owners of the parent company	93,793	(50,940)
	- Non-controlling interests	(1,087)	(22,242)
	Attributable to owners of the parent company:		
	- Continuing operations	101,148	125,065
	- Discontinued operations	(7,355)	(176,005)
	Total attributable to owners of the parent company	**93,793**	**(50,940)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 12/31/2017

(In thousands of euro)	Attributable to the Parent Company					Non controlling interests	Total
	Share Capital	Translation reserve	Total IAS Reserves *	Other reserves/ retained earnings	**Total attributable to the Parent Company**		
Total at 12/31/2016	**1,342,281**	**(204,778)**	**(61,629)**	**2,058,211**	**3,134,085**	**140,773**	**3,274,858**
Other components of comprehensive income	-	(86,153)	3,554	-	(82,599)	(402)	(83,001)
Net income (loss) for the period	-	-	-	176,392	176,392	(685)	175,707
Total conprehensive income (loss)	**-**	**(86,153)**	**3,554**	**176,392**	**93,793**	**(1,087)**	**92,706**
Share capital increase	558,994	-	-	630,381	1,189,375	-	1,189,375
Annulment of treasury shares	3,100	-	-	(3,100)	-	-	-
Dividends paid	-	-	-	-	-	(7,446)	(7,446)
Disposal of 38% Pirelli Industrial to Cinda fund	-	70,307	(5,085)	(63,704)	1,518	264,500	266,018
Assignment of Pirelli Industrial to Marco Polo	-	-	(6,958)	(282,480)	(289,438)	(326,679)	(616,117)
Acquisition of non-controlling interests (Brazil)				(12,843)	(12,843)	(9,580)	(22,423)
Other	-	-	(147)	415	268	(230)	38
Total at 12/31/2017	**1,904,375**	**(220,624)**	**(70,265)**	**2,503,272**	**4,116,758**	**60,251**	**4,177,009**

(In thousands of euro)	Breakdown of IAS reserves *				
	Reserve for fair value adjustment of available-for-sale financial assets	Reserve for cash flow hedge	Reserve for actuarial gains/losses	Tax effect	**Total IAS reserves**
Balance at 12/31/2016	**(19,282)**	**1,038**	**(44,023)**	**638**	**(61,629)**
Other components of comprehensive income	39,010	(14,492)	(14,656)	(6,308)	3,553
Assignment of Pirelli Industrial	-	-	(602)	(11,441)	(12,043)
Other changes	(318)	-	171	-	(147)
Balance at 12/31/2017	**19,410**	**(13,454)**	**(59,110)**	**(17,111)**	**(70,265)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 12/31/2016

(In thousands of euro)	Attributable to the Parent Company					Non controlling interests	Totale
	Share Capital	Translation reserve	Total IAS Reserves *	Other reserves/ retained earnings	Total attributable to the Parent Company		
Total at 12/31/2015 (°)	**10,196**	**(61,814)**	**(18,590)**	**3,279,803**	**3,209,595**	**72,041**	**3,281,636**
Other components of comprehensive income	-	(142,964)	(43,039)	-	(186,003)	(34,804)	(220,807)
Net income (loss) for the financial year	-	-	-	135,063	135,063	12,562	147,625
Total conprehensive income (loss)	**-**	**(142,964)**	**(43,039)**	**135,063**	**(50,940)**	**(22,242)**	**(73,182)**
Dividends paid	-	-	-	-	-	(2,053)	(2,053)
Disposal of 10% Pirelli Industrial S.r.l.	-	-	-	(10,380)	(10,380)	81,129	70,749
Acquisition of 80% Jianzou Aeolus Tyre	-	-	-	(1,150)	(1,150)	16,462	15,312
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	-	-	(1,332,782)	(697)	(569)	(1,266)
Total at 12/31/2016	**1,342,281**	**(204,778)**	**(61,629)**	**2,058,211**	**3,134,085**	**140,773**	**3,274,858**

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

(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 comprehensive income	(14,744)	3,835	(46,567)	14,437	(43,039)
Balance at 12/31/2016	**(19,282)**	**1,038**	**(44,023)**	**638**	**(61,629)**

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of euro)

		Note	1/1 - 12/31/2017	of which related parties (note 42)	1/1 - 12/31/2016	of which related parties (note 42)
	Net income (loss) before taxes		304.118		239.243	
	Reversals of amortisation, depreciation, impairment losses and restatement of property, plant and equipment and intangible assets	**32**	371.457		342.584	
	Reversal of Financial expenses	**36**	491.150		469.996	
	Reversal of Financial income	**35**	(128.540)		(42.806)	
	Reversal of Dividends	**34**	(9.834)		(6.650)	
	Reversal of gains/(losses) on equity investments	**34**	8.437		25.442	
	Reversal of share of net income from associates and joint ventures	**34**	8.252		1.227	
	Ordinary taxes		(135.500)		(104.456)	
	Change in Inventories	**17**	(109.768)		48.280	
	Change in Trade receivables	**14**	73.644	*90.561*	144.917	
	Change in Trade payables	**24**	447.385	*86.227*	201.845	
	Change in Other receivables/Other payables		(39.423)	*70.469*	(38.462)	
	Change in Provisions for employee benefit obligations and Other provisions		(102.010)		(155.502)	
	Other changes		(41.734)		(39.482)	
A	**Net cash flows provided by / (used in) operating activities**		**1.137.634**		**1.086.176**	
	Investments in property, plant and equipment	**9**	(470.381)		(363.466)	
	Disposal of property, plant and equipment		73.505	*61.000*	91.626	
	Investments in intangible assets	**10**	(18.969)		(8.717)	
	Acquisitions of investments in subsidiaries		(15.639)		-	
	Repayment of share capital and reserves from associates		8.556	*8.556*	100.353	*100.353*
	Disposals (Acquisition) of investments in associates and JV		17.183	-	(4.692)	*(4.692)*
	Disposals (Acquisition) of financial assets		(2.465)		9.145	
	Disposal of 38% of Pirelli Industrial to Cinda fund		-		266.200	
	Disposal of 10% of Pirelli Industrial		-		70.749	
	Acquisition of 80% of Jiaozou Aeolus Tyre Co. Ltd (net of cash acquired)		-		(53.395)	
	Dividends received		9.834		6.650	
B	**Net cash flows provided by / (used in) investing activities**		**(398.376)**		**114.453**	
	Increase (reduction) in equity	**20**	1.189.375		-	
	Change in Financial payables		(2.060.304)		(345.966)	
	Change in Financial receivables/Securities held for trading		218.037	*190.000*	(44.332)	
	Financial income / (expenses)		(280.832)		(321.853)	
	Dividends paid		(12.742)		(2.053)	
C	**Net cash flows provided by / (used in) financing activities**		**(946.466)**		**(714.204)**	
D	**Net cash flows provided by (used in) discontinued operations (**)**		**(135.597)**		**29.869**	
E	**Total cash flows provided / (used) during the period (A+B+C+D)**		**(342.805)**		**516.294**	
F	**Cash and cash equivalents at the beginning of the period**		**1.523.928**		**1.094.457**	
G	**Exchange differences from translation of cash and cash equivalents**		(71.483)		(86.823)	
H	**Cash and cash equivalents at the end of the period (E+F+G) (°)**		**1.109.640**		**1.523.928**	
(°)	**of which:**					
	cash and cash equivalents	**19**	1.118.437		1.532.977	
	passive current accounts		(8.797)		(9.049)	

(**) the figures refer to cash and cash equivalents of the Industrial business subject to assignment

The Statement of Cash Flows shows transactions with related parties only if they cannot be directlyderived from the other Statements.
Please refer to note 42 of the Explanatory Notes for further detail.

EXPLANATORY NOTES

1. GENERAL INFORMATION

Pirelli & C. S.p.A. is a corporation organised under the laws of the Republic of Italy.

Founded in 1872, Pirelli & C. S.p.A.is - also by way of its subsidiaries in Italy and abroad - a Pure Consumer Tyre Company (which includes tyres for cars, motorcycles and bicycles) whose particular focus is on the High Value tyre market, that is, products created to reach the highest levels of performance, safety, quietness and adherence to the road surface.

The registered Head Office of the Company is located in Milan, Italy at address *Viale Piero e Alberto Pirelli n. 25.*

With effect from October 4, 2017, the shares of Pirelli & C. S.p.A. are listed on the MTA (Mercato telematico azionario or screen-based stock exchange), organised and managed by Borsa Italiana S.p.A..

These Financial Statements have been prepared using the Euro as the reporting currency with all values rounded to the nearest thousand Euro unless otherwise indicated.

The audit of the Financial Statements has been entrusted to PricewaterhouseCoopers S.p.A. pursuant to article 159 of Italian Legislative Decree No.58 of February 24, 1998 and taking account of the CONSOB recommendation of February 20, 1997, in executing the resolution of the Shareholders' Meeting of August 1, 2017, which appointed said company as the auditor for the closing of each of the nine years between December 31, 2017 and December 31, 2025.

Just two years after the Public Offer promoted by ChemChina together with Camfin shareholders, Pirelli returned to the stock market on October 4, 2017 following a reorganisation process which led to the separation of the Industrial business and to the focus on the Consumer business, enriched with new proficiencies also through the creation of new departments and businesses (Consumer Marketing, Digital, Data Science, Cyber and Velo). With the start of trading all management and coordination activities previously exercised by Marco Polo International Italy S.p.A. ceased. As part of the Global Offer of Sale, 350 million ordinary shares, were offered at a price of euro 6.5 per share for a capitalisation of euro 6.5 billion. The Greenshoe Option, granted as part of the transaction by Marco Polo International Italy S.p.A. to a placement consortium for 50 million shares, was partially exercised on November 2, 2017 for a total of 18,904,836 shares. With the inclusion of the Greenshoe Option, the Offer of Sale therefore concerned 368,904,836 ordinary Pirelli shares and, consequently the total proceeds deriving from the Offer of Sale, which were exclusively due to Marco Polo International Italy S.p.A., amounted to approximately euro 2.4 billion. As a result of the partial exercise of the Greenshoe Option, Marco Polo International Italy S.p.A. holds 631,095,164 ordinary Pirelli shares which correspond to approximately 63.11% of the share capital.

Pirelli & C. S.p.A. is directly controlled by Marco Polo International Italy S.p.A. - following the merger which occurred during June 2017 with its subsidiary Marco Polo International Holding Italy

S.p.A. - and is in turn therefore indirectly controlled by China National Chemical Corporation ("ChemChina"), a state-owned enterprise (SOE) governed by Chinese law with registered office in Beijing, and which reports to the Central Government of the People's Republic of China.

On February 26, 2018 the Board of Directors authorised the publication of these consolidated Financial Statements.

2. BASIS OF PRESENTATION

Financial Statements

The consolidated Financial Statements at December 31, 2017 consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Explanatory Notes, and are accompanied by the Directors' Report on Operations.

The format adopted for the Statement of Financial Position provides for the distinction of assets and liabilities according to whether they are current or non-current.

The Group has opted to present the components of gains/losses for the financial year in a separate Income Statement, rather than include these components directly in the Statement of Comprehensive Income. The Income Statement framework adopted provides for the classification of costs by nature.

The Statement of Comprehensive Income includes the results for the period and, for the homogeneous categories, income and costs are recognised directly in equity, in accordance with the IFRS.

The Group has opted for the presentations of tax effects, as well as the reclassifications to the Income Statement of gains/losses which were recognised in equity in previous years, directly in the Statement of Comprehensive Income and not in the Explanatory Notes.

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

In the Statement of Cash Flows, the financial flows derived from operating activities are presented using the indirect method, by way of which the gains or losses for the period have been adjusted by the effects of non-monetary transactions, by any deferment or accrual of past or future collections or payments for operating activities, and by any revenue or cost items connected with the financial flows arising from any investment or financing activities.

Discontinued operation

As a result of the assignment by Pirelli & C. S.p.A. of the TP Industrial Holding S.p.A. shares, the company into which almost all of Pirelli's Industrial assets were merged, to Marco Polo International Holding Italy S.p.A., the Industrial business qualified as a *"discontinued operation"*. Pursuant to the provisions of IFRS 5, the results for the period for the *"discontinued operation"* were reclassified to the Income Statement as a single item, *"net income (loss) related to discontinued operations"* and includes the financial data for the first quarter of 2017 for the Industrial Business, which no longer comes under the scope of the Group as a result of the assignment, as well as the twelve month results for some of the residual Industrial activities currently in the process of being separated. In accordance with the relevant accounting standards, the comparative 2016 Income Statement figures have been subjected to restatement.

It should be noted that for transactions between the industrial business, qualified as "discontinued operation", and other activities of the Pirelli Group ("continuing business"), it was used a so called "post disposal" presentation in the Income Statement. Specifically, ongoing commercial transactions have been represented as "continuing business" in the Income Statement, thus presenting a result that takes into account such components and recording the related inter-eliminations within the "discontinued operation".

Scope of consolidation

The scope of consolidation includes the subsidiaries, associates and agreements for joint control, i.e. joint arrangements.

Subsidiaries are defined as all the companies over which the Group, at the same time, holds:

- the power of decision making, or the ability to direct the relevant activities of the subsidiary, that is activities that have a significant influence on the results of the subsidiary;
- the right to the variable results (positive or negative) resulting from the investment in the entity;
- the capacity to use its own power of decision making to determine the amounts of the results arising from the investment in the entity.

The Financial Statements of subsidiaries are included in the consolidated Financial Statements as of the date when control is assumed until such time as when control ceases to exist. The equity and the net income (loss) and attributable to non-controlling interests were separately reported respectively in the consolidated Statement of Financial Position and consolidated Income Statement, and the comprehensive consolidated Income Statement.

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

Such relationships may take the form of shareholders' agreements together with other forms of significant exercise of governance rights. Joint control is the shared control of a business activity, established by agreement and only exists when decisions relative to the activity require the unanimous consent of all parties who share control. These agreements may give rise to joint ventures or joint operations.

A joint venture is an agreement for the joint control of an entity whereby the parties that have joint control, have rights to the net assets of the said entity. Joint ventures are distinguished from joint operations that are configured instead as agreements that give the parties of the agreement, which have joint control of the initiative, the rights to individual assets and the obligations for individual liabilities relating to the agreement. In the case of joint operations, the assets, liabilities, costs and revenues of the agreement must mandatorily be recognised in accordance with the applicable accounting standards. The Group does not currently have any agreements for joint operations.

The principal changes in the scope of consolidation for the 2017 financial year refer to the Industrial activities which no longer come under the scope of the Group as a result of the assignment in March 2017 by Pirelli & C. S.p.A, of the TP Industrial Holding S.p.A. shares, the company into which almost all of Pirelli's Industrial assets were merged, to Marco Polo International Holding Italy S.p.A. As a result of the assignment the following companies were deconsolidated as of March 31, 2017:

- Prometeon Tyre Deutschland GmbH
- Prometeon Tyre Group S.r.l.
- TP Industrial Holding S.p.A.
- Newco TP S.r.l.
- Prometeon Tyre Group Polska Sp. z o.o.
- Prometeon Tyre Group UK Limited
- Prometeon Tyre Group Espana Y Portugal S.L. - Sociedad Unipersonal
- Prometeon Tyre Group (Suisse) SA
- Prometeon Turkey Endüstriyel ve Ticari Lastikler A.S.
- Prometeon Tyre Group Commercial Solutions LLC

- Prometeon Tyre Group Inc.
- Prometeon Tyre Group Industrial Brasil Ltda
- Prometeon Tyre Group Colombia S.A.S.
- Prometeon Tyre Group Servicios Mexico S.A. de C.V.
- Prometeon Tyre Group Mexico S.A. de C.V.
- Prometeon Tyre Egypt Co. S.A.E.
- International Tire Company Ltd
- TP (Tianjin) Enterprise Management Consulting Co., Ltd.

Information on subsidiaries

The consolidated Financial Statements include the assets and liabilities of approximately 97 legal entities. The following is a list of the significant subsidiaries:

	Headquarter	12/31/2017		12/31/2016	
		% group	% non-controlling interests	% group	% non-controlling interests
Pirelli Tyre Co. Ltd	Yanzhou (China)	90.00%	10.00%	90.00%	10.00%
Pirelli Deutschland GmbH	Breuberg/Odenwald (Germany)	100.00%		100.00%	
Pirelli Tyre S.p.A.	Milano (Italy)	100.00%		100.00%	
Pirelli Industrie Pneumatici S.r.l.	Settimo Torinese (Italy)	100.00%		100.00%	
Pirelli Neumaticos S.A. de C.V.	Silao (Mexico)	100.00%		100.00%	
Pirelli International plc	Burton on Trent (United Kingdom)	100.00%		100.00%	
Pirelli Pneus Ltda	Santo Andrè (Brazil)	100.00%		100.00%	
Pirelli Comercial de Pneus Brasil Ltda	Sao Paulo (Brazil)	100.00%		64.00%	36.00%
Pirelli UK Tyres Ltd	Burton on Trent (United Kingdom)	100.00%		100.00%	
Pirelli Tire LLC	Rome (USA)	100.00%		100.00%	
S.C. Pirelli Tyres Romania S.r.l	Slatina (Romania)	100.00%		100.00%	
Limited Liability Company Pirelli Tyre Russia	Moscow (Russia)	99.98%	0.02%	99.98%	0.02%

The complete list of subsidiaries is contained in the attachment *“Scope of consolidation - list of companies included in consolidation using the line by line method”.*

Non-controlling interests in the subsidiaries of the Group are not relevant either individually or in aggregate form.

Consolidation Principles

For consolidation purposes, the Financial Statements of the companies included in the scope of consolidation prepared at the reporting date of the Financial Statements of the Parent Company were adjusted to conform to the IAS/IFRS standards as applied by the Group.

The Financial Statements expressed in foreign currencies have been translated into Euro at the period-end exchange rates for the items in the Statement of Financial Position, and at the average exchange rates for the Income Statement, with the exception, where applicable, of the Financial Statements of companies operating in high-inflation countries whose Income Statements have been translated at the period-end exchange rates.

The differences arising from the conversion of the initial equity at period-end exchange rates have been recognised in the reserve for translation differences, together with the difference arising from the translation of the result for the period at period-end exchange rates instead of the average exchange rate. The reserve for translation differences was reversed to the Income Statement at the time of the disposal of the company which generated the reserve.

The criteria for consolidation may be summarised as follows:

- subsidiaries are consolidated using the line-by-line method on the basis of which:
  - the assets and liabilities, revenues and expenses of the Financial Statements of subsidiaries are assumed in their entirety, regardless of the percentage of investment held;
  - the carrying amount of investments is eliminated against the related share of equity;
  - the financial and operating transactions between companies consolidated on a line-by-line basis, including dividends distributed within the Group, are eliminated;
  - non-controlling interests are reported under equity, and the share of gain or loss attributable to non-controlling interests is similarly shown separately in the Income Statement;
  - at the time of disposal of the subsidiary and the consequent loss of control, in determining the gain or loss arising from the disposal, any goodwill that can be allocated to the subsidiary is taken into account;
  - in the case of a shareholding acquired after the assumption of control, any difference between the purchase cost and the corresponding share of equity acquired is recognised in equity; similarly, the effects deriving from the disposal of non-controlling interests without loss of control are also recognised in equity.

- investments in associates and joint ventures are accounted for under the equity method, on the basis of which the carrying amount of the investments is adjusted by:
  - the investor's share of the financial results of the subsidiary realised after the acquisition date;
  - the share of gains and losses are recognised directly in the equity of the subsidiary, in accordance with the applicable standards;
  - dividends are paid by the subsidiary;
  - when the Group's share in the losses of the associate/joint venture exceeds the carrying amount of the investment in the Financial Statements, the carrying amount of the investment is reset to zero and the share of any further losses is recognised under *"Provisions for liabilities and charges"*, to the extent to which the Group has a contractual or implicit obligation to cover the losses;
  - the gains emerging from sales made by subsidiaries to joint ventures or associates are eliminated in proportion to the share of ownership held by the acquiring entity.

3. ADOPTED ACCOUNTING STANDARDS

Pursuant to Regulation No. 1606 issued by the European Parliament and the European Council in July 2002, the consolidated Financial Statements of the Pirelli & C. Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) in force as issued by the International Accounting Standards Board (IASB) and approved by the European Union at December 31, 2017, as well as the provisions issued in the implementation of Article 9 of Legislative Decree No.38/2005. IFRS means the IFRS international accounting standards in force as issued by the International Accounting Standards Board (IASB) and approved by the European Union at December 31, 2017, as well as all the revised International Accounting Standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC).

The consolidated Financial Statements have been prepared using the historical costs method with the exception of derivative financial instruments, securities held for trading and financial assets available for sale, which have been evaluated which at their fair value.

Business combinations

Corporate acquisitions are accounted for under the acquisition method.

When a controlling interest in a company is acquired, goodwill is initially recognised at cost and calculated as the difference between:

- the fair value of the price plus any non-controlling interests in the acquired company, measured at fair value (if this option was chosen for the acquisition in question) or in proportion to the share of the non-controlling interest in the net assets of the acquired company;

- the fair value of the acquired assets and liabilities.

In cases where the aforesaid difference is negative, the difference is immediately recognised as income in the Income Statement.

In the case of the acquisition of control of a company in which a non-controlling interest is already held (step acquisition), the previously held investment is measured at fair value, and the effects of this adjustment is recognised the Income Statement.

The costs of business combination operations are recognised in the Income Statement.

Contingent considerations, that is, the obligations of the acquiring company to transfer additional assets or shares to the seller in cases where certain future events occur or specific conditions are fulfilled, are recognised at fair value at the acquisition date as part of the amount transferred in exchange for the acquisition itself. Any subsequent changes in the fair value of these agreements are normally recognised in the Income Statement.

Intangible assets

Intangible assets with finite useful lives are measured at cost, net of any accumulated amortisation and impairment.

Amortisation is calculated on a straight-line basis and begins when the asset is available for use or is capable of operating in the opinion of management, and ceases on the date when the asset is classified as held for sale or is de-recognised from the accounts.

Capital gains and capital losses resulting from the divestment or disposal of an intangible asset are determined as the difference between the net proceeds from disposal and the carrying amount of the asset.

Goodwill

Goodwill is an intangible asset with an indefinite useful life and is therefore not subject to amortisation. Goodwill is subjected to evaluation at least on an annual basis in order to identify any loss of value, or whenever there are any indications of a loss of value, and as such it is allocated to the cash generating units for this purpose. For the purposes of such verification, goodwill is allocated to the cash generating units or group of cash generating units in compliance with the maximum aggregation limit which cannot exceed that of the operating segment identified pursuant to IFRS 8. The criteria used in the allocation of goodwill coincides with the sole sector of activity in which the Group operates, being Consumer Activities, and takes the minimum level at which goodwill is monitored into consideration, for internal management control purposes.

Trademarks and licenses

Trademarks and licenses for which the conditions for classification as intangible assets with an indefinite useful life have not been met, are evaluated at cost, net of the accumulated amortisation and impairment. This cost is amortised for the duration of the agreement or the duration of the useful life of the asset, whichever is shorter. The trademarks for which the conditions for classification as intangible assets with an indefinite useful life have been met, are not systematically amortised but are subjected to an impairment test at least once a year.

Software

Software license costs, including incidental expenses, are capitalised and recognised in the Financial Statements net of any amortisation and net of any accumulated impairment. Software is amortised on the basis of its useful life.

Customer relationships

Customer relationships mainly refer to intangible assets acquired in a business combination and are recognised in the Financial Statements at their fair value at the purchase date and amortised on the basis of their useful life.

Technology

The value of technology refers mainly to product technology, process technology as well as product development technology identified during the Purchase Price Allocation. It is recognised in the Financial Statements at fair value at the date of acquisition, and is amortised on the basis of its useful life.

Research and development costs

Research costs for new products and/or processes are expensed as they occur.

There were no development costs that satisfied the requisites for capitalisation as provided for by IAS 38.

Property, plant and equipment

Property, plant and equipment are recognised at their purchase or production cost, which includes any directly attributable incidental expenses.

Any costs incurred subsequent to the acquisition of goods, plus the cost of replacing certain parts of property, plant and equipment, are capitalised only if they increase the future economic benefits inherent to the asset. All other costs are recognised in the Income Statement as they occur. When the cost of replacing certain parts of property, plant and equipment is capitalised, the residual value of the replaced parts is recognised in the Income Statement.

Property, plant and equipment are recognised at cost net of any accumulated depreciation and impairment, except for land which is not depreciated but is recognised at cost net of any accumulated impairment.

Depreciation is recorded starting from the month in which the asset is available for use or is potentially capable of providing the financial benefits associated with it.

Depreciation is charged on a straight-line basis once per month at rates that allow for the depreciation of assets until the end of their useful life or, in the case of disposal, until the last month of use.

Depreciation rates were as follows:

Buildings	3% - 10%
Plant	7%-20%
Machinery	5%-20%
Equipment	10%-33%
Furniture	10%-33%
Motor vehicles	10%-25%

It is to be noted that during the 2016 financial year a Purchase Price Allocation was completed, following the acquisition of the Pirelli Group by Marco Polo, which resulted in the detection of significant surplus value for the Group's productive assets due mainly to their optimally maintained condition which resulted in an extension of their residual lives. The assets subject to evaluation for the purposes of the Purchase Price Allocation were depreciated, starting as of the date of acquisition of control by Marco Polo Industrial Holding S.p.A. on the basis of the new remaining useful lives determined at the time of the evaluation.

Government grants related to property, plant and equipment are recognised as deferred income and accredited to the Income Statement for the duration of the depreciation of the relevant assets.

Leasehold improvements are classified as tangible assets, in keeping with the nature of the cost incurred. The depreciation period corresponds to the remaining useful life of the asset or the residual period of the lease agreement, whichever is shorter.

Spare parts of significant value are capitalised and depreciated for the duration of the estimated useful life of their respective assets.

Any dismantling costs are estimated and added to the cost of the property, plant and equipment with a corresponding accrual to the provision for liabilities and charges when the conditions for accruing the provision are met. They are then depreciated for the duration of the remaining useful life of their respective assets.

Assets acquired under finance lease agreements, through which essentially all the risks and rewards of ownership are transferred to the Group, are recognised as property, plant and equipment at their fair value or, if lower, at the current value of the minimum lease payments, with a corresponding entry for the relevant financial payable. The lease payment is separated into two components; as a financial expense which is recognised in the Income Statement, and as the reimbursement of capital and is recorded as a reduction of the financial payable.

Leases in which the lessor essentially retains all the risks and rewards associated with the ownership of the asset are classified as operating leases. Costs associated with an operating lease are recognised as an expense on a straight-line basis in the Income Statement for the duration of the leasing agreement.

Property, plant and equipment are de-recognised from the Statement of Financial Position at the time of disposal or permanent retirement from use and, as a consequence no future economic benefits is expected can be derived from their disposal or use.

Any capital gains or capital losses resulting from the divestment or disposal of property, plant and equipment are determined as the difference between the net proceeds from disposal and the carrying amount of the asset.

Impairment of assets

Property, plant and equipment and intangible assets

Whenever there are specific indicators of a loss of value, at least annually for intangible assets with an indefinite useful life, including goodwill, and both property, plant and equipment and intangible assets, are subjected to impairment tests in order to verify any loss of value.

The test consists of an estimate of the recoverable amount for the asset compared to its carrying amount.

The recoverable amount of an asset is either its fair value less the costs of sale, or its use value, whichever is higher, where the latter is the current value of estimated future financial flows arising from the use of the asset plus those deriving from its disposal at the end of its useful life, net of taxes, plus the application of a discount rate, net of taxes, which reflects the current market assessment of the time value of money and the risks specific to the asset. It is not necessary to estimate both amounts in order to verify the absence of a loss of value as it is sufficient that one of the two configured amounts is higher than the carrying amount.

If the recoverable amount of an asset is lower than the carrying amount, the latter is reduced and adjusted to the recoverable amount. This reduction in value constitutes an impairment which is then recorded in the Income Statement.

In order to evaluate a loss of value or impairment, assets are aggregated at the lowest level at which their independent cash flows are separately identifiable (cash generating units).

Specifically, goodwill must be allocated to the cash generating units or group of cash generating units in compliance with the maximum aggregation limit which cannot exceed that of the operating segment.

In the presence of indications that any impairment recognised in previous financial years for property, plant and equipment or intangible assets other than goodwill, may no longer exist or may have been reduced, the recoverable amount is estimated again. If it results as higher than the net carrying amount, then the net carrying amount is increased up to, but not exceeding, the recoverable amount.

The restatement of a value must not exceed the carrying amount that would have been determined (net of impairment, depreciation or amortisation) had no loss of value been detected in previous financial years.

The restatement of the value of an asset other than goodwill is recognised in the Income Statement.

An impairment which has been detected for goodwill cannot be restated in subsequent financial years.

Any loss due to a reduction of value recorded for goodwill on the interim (half year) Financial Statements cannot be restated in subsequent financial years.

Investments in associates and joint ventures

Following the application of the equity method, in the presence of the indication of a loss of value, the value of investments in associates and joint ventures must be compared with the recoverable amount (the so-called impairment test). The recoverable amount corresponds to the higher amount between the fair value less the costs of the sale, and the use value.

For the purposes of impairment testing, the fair value of an investment in an associate or joint venture with shares listed on an active market is always equal to its market value, irrespective of the percentage of ownership. In the case of investments in unlisted companies, the fair value is determined using estimates based on the best available information.

For the purposes of determining the value in use of an associate or joint venture, an estimate is made of the share owned of the current value of future cash flows which are estimated will be generated by the associate or joint venture, including financial flows deriving from the operating activities of the associate or joint venture, and the amount that will be received for the final disposal of the investment (known as the Discounted Cash Flow – asset side).

When there is evidence that any impairment recognised in previous financial years may no longer exist or may have been reduced, the recoverable amount of the investment is estimated again, and if it is results as higher than the amount of the investment, then the latter amount is increased up to and not exceeding the recoverable amount.

The reversal of an impairment loss may not exceed the value of the investment that would have been determined (net of impairment) had no loss of value been recognised in previous financial years.

The reversal of an impairment loss on investments in associates and joint ventures is recognised in the Income Statement.

Financial assets available for sale

This item includes investments in entities other than subsidiaries, associates and joint ventures, and other securities not held for trading. They are recorded in the Statement of Financial Position as *"Other financial assets"*.

They are measured at fair value, if this can be reliably determined.

Gains and losses deriving from changes in fair value are recognised in a specific equity reserve.

When a reduction in fair value has been recognised directly in equity and there is objective evidence that the asset was impaired, the losses recognised up to that time in equity are reversed in the Income Statement.

A prolonged (meaning more than 12 months) or significant (meaning more than 50% for securities issued by entities operating in banking sector and more than one-third for securities issued by entities operating in other sectors) reduction in the fair value of equity securities and as compared with their cost is considered an indicator of impairment.

Any impairment of a financial asset available for sale recognised in the Income Statement may be restated in the Income Statement, with the exception of any impairment detected for stock securities classified as available for sale, which instead may not be restated with effect on the Income Statement.

Financial assets available for sale, whether debt or equity instruments for which fair value is not available, are accounted for at cost, reduced by any impairment losses based on the best market information available at the reporting date.

The acquisitions and sales of financial assets available for sale are recorded at the settlement date.

Inventories

Inventories are valued either at cost determined under the FIFO (first in first out) method, or their estimated realisable value, whichever is lower.

The evaluation of inventories includes the direct costs of materials and labour as well as indirect costs. The impairment provisions for obsolete and low rotation inventories are calculated by taking their estimated future use and their realisable value into account. The realisable value is the estimated selling price, net of all costs estimated for the completion of the asset including any sales and distribution costs that will be incurred.

The cost is increased by incremental expenses similarly to that described with respect to property, plant and equipment.

Receivables

Receivables are initially recognised at their fair value, which normally corresponds to the consideration agreed or to the present value of the amount that will be collected. They are subsequently measured at amortised cost, which is reduced in the case of impairment. Amortised cost is calculated by using the effective interest rate method, which is equivalent to the discount rate that, when applied to future cash flows, renders the present value of such cash flows equal to the initial fair value. Impairment losses on receivables are calculated according to the counter-party default risk, which is determined by taking the available information on the solvency of the counter-party plus their historical data into consideration. The carrying amount of receivables is reduced indirectly by the recognition of a provision. Significant individual positions that are objectively detected to be partially or wholly uncollectable are subject to individual impairment. The amount of the impairment loss reflects the estimate of future recoverable flows and the applicable date of collection, recovery costs and expenses, and the fair value of guarantees, if any. Any positions that are not subject to individual impairment are included in groups with similar characteristics in terms of credit risk, and are impaired on a collective basis in accordance with the rising percentages for overdue periods. This collective impairment procedure is also applied to receivables not yet due. The impairment percentages are determined on the basis of historical experience as well as statistical data.

When the conditions that brought about the impairment of receivables no longer exist, the impairment losses recorded for previous financial years are restated as credits to the Income Statement, up to but not exceeding the amortised cost that would have been determined had no impairment loss been recognised.

Receivables in currencies other than the functional currency of the individual companies are adjusted to the financial year-end exchange rates and also recorded in the Income Statement. Receivables are derecognised when the right to receive cash flows is extinguished, when all the risks and rewards connected with holding the receivable essentially have been transferred, or in cases when the receivable is considered definitively irrecoverable after all the necessary recovery procedures have been completed. When the receivable is derecognised, the relative provision is also reversed if the receivable had previously been impaired.

Payables

Payables are initially recognised at their fair value, which normally corresponds to the consideration agreed or to the present value of the amount that will be paid. They are subsequently valued at the amortised cost. Amortised cost is calculated by using the effective interest rate method, which is equivalent to the discount rate that, when applied to future cash flows, renders the present value of such cash flows equal to the initial fair value. Payables in currencies other than the functional currency of the individual companies are adjusted to the financial year-end exchange rates and are also recorded in the Income Statement. Payables are de-recognised from Financial Statements when the specific contractual obligation is extinguished.

Financial assets carried at fair value recorded in the Income Statement

This category includes securities mainly purchased to be sold in the short term and classified under current assets as *"Securities held for trading"*, financial assets that are initially recognised at fair value through Income Statement, classified as *"Other financial assets"*, and derivatives (except those designated as effective hedging instruments), classified as *"Derivative financial instruments"*.

They are measured at fair value with a balancing entry in the Income Statement. Additional costs are expensed in the Income Statement.

The acquisitions and sales of financial assets available for sale are recorded at the settlement date.

Cash and cash equivalents

Cash and cash equivalents include bank deposits, postal deposits, cash and cash equivalents on hand, and other forms of short-term investment whose original maturity is three months or less. Current account overdrafts are recognised as current liabilities under financial payables. The amounts included in cash and cash equivalents are recognised at their fair value and any changes are recognised in the Income Statement.

Provisions for liabilities and charges

Provisions for liabilities and charges include accruals for current obligations (legal or implicit) deriving from a past event, the fulfilment of which will likely require the necessary use of resources, and whose amounts can be estimated in a reliable manner.

Changes in estimates are recognised in the Income Statement for the financial year in which the change occurs.

If the effect of discounting or actualisation is significant, provisions are stated at their current value.

Employee Benefits

Employee benefits paid after termination of the employment relationship under defined benefit plans and other long-term benefits are subject to actuarial measurements. The liability recognised in the Financial Statements is the present value of the Group's obligation, net of the fair value of any plan assets.

For defined benefit plans, the actuarial gains and losses deriving from adjustments based on past experience and any changes in the actuarial assumptions are fully recognised in equity for the financial year in which they occur.

For other long-term benefits, the actuarial gains and losses are immediately recognised in the Income Statement.

The provision for employees' leaving indemnities (TFR) for Italian companies with at least 50 employees, is considered a defined benefit plan only for the portions accrued prior to January 1, 2007 (and not yet paid at the reporting date), whereas the portions accrued subsequent to that date are considered a defined contribution plan.

The net interest calculated on net liabilities is classified under financial expenses.

The costs relating to defined contribution plans are recognised in the Income Statement as they are occur.

In the event that the defined benefit assets outweigh the liabilities, the asset is recognised to the extent that the financial benefit, in the form of a reimbursement or the reduction of future contributions is available to the Group in accordance with the regulations of the plan itself and to the provisions in force in the jurisdiction in which the plan operates.

In the case of the purchase of qualifying insurance policies through the use of plan assets, any additional contributions requested by the insurance company are recognised in equity.

Derivative financial instruments designated as hedging instruments

In accordance with the provisions of IAS 39, financial hedging instruments are accounted for according to the methods established for hedge accounting only when:

- at the commencement of hedging there is the formal designation and documentation of the hedging relationship between the hedging derivative and the hedged item;
- it is expected that the hedging instrument will be highly effective;
- its effectiveness can be reliably measured;
- hedge coverage is highly effective throughout the various financial reporting periods to which it is designated.

These derivative instruments are recognised at fair value.

The following accounting treatments are applied on the basis of the type of coverage:

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

- *Cash flow hedge* – if a derivative instrument is designated as a hedge against exposure to the variable financial flows of an asset or liability recognised in the Financial Statements, or against a highly probable future transaction, the effective portion of the change in the fair value of the hedging instrument is recognised directly in equity, while the ineffective portion is immediately recognised in the Income Statement. The amounts recognised directly in equity are reclassified to the Income Statement for the financial year in which the hedged item produced an effect on the Income Statement.

When a hedging instrument expires or is sold, terminated, exercised, or no longer meets the conditions to be designated as a hedging instrument, or if designation is revoked voluntarily, hedge accounting is discontinued. The fair value adjustments accumulated in equity remain in suspended equity until the hedged item manifests an impact on the Income Statement. Subsequently they are reclassified to the Income Statement for the financial years during which the acquired financial asset or the assumed financial liability manifests an impact on the Income Statement.

When the hedged item is no longer expected to have any impact on the Income Statement, the fair value adjustments accumulated in equity are immediately reversed in the Income Statement.

For the derivative instruments that do not satisfy the prerequisites established by IAS 39 for adoption of hedge accounting, please refer to the section *"Financial assets at fair value through Income Statement"*.

The acquisitions and sales of derivative financial instruments are recorded at the settlement date.

Determination of the fair value of financial instruments

The fair value of financial instruments traded on an active market is based on listed market prices at the reporting date. The listed market price used for financial assets is the bid price, while for financial liabilities it is the ask price. The fair value of instruments that are not traded on an active market is determined by using measurement techniques with a variety of methods and assumptions that are based on market conditions at the reporting date.

The fair value of interest rate swaps is calculated as the present value of expected future cash flows.

The fair value of forward exchange contracts is determined by using the forward rate at the reporting date.

Income taxes

Current taxes are determined on the basis of a realistic forecast of the charges payable under the current tax regulations of the country.

Deferred taxes are calculated according to the temporary differences which exist between the asset and liability amounts in the Financial Statements and their tax value (full liability method), and are classified under non-current assets and liabilities.

Deferred tax assets on tax losses carried forward, as well as on temporary differences, are only recognised when there is a likelihood of future recovery during the time frame covered by the forecasts of the business plans.

Deferred tax assets and liabilities are calculated by the applying tax rates that are expected to be applicable during the financial year in which the asset will be realised or the liability settled, based on the tax legislation in force at the closing of the financial year.

Current and deferred tax assets and liabilities are compensated when the income taxes are levied by the same taxation authority and when there is a legally enforceable right to offset. Deferred tax assets and liabilities are determined at the tax rates that are expected to be applicable to taxable income in the respective jurisdictions in which the Group operates, for the financial years during which the temporary differences will arise or be extinguished.

With regard to taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, the related deferred tax liabilities are not recognised in cases where the investing entity is able to control the reversal of the temporary differences and it is probable that it will not occur in the foreseeable future.

Deferred taxes are not discounted.

Deferred tax assets and liabilities are credited or debited to equity if they refer to items that have been credited or debited directly in equity during the financial year or during previous financial years.

Equity

Treasury shares

Treasury shares are deducted from equity.

If they are sold, reissued or cancelled, the resulting gains or losses are recognised in equity.

Costs of capital transactions

Costs that are directly attributable to the capital transactions of the Parent Company are recorded as reductions in equity.

Recognition of revenues

Revenue is measured at the fair value of the amount received for the sale of products or provision of services.

Sales of products

Revenue from sales of products is recognised when all the following conditions are met:

- the significant risks and rewards of ownership of the goods are transferred to the buyer;
- the effective control over the goods and the normal continuing level of activities associated with ownership have ceased;
- the value of revenue can be reliably determined;
- it is likely that the financial benefits deriving from the sale will be enjoyed by the enterprise;
- the costs incurred or to be incurred can be reliably determined.

In cases where the nature and extent of involvement of the seller are such to cause that the risks and rewards of ownership are not in fact transferred, then the recognition date of the revenues is deferred until the date on which the transfer can be considered to have taken place.

Provision of services

Revenue from the provision of services is recognised only when the results of the transaction can be reliably estimated, with reference to the state of completion of the transaction at the reporting date.

The results of a transaction can be reliably estimated only when all the following conditions have been satisfied:

- the amount of revenue can be determined reliably;
- it is likely that the business will enjoy the financial benefits of the transaction;
- the stage of completion of the transaction at the reporting date can be reliably measured;

- the costs incurred for the transaction and the costs to be incurred to complete it can be reliably determined.

Financial income and expenses

Financial income and expenses are recognized on an accrual basis.

Royalties

Royalties are recognised on an accrual basis, according to the substance of the relevant agreement.

Dividends

Dividends are recognised when the right to collect is established, which normally corresponds to a resolution approved by the Shareholders for the distribution of dividends.

Earnings (losses) per share

Earnings (losses) per share - Basic earnings (losses) per share are calculated by dividing the income (loss) attributable to the Group by the weighted average number of outstanding shares during the financial year excluding treasury shares.

Earnings (losses) per share - diluted: Diluted earnings per share the income (loss) attributable to the Group by the weighted average number of outstanding shares during the financial year excluding treasury shares. For the purposes of calculating the diluted earnings per share, the weighted average number of shares outstanding is adjusted based on the assumption of all the assignees rights for the financial year which could potentially have a dilutive effect, while the Group's net income is adjusted to take into account of any effects, net of taxes, for the financial year pertinent to the aforesaid of rights

Operating segments

The operating segment is one part of the Group that engages in business activities from which it may earn revenues and incur costs, and whose operating results are periodically reviewed by the Chief Executive Officer, in his role as Chief Operating Decision Maker (CODM) for the purpose of taking decisions on resources to be allocated to the sector, and the evaluation of results, for which financial information is available.

The business carried out by the Group is identifiable as a single operating *“Consumer Activities”* segment.

Foreign currency operations

Foreign currency transactions are recorded at the prevailing exchange rates on the date of the transaction. Monetary foreign currency assets and liabilities are translated at the prevailing exchange rates at the reporting date. Exchange rate differences arising from the settlement or extinction of monetary items or their translation at rates, other than those of their initial recognition at the beginning of the financial year or to those of previous financial year-end, are recognised in the separate consolidated Income Statements.

Whenever the conditions set out in IAS 21.15 for the designation of inter-company monetary items such as Net Investment in Foreign Operations are met, in accordance with the provisions of IAS 21.32, the exchange rate differences as of the date of the designation are recognized directly in the Consolidated Statement of Comprehensive Income.

Non-current assets held for sale and Groups under disposal

Non-current assets and disposal groups are classified as held for sale if their carrying amount is recoverable mainly through their sale rather than through their continuous use. This occurs if the non-current asset or disposal group is available for sale under current conditions and the sale is highly probable, or if a binding program for sale has already begun, or activities to find a buyer have already commenced and it is expected that the sale will be completed within one year following their classification date.

In the consolidated Statement of Financial Position, the non-current assets held for sale and the current and non-current assets/liabilities of the disposal group are presented as a separate item from other assets and liabilities, and their totals are reflected in current assets and liabilities, respectively.

Non-current assets classified as held for sale and disposal groups are measured at the lower between carrying amount and fair value less costs to sell.

Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Discontinued operations

A discontinued operation is a component that has been disposed of or classified as held for sale and represents an important independent business unit or geographical area of activity, and pertains to a single, coordinated disposal programme.

On the consolidated Income Statement for the period, the Net income (loss) of the discontinued operations, as well as the gain or loss resulting from fair value measurement net of the costs of sale or from disposal of the assets or disposal groups constituting the discontinued operation are combined in a single item at the end of the Income Statement separately from the result for continuing operations.

It is to be noted that with regard to transactions between the Industrial business, which qualifies as a *"discontinued operation"* and the other activities of the Pirelli Group (*"continuing business"*), for the Income Statement it was decided to opt for the so called *"post disposal"* treatment. In particular, with reference to transactions of a continuous commercial nature, it was decided to represent these transactions in the Income Statement data for the *"continuing business"*, and consequently a result was recorded that takes these components into account, as well as the recognition of the relative inter-eliminations within the item *"discontinued operations"*.

The cash flows for discontinued operations are shown separately in the Statement of Cash Flows.

The aforesaid information is also presented for the comparative period.

3.1 Accounting standards and interpretations approved and in force as of January 1, 2017

In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the IFRS effective as of January 1, 2017 are as follows:

- Amendment to IAS 7 - Disclosure Initiative

  The goal of these changes is to improve disclosures regarding the net cash flow generated/absorbed by investing activities and the entity's liquidity, especially in the presence of restrictions on the use of cash and cash equivalents in the Statement of Cash Flows. The amendments also require the disclosure of changes in assets/liabilities by distinguishing those that are monetary from the non-monetary items (e.g. changes caused by the acquisition or by the loss of control of subsidiaries or other businesses, the effect of exchange rate fluctuations and changes in fair value). These changes are reflected in the disclosures for the Financial Statements. Reference should be made to Note 23 – *"Borrowings from banks and other financial institutions".*

- Amendments to IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses

These amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

These changes were not applicable to the Group.

- Improvements to IFRS 2014-2016 (issued by the IASB in December 2016).

  The IASB has issued a series of amendments to three standards in force, regarding the following aspects in particular: clarification regarding the application of IFRS 12 - Disclosure of Interests in Other Entities - in the presence of entities falling within the scope of IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations; the evaluation of associates and joint ventures at fair value in the presence of investment entities in IAS 28 - Investment in Associates; and the elimination of short-term exemptions for those who adopt the IFRS for the first time in IFRS 1 - First Time Adoption of the International Financial Reporting Standards.

  The amendments to IFRS 12 had no impact on the disclosures of the Group.

  The amendments to IFRS1 and IAS 28 in force as of January 1, 2018 were not applicable to the Group.

3.2 International Accounting Standards and/or interpretations that had been issued but had not yet been approved and/or entered into force during 2017

Pursuant to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors - the new standards and interpretations that have been issued but have not yet come into force or have not yet been endorsed by the European Union at December 31, 2016, and which are therefore not applicable, along with any expected impacts on the consolidated Financial Statements.

None of these standards and interpretations has been adopted in advance by the Group.

- Amendments to IFRS 10 and IAS 28 - Sales or contributions of Assets between an Investor and its Associate/Joint Venture

  The IASB issued these amendments to eliminate any inconsistency between IFRS 10 and IAS 28, stating that if the assets sold/transferred constitute a business as defined by IFRS 3, the possible gains or losses must be fully recognised, and any gains or losses shall be recognised pro-rata: only for the pertinent portion.

These amendments, which came into force have been deferred indefinitely, and have not yet been endorsed by the European Union. No effects are expected on the Financial Statements due to the future application of these amendments since the current accounting treatment adhered to by the Group is already compliant.

- IFRS 9 – Financial Instruments

  IFRS 9, which will replace IAS 39 – Financial Instruments: Detection and measurement, is divided into 3 parts:

  1. Classification and measurement of financial instruments based on the entity's business model, and the characteristics of the cash flows generated by the financial instruments themselves;

  2. Impairment of financial instruments on the basis of a new and unique impairment model based on the recognition of the expected losses of an entity. This model does not apply to equity instruments and provides for operational simplifications for trade receivables;

  3. Hedge accounting- based on a more flexible approach than that contained in IAS 39.

  This standard, approved by the European Union, was applicable as of January 1, 2018. The Group will apply the new standard using the retrospective application method and making use of the practical expedient granted by the standard, on the basis of which the 2017 comparative data will not be subject to restatement.

The Group has revised the financial assets and liabilities and the evaluation of the effects deriving from the application of the new accounting standard has been substantially completed. As was expected and has been previously stated, no significant impacts were foreseen as regards income, equity and the main performance indicators of the Group at the date of the first application (January 1, 2018). The analysis also showed that there were no organisational impacts or impacts on information systems, also considering the limited number of transactions that fall within the scope of IFRS 9.

The main impacts deriving from the adoption of the new standard are summarised as follows:

1. Classification and measurement: the equity instruments currently classified as financial assets available for sale, will be, in substantial continuity with respect to the accounting treatment adopted in accordance with IAS 39, designated as financial assets, with any changes in their fair value recorded in equity, with the sole exception of the investment in Mediobanca S.p.A, which was disposed of during the first days of January 2018, for which the changes in fair value will be recognised in the Income Statement. It is to be noted that the fair value adjustment reserve for the assets available for sale outstanding at December 31, 2017 (positive to the amount of euro 19,410 thousand) will be reclassified to a new reserve under equity for the investments designated as financial assets, with changes in

their fair value recognised in equity, while there will be a reclassification to retained earnings for the investment in Mediobanca S.p.A. These reserves will not be reversed to the Income Statement if the investment is disposed of.

The new rules for the classification and measurement of financial liabilities have no impact on the Group, as the Group has no financial liabilities designated at fair value recognised in the Income Statement.

2. Impairment of financial instruments: based on the valuations made, the adoption of the approach based on expected losses (instead of realised losses) will not entail any change in the provision for trade receivables, in that the current Group policy already provides for the assessment of credit risk associated with customers, similar to the concept of expected losses of the IFRS 9. It is instead probable that there will be an increase in the provision for bad debts due to certain financial receivables.

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

- IFRS 15 - Sales from contracts with customers and clarifications regarding IFRS 15.

  The new IFRS 15 standard defines the criteria for recognising and evaluating revenues deriving from contracts with customers.

  In particular, the IFRS 15 requires that revenue recognition be based on the following 5 steps: (i) the identification of the contract with the customer; (ii) the identification of the performance obligations (that is the contractual promises to transfer goods and/or services to a customer); (iii) the determination of the transaction price; (iv) the allocation of the transaction price to the performance obligations identified on the basis of the stand-alone selling price of each good or service; and (v) the recognition of revenue when the relative performance obligation has been satisfied.

  Furthermore, the IFRS 15 integrates the disclosures for Financial Statements which are to be provided with reference to the nature, amounts, timing and uncertainty of revenues and the relative cash flows.

  This standard, approved by the European Union, became applicable as of January 1, 2018. The Group will apply the new standard by using the *“modified”* application method, that is, by accounting for the cumulative effect of the initial application as of January 1, 2018.

  The evaluation of the effects deriving from the application of the new accounting standard has been substantially completed, and no significant impacts were foreseen for income, equity and the main performance indicators of the Group at the date of the first application on January 1, 2018.

With the application of the new standard, it will be necessary, however, to recognise certain amounts, now accounted for under costs, with the reduction in revenues or other income mainly due to the new provisions for *"principal vs agent"* and *"consideration paid or payable to a costumer"*.

The restatement of these amounts, which does not alter the Group's operating income (loss) or equity, is currently being defined.

- Amendments to IFRS 2 - Share-based Payment

  The aim of these amendments is to clarify the accounting treatment of certain share-based payments.

  These amendments, which came into force as of January 1, 2018, have not yet been approved by the European Union. The future application of these amendments is not expected to have any impact on the Group's Financial Statements.

- Amendments to IFRS 4 - Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

  These changes govern the implementation of the new standard on Financial Instruments, the IFRS 9, and prior to that the IFRS 4 to which the IASB is making further changes.

  These amendments which have been approved by the European Union, and became applicable as of January 1, 2018, are not applicable to the Group.

- IFRS 16 – Leases

  The new standard on leases, which will replace the current IAS 17, provides a single accounting model for the lessee under which all leases will have to be recognised in the Statement of Financial Position. In fact the concept of operational leasing has disappeared.

  The lessee must recognise the asset being leased in the Statement of Financial Position under the item property, plant and equipment and must simultaneously recognise financial liabilities equal to the present value of future payments.

  The only allowed exceptions are the short-term leases (with a duration of less than or equal to 12 months) and the leasing of small assets (e.g. office furniture, computers, etc.) for which the accounting treatment is similar to that currently used for operating leases. If a leasing contract includes the provision of a service, the latter may not be capitalised.

  This standard, approved by the European Union, shall apply as of January 1, 2019. The Group will apply the new standard as of the date of its entry into force.

The new standard will mainly impact the accounting treatment of leasing contracts currently classified as operating leases pursuant to IAS 17. The main impacts can be summarised as follows:

- Entry under the item property, plant and equipment, of the current value of the leasing instalments which, on the basis of the contractual agreements have the characteristics of being considered non-cancellable, and the contextual recognition of an increase in the financial liabilities. The assets will be depreciated based on the duration of the contract;

- The cost of the leasing instalments currently recorded under the item "*other costs*" will be substituted by the recognition of the depreciation of the assets recorded as per previous point. A financial component will also be included in the item *"financial expenses".*

At December 31, 2017, the Group had non-cancellable commitments to operating leases amounting to euro 504,752 thousand (Refer to Note 9).

The Group will calculate the part of payments relating to short-term contracts and contracts which concern assets of low value (*"small assets")* in order to assess as to whether to avail themselves of the exemption granted by the principle for the non-capitalisation of such contracts.

The Group has not yet assessed the potential impact of other adjustments that may be necessary, such as the change in the definition of the duration of contracts, the different accounting treatment of variable payments and the options for renewal and/or early settlement. Consequently, it is not yet possible to determine the amount of financial assets and liabilities that will have to be recognised under the new standard and how this latter will impact on the Income Statement and the Statement of Cash Flows.

With regard to the transition, the Group is evaluating as whether to apply the simplified approach which makes it possible to not carry out the restatement of the comparative period in the first year of application.

- IFRIC 22 - Foreign Currency Transactions and Advance Consideration

The aim of this interpretation is to determine the exchange rate to be used in the conversion of advance payments paid or received in foreign currency. In the presence of paid or received advance payments, the exchange rate to be used to convert assets, liabilities, revenues or expenses recognised at a later date is the same used to convert the advance payment.

This amendment, which came into force as of January 1, 2018, has not yet been approved by the European Union. The impact of this interpretation on the Group's financial statements is currently being analysed

- Amendments to IAS 40 - Transfers of Investment Property

  These changes further clarify the situations in which it is possible to reclassify a real estate asset from within or from outside the category of Investment Property.

  These amendments, which came into force as of January 1, 2018, have not yet been approved by the European Union and are not applicable to the Group's Financial Statements.

- IFRIC 23 – Accounting for Uncertainties in Income Taxes

  This interpretation clarifies the criteria to be applied for the recognition and measurement of current and deferred tax assets/pre-paid tax in the event of uncertainty regarding tax treatments, i.e. situations in which it is not certain that a specific treatment will be accepted by the tax authorities (e.g. the deductibility of certain costs or the exemption of certain income), but also uncertainty regarding the determination of taxable income, the tax bases for assets and liabilities, tax losses and the tax rates to be applied.

  The accounting treatment depends on the likelihood as to whether the tax authorities will accept the tax treatment or not. In the case of a low probability, the uncertainty is recognised by recording additional tax liabilities or by the application of a higher tax rate.

  This amendment, which will come into force as of January 1, 2019, has not yet been approved by the European Union. The impacts on the Group's financial statements are currently being analysed

- Amendments to IFRS 9 - Financial Instruments: *prepayment features with negative compensation* and changes in financial liabilities

  These amendments are with regard to the following:

  - financial assets (financial receivables and debt securities) which, in the presence of certain characteristics, can be measured at the amortised cost, whereas previously they had to be measured at fair value and recorded in the Income Statement;
  - accounting treatment in the presence of changes to the financial liabilities which do not lead to their elimination from the Financial Statements: in such situations, a gain or loss

calculated as the difference between the contractual cash flows of the original liability and the modified cash flows both discounted at the original effective interest rate, must be recognised in the Income Statement.

These amendments, which will come into force as of January 1, 2019, have not yet been approved by the European Union. With regard to the change relating to financial assets, assessments are under-way to verify their applicability to the Group; the change in the accounting treatment of financial liabilities in the event of changes which do not lead to their accounting elimination is applicable to the Group and has no impact as the Group already applies this accounting treatment.

- Amendments to IAS 28 - Investments in Associates and Joint Ventures Long-term interests in associates and joint ventures

  These amendments have clarified that, in the event that investments in associates and joint ventures are not evaluated using the equity method (IAS 28) they must be evaluated in accordance with the provisions of IFRS 9.

  These amendments, which will come into force as of January 1, 2019, have not yet been approved by the European Union. Impacts on the Group financial statements are not foreseen, as investments in associates and joint ventures are evaluated using the equity method.

- Improvements to IFRS 2015-2017 (issued by the IASB in December 2017).

  The IASB issued a series of changes to 4 principles in force, including, in particular, to the following aspects:

  - IFRS 3 Business combinations: obtaining control of a business that is classified as a joint operation must be accounted for as business combination in phases, and the previously held investment must be remeasured at fair value at the date of acquisition.
  - IFRS 11 – *Joint arrangements*: in the case of obtaining control of a business which is classified as a joint operation, the previously held investment must be remeasured at fair value.
  - IAS 12 - Income taxes: the accounting treatment of the tax effects of dividends on financial instruments classified as equity must follow that of the transactions or events that generated the distributable dividend.

- IAS 23 – Borrowing costs: in the event that the specific financing relating to a qualifying asset is still in place at the time when the asset is ready for use or sale, the same becomes part of general generic financing.

These amendments, which will come into force as of January 1, 2019, have not yet been approved. Any impacts on the Group's Financial Statements are currently being analysed.

4. FINANCIAL RISK MANAGEMENT POLICIES

The Group is exposed to financial risks which are principally associated with foreign exchange rates, with fluctuations in interest rates, with the price of financial assets held as investments, with the ability of customers to meet their obligations to the Group (credit risk), and with the procurement of financial resources on the market (liquidity risk).

Financial risk management is an integral part of the Group's business management and is performed centrally in accordance with the guidelines issued by the finance department as part of risk management strategies which are more generally defined by the Managerial Risk Committee.

4.1 Types of Financial Risks

Exchange rate risk

The geographical distribution of Group production and commercial activities entails exposure to exchange rate risks such as transaction risk and translation risk.

a) Transaction risk

This risk is generated by the commercial and financial transactions of the individual companies which are executed in currencies other than the functional currency of the Company. Exchange rate fluctuations between the time when the commercial or financial relationship is established and the time when the transaction is completed (collection or payment) may generate exchange rate gains or losses.

The Group aims to minimise the impact of transaction risk related to exchange rate volatility. In order to achieve this objective, the Group's procedures provide that the Operating Units are responsible for the collection of all information inherent to positions subject to transaction risk, whose coverage is then provided in the form of forward contracts which are entered into with the Group Treasury.

The positions subject to managed exchange rate risk are mainly represented by receivables and payables in foreign currency.

The Group Treasury is responsible for hedging the resulting net position for each currency and, in accordance with the established guidelines and predetermined restrictions, it in turn closes all risk positions by trading derivative hedging contracts on the market which typically take the form of forward contracts.

For such contracts, the Group did not consider it necessary to avail itself of the option for hedge accounting as provided for by IAS 39, in that the representation of the impacts on the Income Statement and the Statement of Financial Position of a hedging strategy for transaction risk is nevertheless substantially guaranteed even without availing itself of the aforementioned option.

Furthermore, as part of the annual and three-year planning process, the Group makes exchange rate forecasts by using the best information available on the market. The fluctuation in exchange rates between the time when the forecast is made and the time when the commercial or financial transaction occurs represents the transaction risk for future transactions.

From time to time the Group assesses the opportunity to engage in currency hedging on future transactions for which it typically makes use of either forward buy or sell operations, or optional operations such as risk reversal (for example; zero cost collars). Hedge accounting, as provided for by IAS 39, is activated if and when the requirements are met.

b) Translation risk

The Group owns controlling interests in companies that prepare their Financial Statements in currencies other than the Euro, which is the currency used to prepare the consolidated Financial Statements. This exposes the Group to currency translation risk, which is generated by the conversion into Euro of the assets and liabilities of these subsidiaries.

The principal exposures to translation risk are constantly monitored, however it is not currently deemed necessary to adopt specific policies to hedge this exposure.

Approximately 57.1% of the total consolidated equity at December 31, 2017 was expressed in Euros (compared to approximately 44.8% at December 31, 2016). The most important currencies for the Group other than the Euro were the Brazilian Real (8.8%; 13.7% at December 31, 2016), the Turkish Lira (0.7%; 4.6% at December 31, 2016), the Chinese Renminbi (12.8%; 15.3% at December 31, 2016), the Romanian Leu (9.0%; 8.8% at December 31, 2016), the British Pound (3.4%; 3.6% at December 31, 2016), the US Dollar (3.3%; 3.0% at December 31, 2016), the Mexican Peso (2.5%; 4.1% at December 31, 2016), and the Russian Rouble (at 1.0%).

The effects on consolidated equity which derive from a hypothetical appreciation/depreciation of the above listed currencies against the Euro, with all other conditions being equal, were as follows:

(In thousands of euro)	**Appreciation of 10%**		**Depreciation of 10%**	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Brazilian Real	40,903	49,933	(33,466)	(40,854)
Turkish Lira	3,420	16,622	(2,798)	(13,600)
Chinese Renminbi	59,309	55,707	(48,526)	(45,579)
Romanian Leu	41,610	32,108	(34,045)	(26,271)
Russian Rouble	4,868		(3,983)	
Egyptian Pound	-	(5,448)	-	4,458
British Pound	15,681	13,075	(12,830)	(10,698)
Argentinian Pesos	-	892	-	(730)
US Dollar	15,168	11,078	(12,411)	(9,064)
Mexican Pesos	11,648	15,090	(9,530)	(12,346)
Total on consolidated equity	**192,607**	**189,057**	**(157,588)**	**(154,683)**

Interest rate risk

Interest rate risk is represented by the exposure to any change in the fair value or the future cash flows of a financial asset or liability due to fluctuations in the market interest rates.

Based on market circumstances the Group evaluates whether to set up derivative contracts for hedging interest rate risk, for which hedge accounting is activated when the requisite conditions as provided for by IAS 39 are met.

The table below shows the effects on the net income (loss) resulting from an increase or decrease of 0.50% in the level of interest rates of all currencies to which the Group is exposed – all other conditions being equal:

(In thousands of euro)	**+0,50%**		**-0,50%**	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Impact on Net income (loss)	(12,513)	(19,785)	12,513	19,785

The effects on the Group’s equity resulting from the changes in the LIBOR and EURIBOR rates calculated on the hedging instruments for interest rates which were outstanding at December 31, 2017 are detailed in Note 27, “*Derivative instruments*”.

Price risk associated with financial assets

The Group's exposure to price risk is limited to the volatility of financial assets such as listed and unlisted equities and bonds, which constituted approximately 2.1% of the total consolidated assets at December 31, 2017 (1.7% at December 31, 2016). These assets are classified as financial assets available for sale and as securities held for trading.

No derivatives were put in place to cover the volatility risk for these assets.

Financial assets available for sale are represented by listed securities which amounted to euro 179,205 thousand (euro 141,496 thousand at December 31, 2016) and those represented by securities indirectly associated with listed securities (Fin. Priv. S.r.l.) amounted to euro 19,908 thousand, (euro 19,200 thousand at December 31, 2016, also including the investment in Emittenti Titoli S.p.A.) These financial assets constitute 75.8% of the total financial assets subject to price risk (65% at December 31, 2016). A positive change of +5% in the prices of the aforesaid listed securities all other conditions being equal, would result in a positive change to the Group's equity of euro 8,960 thousand (a positive change to the Group's equity of euro 7,073 thousand at December 31, 2016) while a negative change of -5% in the prices of the aforesaid listed securities, all other conditions being equal, would result in a negative change to the Group's equity of euro 8,960 thousand (a negative change to the Group's equity of euro 7,073 thousand at December 2016).

Credit risk

Credit risk represents the Group's exposure to potential losses resulting from the non-fulfilment of the commercial and financial obligations undertaken by counter-parties.

For the purposes of limiting this risk, as far as commercial counterparties are concerned, Pirelli has put in place procedures to assess the potential and financial creditworthiness of their customers and to monitor expected collection flows in order to take recovery action if necessary.

The aim of these procedures is to define customer credit limits. Further supplies are suspended when those limits are exceeded. In some cases customers are asked to provide guarantees. These mainly consist of bank guarantees issued by parties of the highest credit or personal standing. Less frequently, mortgage guarantees may be requested.

Another main instrument used by the Group for the management of commercial credit risk is the stipulation of insurance policies. As of January 2012, the company signed a master agreement which expired in December 2017, with a leading insurance company for worldwide coverage for credit risk mainly related to sales on the Replacement channel (with an approximate 68% acceptance rate at December 2017).

The insurance coverage has been extended to also cover 2018. During the course of 2017, the general situation for trade receivables remained essentially consistent with that at the closing of the previous financial year. As regards the management of its temporarily surplus resources or the trading of derivative instruments, the Group operates only with financial counter-parties with a high credit standing. Pirelli does not hold public debt instruments of any European country, and constantly monitors its net credit exposure to the banking system, and does not show significant concentrations of credit risk.

The disclosure regarding the maximum exposure to credit risk is represented by the gross value of receivables and is contained in subsequent Notes 14 and 15 which relate respectively to trade receivables and other receivables.

Liquidity risk

Liquidity risk represents the risk that the Company's available financial resources may be insufficient to meet its financial and commercial obligations pursuant to the contractual terms and conditions.

The principal instruments used by the Group to manage liquidity risk are comprised of its one and three year financial plans, and its treasury plans. These allow for the complete and correct detection and measurement of incoming and outgoing cash flows. The differences between the plans and actual data are constantly analysed.

The Group has implemented a centralised system for the management of cash flows and payments in compliance with various local currency and tax regulations. Banking relationships are negotiated and managed centrally, in order to ensure coverage for short and medium-term financial needs at the lowest possible cost. Even the procurement of medium and long-term resources on the capital market is optimised through centralised management.

The prudent management of the aforesaid risk requires the maintenance of an adequate level of cash or cash equivalents and/or highly liquid short-term financial instruments, the availability of funds obtainable through an adequate amount of committed lines of credit and/or the use of the capital market, and the diversification of products and deadlines in order to seize the best opportunities available.

At December 31, 2017 the Group had, aside from cash and securities held for trading to the amount of euro 1,151,464 thousand (euro 1,581,574 thousand at December 31, 2016), unused credit facilities for euro 700,000 thousand (euro 1,000,000 thousand at December 31, 2016) maturing in the second quarter of 2022.

Maturities for **financial liabilities** at **December 31, 2017** were composed as follows:

(In thousands of euro)	within 1 year	1 to 2 years	2 to 5 years	over 5 years	Total
Trade payables	1,673,642	-	-	-	1,673,642
Other payables	565,254	5,329	17,320	51,786	639,689
Financial instruments	17,910	23,893	31,070	-	72,873
Borrowings from banks and other financial institutions	643,243	708,980	3,495,823	-	4,848,046
	2,900,049	**738,202**	**3,544,213**	**51,786**	**7,234,250**

Maturities for **financial liabilities** at **December 31, 2016** were composed as follows:

(In thousands of euro)	within 1 year	1 to 2 years	2 to 5 years	over 5 years	Total
Trade payables	1,498,492	-	-	-	1,498,492
Other payables	783,079	8,253	10,138	69,030	870,500
Financial instruments	52,170	-	-	-	52,170
Borrowings from banks and other financial institutions	813,110	2,218,305	4,168,169	-	7,199,584
	3,146,851	**2,226,558**	**4,178,307**	**69,030**	**9,620,746**

It is to be noted that on June 27, 2017, Pirelli & C. S.p.A. and Pirelli International Plc subscribed to an unsecured loan (*"Facilities"*) for euro 4.1 billion (originally for the amount of euro 4.2 billion), of which euro 3,277,477 thousand had been utilised at December 31, 2017. The financing was achieved at a lower overall cost of less than 1.85% with maturities in three and five years. This financing which had first been subscribed to by three underwriters was subsequently the subject of syndication by a pool of 18 credit institutions on July 7, 2017.

5. INFORMATION ON FAIR VALUE

5.1 Fair value measurement

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

- level 1 – unadjusted prices quoted on an active market for assets or liabilities subject to valuation;

- level 2 – inputs different from the aforesaid prices quoted at the preceding level, which are observable on the market either directly (as in the case of prices) or indirectly (because they are derived from prices);
- level 3 – inputs that are not based on observable market data.

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

(In thousands of euro)	**Note**	**Carrying amount at 12/31/2017**	**Level 1**	**Level 2**	**Level 3**
FINANCIAL ASSETS:					
Financial assets carried at fair value in the Income Statement:					
Securities held for trading	18	33,027	-	33,027	-
Current financial derivative instruments	27	27,770	-	27,770	-
Financial hedging instruments:					
Non-current financial derivative instruments	27	878	-	878	-
Financial assets available-for-sale:					
Other financial assets					
Securities and shares		214,250	179,204	19,908	15,138
Investment funds		15,269	-	15,269	
	12	229,519	179,204	35,177	15,138
TOTAL ASSETS		**291,194**	**179,204**	**96,852**	**15,138**
FINANCIAL LIABILITIES:					
Financial liabilities carried at fair value in the Income Statement:					
Current financial derivative instruments	27	(17,910)	-	(17,910)	-
Financial hedging instruments:					
Non-current derivative financial instruments	27	(54,963)	-	(54,963)	-
TOTAL LIABILITIES		**(72,873)**	**-**	**(72,873)**	**-**

The following table shows assets and liabilities carried at fair value at December 31, 2016, subdivided into the three levels as defined above:

(*in thousands of euro*)	Note	Carrying amount at 12/31/2016	Level 1	Level 2	Level 3
FINANCIAL ASSETS:					
Financial assets carried at fair value in the Income Statement:					
Securities held for trading	18	48,597	-	48,597	-
Current financial derivative instruments	27	17,122	-	17,122	-
Financial hedging instruments:					
Current financial derivative instruments	27	6,867	-	6,867	-
Financial assets available-for-sale:					
Other financial assets					
Securities and shares		184,055	141,496	19,200	23,359
Investment funds		14,636	-	14,636	-
	12	198,691	141,496	33,836	23,359
TOTAL ASSETS		**271,277**	**141,496**	**106,422**	**23,359**
FINANCIAL LIABILITIES:					
Financial liabilities carried at fair value in the Income Statement:					
Current financial derivative instruments	27	(51,844)	-	(51,844)	-
Financial hedging instruments:					
Current derivative financial instruments	27	(326)	-	(326)	-
TOTAL LIABILITIES		**(52,170)**	**-**	**(52,170)**	**-**

The following table shows the **changes in the financial assets that occurred in level 3 during the course of 2017**:

(In thousands of euro)	**12/31/2017**
Opening balance	23,359
Translation differences	(110)
Increases / Subscription of capital	781
Impairment recognised in the Income Statement	(11,957)
Fair value adjustments recognised in Equity	363
Transfer from level 2	2,729
Other changes	(27)
Closing balance	**15,138**

These financial assets are mainly represented by equity investments in the European Institute of Oncology (euro 6,599 thousand), Equinox Two S.C.A. (euro 601 thousand), in Tlcom I LP (euro 186 thousand) and the investment in Pirelli de Venezuela C.A. (euro 2,610 thousand).

The item **increases** refers mainly to the capital increase related to the investment in Alitalia – Compagnia Area Italiana S.p.A. (euro 781 thousand).

The item **impairment** refers mainly to the investments in Pirelli de Venezuela C.A. (euro 7,616 thousand), in Equinox Two S.C.A. (euro 3,062 thousand), and the devaluation of the capital increase carried out for Alitalia-Compagnia Area Italiana S.p.A (euro 781 thousand).

During the course of the 2017 financial year, there were no transfers from level 1 to level 2 or vice versa, while there was a transfer from level 2 to level 3 following the sale by Emittenti Titoli S.p.A. of its investment stake in the listed company the London Stock Exchange. The fair value of Emittenti Titoli S.p.A. was in fact determined by also considering the transparency of the fair value of the shares held in the London Stock Exchange by Emittenti Titoli S.p.A.

The fair value of financial instruments traded on active markets is based on the price quotations published at the reporting date. These instruments, included in level 1, primarily comprise equity investments classified as financial assets available for sale.

The fair value of financial instruments not traded on active markets (e.g. derivatives) is determined by the use of evaluation techniques widely used in the financial sector, which maximise the utilisation of observable and available market data:

- Market prices for similar instruments;
- the fair value of interest rate swaps is calculated by discounting estimated future cash flows based on observable yield curves;
- the fair value of foreign exchange derivatives (forward contracts) is determined by using the forward exchange rate at the reporting date.

5.2 Categories of financial assets and liabilities

The table below shows the carrying amounts for each class of financial assets and liabilities as identified by IAS 39:

(In thousands of euro)	**Note**	**Carrying amount at 12/31/2017**	**Carrying amount at 12/31/2016**
FINANCIAL ASSETS			
Financial assets carried at fair value in the income statement			
Securities held for trading	18	33,027	48,597
Current financial derivative instruments	27	27,770	17,122
		60,797	65,719
Loans and receivables			
Other non-current receivables	15	204,051	226,868
Current trade receivables	14	652,487	679,321
Other current receivables	15	400,538	275,622
Cash and cash equivalents	19	1,118,437	1,532,977
		2,375,513	2,714,788
Financial assets available-for-sale			
Other financial assets	12	229,519	198,691
Financial hedging instruments			
Current financial derivative instruments	27	-	6,867
Non-current financial derivative instruments	27	878	
TOTAL FINANCIAL ASSETS		**2,666,707**	**2,986,065**

FINANCIAL LIABILITIES			-
Financial liabilities carried at fair value in the income statement			
Current financial derivative instruments	27	17,910	51,844
Financial liabilities valuated at amortised cost			
Non-current borrowings from banks and other financial institutions	23	3,897,089	5,945,999
Other non-current payables	25	74,435	87,421
Current borrowings from banks and other financial institutions	23	559,168	642,047
Current trade payables	24	1,673,642	1,498,492
Other current payables	25	565,254	783,079
		6,769,588	8,957,038
Financial hedging instruments			
Current financial derivative instruments	27	-	326
Non-current financial derivative instruments	27	54,963	-
TOTAL FINANCIAL LIABILITIES		**6,842,461**	**9,009,208**

6. CAPITAL MANAGEMENT POLICY

The Company's objective is to maximise the return on the net invested capital while maintaining the capacity to operate over time, in order to ensure adequate returns for its shareholders and benefits for other stakeholders, and also providing for the gradual de-leveraging of the financial structure of the Group which is to be achieved over a short to medium-term period.

The main indicator that the Group uses for its capital management is the R.O.I (calculated as the ratio between the EBIT adjusted and the average net invested capital which does not include the equity investments and fixed assets identified during the PPA process).

The R.O.I. for the 2017 financial year was equal to 28% which compares with an R.O.I. of 27% for the previous financial year.

7. ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated Financial Statements entails the necessity of management making estimates and assumptions which, under certain circumstances are based on difficult and subjective evaluations and estimates based on historical experience, as well as assumptions that are from time to time considered reasonable and realistic in light of the circumstances. It is possible that the actual results could therefore differ from these estimates. The estimates and assumptions are reviewed periodically and the effects of any changes made to them are reflected in the Income Statement for the period in which the estimate is revised. If such estimates and assumptions, based on the best valuation available at the time, should differ from actual circumstances, they are modified accordingly for the period in which the change of circumstances occurred. The estimates and assumptions refer mainly to evaluation of the recoverability of goodwill and intangible assets with an indefinite useful life, to the definition of the useful lives of the intangible assets as well as property, plant and equipment, to the recoverability of receivables, to the determination of taxes (current and deferred), to the evaluation of pension plans and other post-employment obligations, and to the recognition / valuation of the provisions for liabilities and charges.

ESTIMATES ENTAILING GREATER SUBJECTIVITY AND HAVING A PARTICULARLY MATERIAL IMPACT

The following is a brief description of the accounting standards which, more than others, require that management exercise greater subjectivity in the preparation of estimates, and for which a change in the conditions underlying the assumptions used may have a significant impact on the consolidated Financial Statements, or for which there exists a risk that significant adjustments to the carrying amount of assets and liabilities may emerge during the financial year subsequent to that of the Financial Statements.

Goodwill

In accordance with the accounting standards adopted for the preparation of the Financial Statements, goodwill is tested annually in order to ascertain the existence of any impairment to be recognised in the Income Statement. In particular, the test involves the allocation of goodwill to the cash generating units (which for the group coincide with the business sector or the Consumer Activities) and the subsequent determination of the relative recoverable amount, being the higher amount between either the fair value and the value in use.

If the recoverable amount proves to be lower than the carrying amount of the cash generating units, an impairment is recognised for the goodwill allocated to them.

The configuration of the value used to determine the recoverable amount of the Consumer Activities at December 31, 2017 is the fair value determined using the stock market capitalisation of the Parent Company at the date of the impairment test (December 31, 2017), where the stock market capitalisation is calculated on the number of outstanding shares without taking any control premium into consideration and adjusted upwardly or downwardly as per the fair value of the financial statement items not included in the carrying amount of the Consumer Activities, mainly the net financial position.

The impairment test at December 31, 2017 did not show any loss in value, as the fair value of the Consumer Activities was significantly higher than the carrying amount.

Pirelli Brand (intangible fixed assets with an indefinite useful life)

The Pirelli Brand is an intangible fixed asset with an indefinite useful life not subject to amortisation, but pursuant to IAS 36, is tested for impairment annually or more frequently, if specific events or circumstances arise that may indicate a reduction in value.

The impairment test at December 31, 2017 was performed using the assistance of an independent third-party professional.

The configuration for the recoverable amount for impairment testing purposes at December 31, 2017 is the fair value, calculated on the basis of the income approach (the so-called Level 3 of the hierarchy of IFRS 13 – Fair Value measurement) and is based on:

- the consensus forecasts by equity analysts with respect to the forecast revenues for the period 2018-2020 in that they were more prudent than the projections made by management;

- an evaluation criterion is obtained by the sum of parts which also takes into account the contribution of royalties from the Prometeon Tyre Group for the use the Pirelli trademark in relation to the industrial segment;

- the royalty rate applied to the revenues of the Consumer High Value and Consumer Standard evaluation units was deduced from the royalty rates implicit in the valuations made by an independent entity relative to the main brands of the listed companies of the Tyre sector, and was equal to an average royalty rate of 4.6%. With reference to the contribution in terms of royalties from the Prometeon Tyre Group, the royalty rate used as provided for by the license agreement was equal to 2%;

- a discount rate of 9.0%, which included a premium determined on the basis of the risk of the specific asset;

- a growth rate of g in the terminal value assumed to be equal to zero;

- the TAB (Tax Amortisation Benefit) that is, the tax benefit that could potentially benefit the market participant due to the possibility of fiscally amortising the asset.

For the purposes of impairment testing, the recoverable amount of the Pirelli Brand cum-TAB was compared with the carrying amount of the Brand cum-TAB and no losses in value emerged.

Property, plant and equipment

In accordance with the accounting standards, property, plant and equipment and intangible assets are tested in order to ascertain whether there has been a loss of value when there are indicators that difficulties are to be expected for the recovery of their relative net carrying amount through their use. The verification of the existence of the aforesaid impairment indicators requires that the Directors make subjective judgements based on the information available from both internal and external sources as well as on historical experience. In addition, if it is determined that a potential loss of value may have been generated, the loss is then defined using the appropriate valuation techniques.

The correct identification of the indicators of a potential loss in value, as well as the estimates used to determine the impairment, depend on a subjective evaluation as well as on factors that may change over time and influence the valuations and estimates made by management.

Income taxes (current and deferred)

Income taxes (current and deferred) are determined in each country in which the Group operates according to a prudent interpretation of the tax regulations in force. This process sometimes involves complex estimates in determining the taxable income and the temporary deductible and taxable differences between the carrying amount and tax values. In particular, deferred tax assets are recognised to the extent to which it is probable that future taxable income will be available against which they can be recovered. The evaluation of the recoverability of deferred tax assets, recorded in relation both to tax losses that may be used in subsequent financial years, and to temporary deductible differences, takes into account the estimate of future taxable income and is based on prudent tax planning.

Pension funds

The companies of the Group have in place, pension plans, health insurance plans and other defined benefit plans for their employees, primarily in the United Kingdom and the United States. These funds have been closed to new contributions and therefore the actuarial risk relates only to the previous deficit. Management uses different actuarial assumptions to calculate the liabilities and assets servicing these pension plans. The actuarial assumptions of a financial nature are concerned with the discount rate, the rate of inflation and the trend in medical costs.

The actuarial assumptions of a demographic nature are essentially concerned with mortality rates.

The Group has identified discount rates which it has deemed are balanced, given their context.

Provisions for liabilities and charges

In view of legal and tax liabilities, provisions for the risk of of unfavourable outcomes have been recognised. The value of provisions recognised in the Financial Statements relative to these risks represent the best estimate to date made by management for legal and tax issues regarding a vast range of issues that are subject to the jurisdiction of several countries. This estimate entails the adoption of assumptions which depend on factors that may change over time and which could therefore have a significant impact on the current estimates made by management in preparing the consolidated Financial Statements.

8 OPERATING SEGMENTS

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

- which involves entrepreneurial activities that generate revenues and costs;
- whose operating results are periodically reviewed by the Chief Executive Officer, in his role as Chief Operating Decision Maker (CODM);
- for which separate financial data is available.

For the purposes of IFRS 8, the activity performed by the Consumer Activities is identifiable as a single operating sector.

The following are the revenues from sales and services according to geographical area:

(in migliaia di euro)	***2017***	***2016***
Europa	2,237,962	2,092,701
Russia e CIS	159,590	162,979
Nafta	983,859	934,559
Sud America	915,677	824,252
Asia\Pacifico (APAC)	806,247	712,563
Middle East\Africa\India (MEAI)	248,948	249,342
TOTALE	**5,352,283**	**4,976,396**

The following are the **non-current assets by geographic area** which are allocated on the basis of the country where the assets are located.

(*in thousands of euro*)	**12/31/2017**		**12/31/2016**	
Europe	5,504,481	62.03%	5,728,035	56.98%
Russia & CSI	192,382	2.17%	192,717	1.92%
NAFTA	373,950	4.21%	323,334	3.22%
Central and South America	435,488	4.91%	801,085	7.97%
Asia/Pacific	487,560	5.49%	588,466	5.85%
Middle Est/Africa/India	2,773	0.03%	68,624	0.68%
Non-current unallocated assets	1,877,363	21.16%	2,351,263	23.39%
Total	**8,873,999**	**100.00%**	**10,053,524**	**100.00%**

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

9 PROPERTY, PLANT AND EQUIPMENT

The composition and changes for property, plant and equipment were as follows.

(in thousands of euro)	12/31/2017			12/31/2016		
	Gross Value	**Accumulated Depreciation**	**Net Value**	**Gross Value**	**Accumulated Depreciation**	**Net Value**
Land	201,216	-	201,216	326,216	-	326,216
Buildings	773,903	(107,466)	666,437	776,003	(45,462)	730,541
Plant and machinery	2,175,308	(354,350)	1,820,958	2,384,295	(236,794)	2,147,501
Industrial and trade equipment	385,301	(148,028)	237,273	378,662	(77,755)	300,907
Other assets	111,722	(57,312)	54,410	70,643	(19,173)	51,470
TOTAL	**3,647,450**	**(667,156)**	**2,980,294**	**3,935,819**	**(379,184)**	**3,556,635**

NET VALUE *(in thousands of euro)*	**12/31/2016**	**Change in scope**	**Assets held for sale**	**Translation differ.**	**Increases**	**Decreases**	**Reclassif.**	**Depreciation**	**Other**	**12/31/2017**
Land	**326,216**	(111,043)	-	(14,806)	545	-	356	-	(52)	**201,216**
Buildings	**730,541**	(92,196)	-	(42,348)	61,071	(1,319)	35,332	(25,414)	770	**666,437**
Plant and machinery	**2,147,501**	(293,363)	(55,879)	(103,156)	336,637	(6,859)	(57,169)	(147,769)	1,015	**1,820,958**
Industrial and trade equipment	**300,907**	(60,558)	-	(14,492)	48,183	(4,034)	32,152	(66,077)	1,192	**237,273**
Other assets	**51,470**	(6,139)	-	(3,768)	23,945	(292)	(10,671)	(11,413)	11,278	**54,410**
Total	**3,556,635**	**(563,299)**	**(55,879)**	**(178,570)**	**470,381**	**(12,504)**	**-**	**(250,673)**	**14,203**	**2,980,294**

NET VALUE *(in thousands of euro)*	**12/31/2015**	**PPA**	**12/31/2015 restated**	**Change in scope**	**Translation differ.**	**Increases**	**Decreases**	**Reclassif.**	**Depreciation**	**Other**	**12/31/2016**
Land	95,599	239,450	335,049	7,139	(1,939)	70	(13,628)	(57)	-	(418)	326,216
Buildings	593,816	116,961	710,777	39,641	14,600	29,625	(37,814)	3,759	(32,940)	2,893	730,541
Plant and machinery	1,504,359	494,016	1,998,375	75,738	(922)	269,499	-	(21,701)	(170,453)	(3,035)	2,147,501
Industrial and trade equipment	177,659	92,669	270,328	9,910	6,160	43,836	-	23,652	(56,442)	3,463	300,907
Other assets	48,020	1,085	49,105	4,614	(746)	20,436	(446)	(5,653)	(13,987)	(1,853)	51,470
Total	**2,419,453**	**944,181**	**3,363,634**	**137,042**	**17,153**	**363,466**	**(51,888)**	**-**	**(273,822)**	**1,050**	**3,556,635**

The column **change in scope** for 2017 mainly details the value of assets attributable to the Prometeon Group that were transferred following the assignment transaction by Pirelli & C. S.p.A. to Marco Polo International Holding Italy S.p.A. (subsequently merged by incorporation into Marco Polo International Italy S.p.A.) of the shares of TP Industrial Holding S.p.A. TP Industrial Holding S.p.A. is the company into which Pirelli's Industrial assets were merged.

The item **increases**, totalling euro 470,381 thousand, were primarily aimed at increasing the capacity of the High Value segment in Europe and the NAFTA area, the strategic reconversion of the capacity of the Standard segment into High Value in Brazil, the transformation of the production of Aeolus brand products into Pirelli brand products, and the continuous improvement of the quality and mix in all manufacturing plants.

The ratio of investments to amortisations for the 2017 financial year was equal to 1.88 (1.46 for the 2016 financial year).

Property, plant and equipment in progress at December 31, 2017, included in the individual fixed asset categories amounted to euro 227,509 thousand (euro 178,424 thousand at December 31, 2016).

It is to be noted that, in the context of financing stipulated in Brazil, the companies of the Group have pledged as guarantee their own plants and machinery as guarantees for a total value of euro 1,638 thousand.

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

The changes which occurred were composed as follows:

(in thousands of euro)	12/31/2017			12/31/2016		
	Cost	**Accumulated Depreciation**	**Net value**	**Cost**	**Accumulated Depreciation**	**Net value**
Leased buldings	330	(330)	-	1,925	(1,354)	571
Other leased assets	2,286	(2,001)	285	2,118	(2,043)	75
Leased plant and machinery	266	(107)	159	92	(92)	-
TOTAL	**2,882**	**(2,438)**	**444**	**4,135**	**(3,489)**	**646**

Payables for financial leases are included in financial payables (refer to Note 23).

The total minimum future payments due for non-cancellable operating lease contracts amounted to euro 504,752 thousand, of which:

- euro 78,537 thousand were due within one year,
- euro 258,872 thousand were due between one and five years, and
- euro 167,343 thousand were due beyond five years.

10 INTANGIBLE ASSETS

The composition and changes for intangible assets were as follows:

(In thousands of euro)	**12/31/2016**	**Change in scope**	**Translation differences**	**Increase**	**Amortisation**	**Reclassif.**	**Other**	**12/31/2017**
Concessions/licenses/trademarks - finite life	**71,520**	-	(506)	359	(4,560)	754	230	**67,797**
Pirelli Brand - indefinite life	**2,270,000**	-	-	-	-	-	-	**2,270,000**
Goodwill	**2,351,263**	(473,900)	-	-	-	-	-	**1,877,363**
Customer relationship	**431,595**	(22,417)	(136)	2,635	(34,435)	-	-	**377,242**
Technology	**1,347,867**	-	-	-	(71,850)	-	-	**1,276,017**
Software applications	**17,527**	(4,128)	(152)	13,473	(7,210)	1,059	175	**20,744**
Other intangible assets	**7,117**	-	(416)	2,502	(2,142)	(1,813)	(708)	**4,541**
TOTAL	**6,496,889**	**(500,445)**	**(1,210)**	**18,969**	**(120,196)**	**-**	**(303)**	**5,893,704**

(in thousands of euro)	**12/31/2015**	**PPA**	**12/31/2015 restated**	**Translation differences**	**Increase**	**Decrease**	**Amortisation**	**Reclassif.**	**Other**	**12/31/2016**
Patents and intellectual property rights	**2**	-	2	-	-	-	(2)	-	-	**-**
Concessions/licenses/trademarks - finite life	**41,632**	33,226	74,858	(1,594)	633	(7)	(4,308)	-	1,938	**71,520**
Concessions/licenses/trademarks - indefinite life	**5,832**	2,264,168	2,270,000	-	-	-	-	-	-	**2,270,000**
Goodwill	**5,978,589**	(3,627,326)	2,351,263	-	-	-	-	-	-	**2,351,263**
Customer relationship	**7,563**	459,616	467,179	(521)	-	-	(35,645)	-	582	**431,595**
Technology	**-**	1,414,717	1,414,717	-	-	-	(66,850)	-	-	**1,347,867**
Software applications	**14,031**	-	14,031	8	2,877	(17)	(9,209)	9,860	(23)	**17,527**
Other intangible assets	**20,355**	(7,127)	13,228	(2,714)	5,207	(35)	(2,539)	(9,860)	3,830	**7,117**
	6,068,004	**537,274**	**6,605,278**	**(4,821)**	**8,717**	**(59)**	**(118,553)**	**0**	**6,327**	**6,496,889**

The column **change in scope** for 2017 details for the value of goodwill and other intangible assets attributable to the Prometeon Group and which were transferred following the assignment transaction by Pirelli & C. S.p.A. of the shares of TP Industrial Holding S.p.A., the company into which Pirelli's Industrial assets were merged, to Marco Polo International Holding Italy S.p.A. (subsequently merged by incorporation into Marco Polo International Italy S.p.A.)

Intangible assets are composed mainly of the value of the assets identified during the course of the 2016 financial year following the completion of the allocation of the price paid by Marco Polo Industrial Holding S.p.A. for the acquisition of the Pirelli Group at fair value of the Pirelli assets and liabilities acquired (Purchase Price Allocation or PPA) and recognised into the consolidated Financial Statements following the merger by incorporation of the holding company Marco Polo Industrial Holding S.p.A. into Pirelli, which took place during the same 2016 financial year. It mainly consists of:

- the value of the Pirelli Brand (asset with an indefinite useful life) amounting to euro 2,270,000 thousand. The assessment of the useful life of brands is based on a number of factors including competitors, market share, brand history, product lifecycle, operational plans and macroeconomic scenario of the countries in which relating products are sold. Specifically, the useful life of the Pirelli Brand has been evaluated as indefinite on the basis of its over one hundred year successful history (born in 1872) as well as the intention and ability of the group to continue investing in supporting and upholding the brand;

- the value of the Metzeler Brand (useful life of 20 years) amounting to euro 59,183 thousand;

- product and process Technology and In-Process R&D to the amount of euro 1,181,017 thousand and euro 95,000 thousand respectively. The useful life of the product and process Technology has been determined as equal to 20 years, while the useful life for In-Process R&D as equal to 10 years;

- residual Goodwill amounting to euro 1,877,363 thousand.

Impairment test of goodwill

Pursuant to IAS 36, goodwill is not subject to amortisation but is tested for any reduction of value (impairment) annually or more frequently, if specific events or circumstances arise that may indicate a reduction in value.

For the purposes of such impairment testing, goodwill is allocated to the cash generating units (CGUs) or group of CGUs in compliance with the maximum aggregation limit which cannot exceed that of the operating segment identified pursuant to IFRS 8.

The impairment test consists of comparing the recoverable value of the CGU to which the goodwill is allocated with the carrying amount that includes the operating assets and goodwill.

Goodwill, amounting to euro 1,877,363 thousand, was allocated to the CGU group "*Consumer Activities*", which it represents the only sector of activity in which the Group operates and which it considers to be the minimum level at which goodwill should be monitored for the purposes of internal management control.

The recoverable amount is defined as the higher amount between its value in use (current value of the expected cash flows) and the fair value less the costs of disposal (equivalent value net of sales costs).

The value configuration used to determine the recoverable value of the Consumer Activities at December 31, 2017 is the fair value which is determined using the stock market capitalisation of the Parent Company at the date of the impairment test (December 31, 2017), where the stock market capitalisation is calculated on the number of outstanding shares, without taking any control premium into consideration, and adjusted either upwardly or downwardly for the fair value of items recorded in the Financial Statement which have not been included in the carrying amount of the Consumer Activities (mainly the net financial position).

The impairment test at December 31, 2017 did not show any impairment loss, as the fair value of the Consumer Activities was significantly higher than the carrying amount.

The difference between the recoverable amount and the carrying amount of the group of CGUs relative to the Consumer Activities resulted in a zero balance due to a potential contraction of 44% in the stock market price of Pirelli & C S.p.A. ordinary shares.

Impairment test of the Pirelli Brand (intangible fixed asset with an indefinite useful life)

The Pirelli Brand amounting to euro 2,270,000 thousand is an intangible fixed asset with an indefinite useful life and as such is not subject to amortisation, but pursuant to IAS 36, is tested for impairment annually or more frequently, if specific events or circumstances arise that may indicate a reduction in value.

The impairment test as at December 31, 2017 was carried out with the assistance of an independent third party professional.

The configuration of the recoverable amount for impairment testing purposes at December 31, 2017 was calculated on the basis of the income approach (the so-called Level 3 of the hierarchy of IFRS 13 – Fair Value measurement) and is based on:

- the consensus forecasts by equity analysts with respect to the forecast revenues for the period 2018-2020 in that they were more prudent than the projections made by management;

- the evaluation criterion is composed as sum of parts which also takes into account the contribution of royalties from the Prometeon Tyre Group for the use the Pirelli trademark in relation to the industrial segment;

- the royalty rate applied to the revenues of the Consumer High Value and Consumer Standard segment was deduced from the royalty rates implicit in the valuations made by an independent entity relative to the main brands of the listed companies of the Tyre sector and was equal to an average royalty rate of 4.6%. With reference to the contribution in terms of royalties from the Prometeon Tyre Group, the royalty rate used as provided for by the license agreement was equal to 2%;

- a discount rate of 9.0%, which included a premium determined on the basis of the risk of the specific asset;

- a growth rate of g in the terminal value assumed to be equal to zero;

- the TAB (Tax Amortisation Benefit) that is, the tax benefit that could potentially benefit the market participant due to the possibility of fiscally amortising the asset.

For the purposes of impairment testing, the recoverable amount of the Pirelli Brand cum-TAB was compared with the carrying amount of the Brand cum-TAB and no impairment loss has been identified.

A sensitivity analysis was also carried out in relation to the Key Assumptions used in the valuation of the royalty rate (for the Consumer evaluation unit and for the contribution in terms of royalties from the Prometeon Group); the discount rate, and the g growth factor. The fair value remained higher than the carrying amount even assuming the following changes in the sole Key assumption:

- a downwardly change in the royalty rates for the Consumer evaluation units of 50 basis points and the simultaneous zero balance for royalties from the license agreement with Prometeon Tyre Group;

- an upwardly change in the discount rate of 150 basis points;

- a downwardly change in the g growth rate of 150 basis points.

11. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

(In thousands of euro)	**12/31/2017**			**12/31/2016**		
	Associates	**JV**	**Total**	**Associates**	**JV**	**Total**
Opening balance	**32,446**	**14,564**	**47,010**	**144,260**	**23,088**	**167,348**
Decreases	(10,410)	-	(10,410)	(11,161)	-	(11,161)
Increases	1,496	-	1,496	4,692	-	4,692
Distribution of dividends	(8,556)	-	(8,556)	(100,553)	-	(100,553)
Impairment	(754)	-	(754)	(20,987)	-	(20,987)
Restatement	-	-	-	7,364	-	7,364
Share of net income (loss)	1,361	(9,613)	(8,252)	7,297	(8,524)	(1,227)
Share of other components recognised in Equity	(2,915)	-	(2,915)	1,534	-	1,534
Reclassifications and other	(139)	-	(139)	-	-	-
Closing balance	**12,529**	**4,951**	**17,480**	**32,446**	**14,564**	**47,010**

11.1 Investments in associates

The item Investments in associates was composed as follows:

(In thousands of euro)	**12/31/2016**	**Decreases**	**Increases**	**Distrib. of dividends and reserves**	**Impairment**	**Share of net income (loss)**	**Share of other components recognised in Equity**	**Reclass. and other**	**12/31/2017**
Eurostazioni S.p.A.	**6,271**	-	-	-	-	-	-	-	**6,271**
Prelios S.p.A.	**13,642**	(10,397)	-	-	-	(3,118)	(127)	-	**-**
Fenice S.r.l.	**9,048**	-	-	(8,556)	(215)	5,002	(2,802)	-	**2,477**
Focus Investments S.p.A.	**2,650**	-	-	-	(539)	(759)	-	-	**1,352**
Other Group companies	**835**	(13)	1,496	-	-	236	14	(139)	**2,429**
Total associates	**32,446**	**(10,410)**	**1,496**	**(8,556)**	**(754)**	**1,361**	**(2,915)**	**(139)**	**12,529**

With reference to the investment in Fenice S.r.l., as in the previous financial year, even though the percentage of ownership exceeded 50% of the capital (69.88%), the situation did not entail control for Pirelli over the company, due to the provisions of the Shareholders' Agreements.

The item **decreases** refers to the disposal of the investment in Prelios S.p.A. on December 28, 2017 to Lavaredo S.p.A., a newly established joint stock company designated by the Burlington fund who was counterparty in the transaction. The sale generated a capital gain of euro 5,809 thousand.

The item **distribution of dividends and reserves** refers to the reduction in the capital of Fenice S.r.l. effected through the distribution to shareholders of the amount collected by Fenice S.r.l. for the disposal of the investment held in Prelios S.p.A. to the Burlington fund, in accordance with the preferential allocation criteria as provided for by the Articles of Association.

The item **impairment** mainly refers to the investment in Focus Investments S.p.A. which was carried out in order to align the carrying amount following the application of the equity method to the fair value represented by the pro-rata equity of the associate. The impairment of the investment in Fenice S.r.l of euro 215 thousand was attributable to the adjustment of the carrying amount calculated using the equity method in order to align it to its fair value inclusive of the liquidation preference.

The **pro-rata share of net income** (positive at euro 1,361 thousand) refers mainly to the investment in Fenice S.r.l. which was positive to the amount of euro 5,002 thousand and which directly included the results from the disposal of the investment held in Prelios S.p.A. which was offset by the negative pro-rata results of Prelios S.p.A. of euro 3.118 thousand and Focus Investments S.p.A. of euro 759 thousand.

The Financial Statements of Prelios S.p.A. used in applying the equity method refer to a different closing date than that of December 31, 2017, and include the pro-rata loss for the fourth quarter of 2016 and for the first nine months of 2017.

The investments in associated companies which were evaluated using the equity method are not relevant in terms of the impact on the total for consolidated assets either individually or in aggregate form.

11.2 Investments in joint ventures

The Group holds an investment of 60% in PT Evoluzione Tyres, an entity which operates in Indonesia and is active in tyre production. Even though the company is 60% owned, as a result of the contractual agreements between shareholders it falls under the definition of a joint venture since the governance regulations explicitly require unanimous consensus for significant business decisions. The investment is evaluated using the equity method.

The **share of net income (loss)** which was negative to the amount of euro 9,613 thousand refers to the pro rata amount of the losses for the 2017 financial year.

The investment which was evaluated using the equity method is not relevant in terms of the impact on the total of consolidated assets.

12 OTHER FINANCIAL ASSETS

These amounted to euro 229,519 thousand compared to euro 198,691 thousand at December 31, 2016 and refer to financial assets available for sale, measured at fair value, with any changes to the fair value recognised in equity. The changes which occurred during the financial year are as follows:

(In thousands of euro)	**12/31/2017**	**12/31/2016**
Opening balance	**198,691**	**225,121**
Translation differences	(120)	(715)
Increases	2,465	12,594
Decreases	(11)	(10,761)
Impairment	(11,975)	(11,067)
Fair value adjustments recognised in Equity	40,486	(16,513)
Other	(17)	32
Closing balance	**229,519**	**198,691**

The composition of the item according to individual securities is as follows:

(In thousands of euro)	**12/31/2017**	**12/31/2016**
Mediobanca S.p.A.	149,027	122,167
RCS Mediagroup S.p.A.	30,177	19,307
Other companies	-	22
Total listed securities	**179,204**	**141,496**
Fin. Priv. S.r.l.	19,908	16,471
Fondo Anastasia	15,269	14,636
Istituto Europeo di Oncologia S.r.l.	6,599	6,231
Euroqube	12	12
Tlcom I LP	186	570
Emittenti Titoli	2,748	2,729
Equinox Two SCA	601	3,757
Pirelli De Venezuela C.A.	2,610	10,226
Other companies	2,382	2,563
Total unlisted securities	**50,315**	**57,195**
Total other financial assets	**229,519**	**198,691**

With reference to the investment in Pirelli de Venezuela C.A., consistently with the previous financial year, even though the percentage of ownership exceeded 50% of the capital (96.22%), due to the significant restrictions on relevant activities of the company, that cannot be considered temporary, it was deemed that conditions requested by IFRS 10 for control of the company were not met.

The item **increases** refers mainly to the acquisition of 1,559,250 shares of the company RCS Mediagroup S.p.A. for euro 1,678 thousand and the subscription to 74,555,289 new shares in addition to the existing investment in Alitalia-Compagnia Aerea Italiana S.p.A. for the amount of euro 781 thousand.

The item **impairment** mainly refers to the investment in Pirelli De Venezuela C.A. (euro 7,616 thousand), whose fair value is substantially represented by the impaired liquidity present in the country due to the depreciation recorded during the course of 2017 of the Venezuelan Bolivar against the US Dollar. The item refers mainly to the impairment of investments in Equinox Two S.C.A. (euro 3,062 thousand) and in Alitalia-Compagnia Aerea Italiana S.p.A. (euro 781 thousand). It is to be noted that during the year the Equinox Two S.C.A. fund made partial repayments relating to the share premium which in the past had been subscribed to by each shareholder in the form of dividends for an amount substantially equivalent to the impairment recorded.

The **fair value adjustment recognised in Equity**, which amounted to a positive net value of euro 40,486 thousand, mainly refers to the positive fair value adjustment recorded for the investments in Mediobanca S.p.A. (euro 26,859 thousand) in Fin. Priv. S.r.l. (euro 3,437 thousand), in the RCS Mediagroup S.p.A. (euro 9,193 thousand), in Fondo Anastasia (euro 633 thousand) and in the Istituto Europeo di Oncologia S.r.l. (euro 368 thousand).

The fair value of listed financial instruments corresponds to the stock market price as at December 31, 2017.

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

13 DEFERRED TAX ASSETS AND PROVISION FOR DEFERRED TAX LIABILITIES

Their composition is as follows:

(In thousands of euro)	**12/31/2017**	**12/31/2016**
Deferred tax assets	111,553	147,964
Provision for deferred tax liabilities	(1,216,635)	(1,452,169)
Total	**(1,105,082)**	**(1,304,205)**

Deferred tax assets and deferred tax liabilities were offset where a legal right existed that allowed for the offset of current tax assets and current tax liabilities. The deferred taxes refer to the same legal entity and the same taxation authority.

The provision for deferred taxes mainly refers to the tax effect recognised on the value of the assets identified during the course of the 2016 financial year following the completion of the allocation of the price paid by Marco Polo Industrial Holding S.p.A. for the acquisition of the Pirelli Group at fair value of the Pirelli assets and liabilities acquired (Purchase Price Allocation or PPA), and recorded in the consolidated Financial Statements following the merger by incorporation of the holding company Marco Polo Industrial Holding S.p.A. into Pirelli, which took place during 2016.

The gross amounts for compensations carried out were as follows:

(In thousands of euro)	**12/31/2017**	**12/31/2016**
Deferred tax assets	**288,944**	**243,993**
- of which within 12 months	75,345	54,882
- of which beyond 12 months	213,599	189,111
Provision for deferred tax liabilities	**(1,394,026)**	**(1,548,198)**
- of which within 12 months	(37,569)	(11,193)
- of which beyond 12 months	(1,356,457)	(1,537,005)
	(1,105,082)	**(1,304,205)**

The tax effect of temporary differences and of tax losses carried forward which make up the item is shown in the following table:

(In thousands of euro)	**12/31/2017**	**12/31/2016**
Deferred tax assets:		
Provisions for liabilities and charges	64,277	63,038
Employee benefit obligations	72,359	111,869
Inventories	27,357	24,542
Tax losses carried forward	51,159	12,957
Trade receivables and other receivables	23,541	28,064
Trade payables and other payables	951	341
Derivatives	-	703
Other	49,300	2,479
Total	**288,944**	**243,993**
Provision for deferred tax liabilities:		
Property, plant and equipment and intangible assets	(1,313,032)	(1,506,688)
Other	(80,994)	(41,510)
Total	**(1,394,026)**	**(1,548,198)**

At December 31, 2017 the value of deferred tax assets not recognised on temporary differences amounted to euro 57,114 thousand (euro 97,905 thousand at December 31, 2016), while those related to tax losses amounted to euro 43,791 thousand (euro 125,231 thousand at December 31, 2016).

The value of the tax losses reallocated according to maturities, for which deferred tax assets were not recognised, were as follows:

(In thousands of euro) **Year of maturity**	**12/31/2017**	**12/31/2016**
2017	6,082	10,093
2018	7,374	7,696
2019	3,545	3,626
2020	6,271	6,382
2021	4,284	4,354
2022	6,432	6,022
2023	3,030	3,075
2024	1,818	1,818
2025	5,053	5,053
2026	3,648	-
without maturity date	131,929	428,928
	179,466	**477,047**

The significant reduction in tax losses against which deferred tax assets were not recognised was mainly attributable to the use of tax losses during the course of the financial year as well as to the recognition of deferred tax assets on the residual tax losses as at December 31, 2017 of Pirelli & C. S.p.A. in light of their foreseeable recoverability on the part of the Italian companies of the Group.

Of the total tax losses with no expiration, the amount euro 51,376 thousand mainly refers to losses attributable to the English subsidiary Pirelli UK Ltd for which sufficient taxable income was not expected in order to justify the recoverability thereof.

The tax effect of gains and losses recognised directly in equity was negative to the amount of euro 6,308 thousand (positive to the amount of euro 14,438 thousand for 2016) and are shown in the Statement of Comprehensive Income. These changes were mainly due to tax effects connected to actuarial gains/losses on employee benefits and to the fair value adjustment of derivatives in cash flow hedging.

14. TRADE RECEIVABLES

Trade receivables were analysed as follows:

(In thousands of euro)	12/31/2017			12/31/2016		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Customers	919,573	-	919,573	965,948	-	965,948
Provision for bad debts	(267,086)	-	(267,086)	(286,627)	-	(286,627)
TOTAL	**652,487**	**-**	**652,487**	**679,321**	**-**	**679,321**

Of the total trade receivables which amounted to euro 919,573 thousand (euro 965,948 thousand at December 31, 2016) and recorded gross of the provision for bad debts, euro 382,196 thousand are overdue (euro 441,483 thousand at December 31, 2016). The expired receivables refer to euro 212.656 thousand due from Pirelli de Venezuela C.A. which had been fully impaired in previous financial years (euro 229.304 thousand at December 31, 2016).

Receivables which were past due (expired) and not yet due were evaluated according to the Group's policy described in the section on adopted accounting standards.

Receivables on which provision has been recorded include both significant individual positions subject to individual impairment and positions with similar credit risk characteristics that were grouped together and impaired on a collective basis.

The changes in the provision for bad debts were as follows:

(In thousands of euro)	**12/31/2017**	**12/31/2016**
Opening balance	286,627	265,808
Change in scope	(2,777)	-
Translation differences	(21,865)	11,060
Accruals	17,659	18,173
Decreases	(12,453)	(8,474)
Other	(105)	60
TOTAL	**267,086**	**286,627**

Accruals to the provision for bad debts are recognised in the Income Statement as "Other costs" (Refer to Note 33).

The carrying amount for trade receivables is considered to approximate their fair value.

15. OTHER RECEIVABLES

Other receivables were analysed as follows:

(In thousands of euro)	12/31/2017			12/31/2016		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Financial receivables	131,096	94,585	36,511	125,665	95,714	29,951
Trade accruals and deferrals	34,548	1,513	33,035	44,589	2,618	41,971
Receivables from employees	6,974	1,225	5,749	9,355	1,273	8,082
Receivables from social security and welfare institutions	5,535	-	5,535	6,037	-	6,037
Receivables from tax authorities not related to income taxes	247,015	13,521	233,494	138,841	9,975	128,866
Other receivables	181,808	93,207	88,601	180,455	117,288	63,167
	606,976	**204,051**	**402,925**	**504,942**	**226,868**	**278,074**
Provision for bad debts	(2,387)	-	(2,387)	(2,452)	-	(2,452)
TOTAL	**604,589**	**204,051**	**400,538**	**502,490**	**226,868**	**275,622**

The item **non-current financial receivables** (euro 94,585 thousand) refers mainly to euro 41,535 thousand in sums deposited as guarantees for tax and legal disputes in relation to the subsidiary Pirelli Pneus Ltda (Brazil) and remunerated at market rates, to euro 18,372 thousand in sums deposited into escrow accounts in favour of the pension funds of Pirelli UK Ltd and Pirelli UK Tyres Ltd, to euro 4,638 thousand relative to the non-current portion of insurance premiums paid in advance during the financial year for the issuance of guarantees in favour of the same pension funds, and to euro 12,007 thousand relative to the non-current portion of loans disbursed to the Indonesian joint venture PT Evoluzione Tyres.

The item **current financial receivables** (euro 36,511 thousand) refers to euro 3,713 thousand, being the short-term portion of insurance premiums paid in advance for the issuance of guarantees in favour of the same pension funds, to euro 5,837 thousand, being the short-term portion of loans disbursed to the Indonesian joint venture PT Evoluzione Tyres, and to euro 5,679 thousand accrued on derivative cross currency interest swaps relative to the unsecured syndicated Facilities loan granted to Pirelli International Plc.

The item **receivables from tax authorities not related to income taxes** (euro 247.015 thousand) is mainly comprised of receivables for IVA (value added tax) and other indirect taxes. This increase, if compared to December 31, 2016, was mainly attributable to an increase in indirect tax receivables in Brazil.

The item **other non-current receivables** (euro 93,207 thousand) mainly refers to amounts deposited as guarantees for legal and tax disputes involving the Brazilian entities (euro 73,161 thousand), to receivables for guarantees in Pirelli's favour which may be exercised in the event of contingent liabilities arising in relation to the acquisition occurred in previous year of the company Campneus Lider de Pneumaticos Ltda (Brazil) for euro 2,446 thousand.

The item **other current receivables** (euro 88,601 thousand) mainly includes advances to suppliers for euro 44,459 thousand, receivables from the disposal of property not used for industrial operations in Brazil for euro 2,519 thousand.

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

16. TAX RECEIVABLES

The item tax receivables relates to income taxes which amounted to euro 62.779 thousand (of which euro 27.318 thousand was non-current) compared to euro 76.259 thousand at December 31, 2016 (of which euro 11,864 thousand was non-current). In more details, this mainly refers to receivables for advance payments on taxes for the financial year and to corporate income tax (IRES) receivables from previous financial years recorded for Pirelli & C. S.p.A. to the amount of euro 6,578 thousand.

17. INVENTORIES

Inventories were analysed as follows:

(In thousands of euro)	**12/31/2017**	**12/31/2016**
Raw and auxiliary materials and consumables	147,645	229,218
Sundry materials	5,197	6,780
Work in progress and semi-finished products	48,782	72,672
Finished products	737,558	744,393
Advances to suppliers	1,485	2,576
TOTAL	**940,668**	**1,055,639**

Reversal of impairment on inventories amounted to euro 7,486 thousand (impairments for euro 2,700 thousand at December 31, 2016).

Inventories were not subjected to any guarantee pledges.

18. SECURITIES HELD FOR TRADING

Securities held for trading amounted to euro 33,027 thousand compared to euro 48,597 thousand at December 31, 2016, with a decrease of euro 15,570 thousand mainly due to the cash requirements for the period. This item is almost exclusively comprised of unlisted floating rate bonds.

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

Changes in fair values for the financial year were recognised in the Income Statement as “financial expenses”.

19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents went from euro 1,532,977 thousand at December 31, 2016 to euro 1,118,437 thousand at December 31, 2017.

These were concentrated in the Group holding companies and in companies that generate liquidity and use it locally. These were essentially invested on the short-term maturity deposits market through leading banking counter-parties at interest rates consistent with the prevailing market conditions.

In the Statement of Cash Flows, the balance of cash and cash equivalents has been stated net of passive current accounts and amounted to euro 8,797 thousand at December 31, 2017 (euro 18,411 thousand at December 31, 2016).

20. EQUITY

20.1 Attributable to the Parent Company

The **equity attributable to the Parent Company** went from euro 3,134,085 thousand at December 31, 2016 to euro 4,116,758 thousand at December 31, 2017. This increase was substantially due to the capital increase, equal to euro 1,189,375 thousand including the premium, subscribed to in June 2017 by Marco Polo International Italy S.p.A. (the direct shareholder following the merger with Marco Polo International Holding Italy S.p.A.), to the fair value adjustment of the investments available for sale (positive to the amount of euro 40,486 thousand) and to the net income for the financial year (positive at euro 176,392 thousand) which was offset by: the reduction linked to the assignment of all TP Industrial Holding S.p.A. shares (parent company of the Industrial business) for the amount of euro 289,440 thousand, the difference from the translation of foreign financial statements (negative at euro 86,153 thousand), the actuarial losses on pension funds (negative at euro 14,656 thousand), and the fair value adjustment of derivatives designated as cash flow hedges (negative at euro 14,492 thousand).

The subscribed and paid up **share capital** at December 31, 2017 amounted to euro 1,904,375 thousand and was represented by 1,000,000,000 registered ordinary shares without indication of their nominal value.

The share capital went from euro 1,345,381 thousand gross of treasury shares in portfolio (euro 1,342,281 thousand net of treasury shares held in portfolio), divided into 207,625,214 shares at December 31, 2016, to euro 1,904,375 thousand, divided into 1,000,000,000 shares at December 31, 2017.

The change in the number of shares was determined by the following transactions:

(i) the conversion of all outstanding special shares into the corresponding number of ordinary shares, the annulment of all the 351,590 ordinary treasury shares and all 772,792 special treasury shares without reducing the share capital and the splitting of shares into 1,032,504,160 shares;

(ii) a capital increase, fully subscribed by Marco Polo International Italy S.p.A. on June 29, 2017, of euro 1,189,375 thousand, of which euro 558,994 thousand to be allocated to share capital and euro 630,381 thousand to the share premium reserve, through the issue of 429,005,680 new ordinary shares, without nominal value.

(iii) the grouping of the company's ordinary shares into 1,000,000,000 against 1,461,509,840 outstanding shares as of August 1, 2017.

20.2 Attributable to non-controlling interests

The **equity attributable to non-controlling interests** went from euro 140,773 thousand at December 31, 2016 to euro 60,251 thousand at December 31, 2017. The decrease was mainly due to the non-controlling interests of the Industrial Activities, subjected to assignment. Overall, non-controlling interests recorded a net decrease of euro 80,552 thousand euro as a result of the following main effects:

- increase equal to euro 264,500 thousand resulting from the sale of 38% of the capital of Pirelli Industrial S.r.l (now Prometeon Tyre Group S.r.l) to Cinda on January 13, 2017 under the agreement signed on December 28, 2016 between Pirelli Tyre S.p.A and Cinda. The value of the sale was approximately euro 266 million;

- decrease equal to euro 326,679 thousand resulting from the deconsolidation of the Industrial business, which took place in march 2017, due to the assignment of the total shares of TP Industrial Holding S.p.A., previously held by Pirelli & C. S.p.A, to the sole shareholder Marco Polo International Holding Italy S.p.A. TP Industrial Holding S.p.A. holds 52% of the share capital of Pirelli Industrial S.r.l (now Prometeon Tyre Group S.r.l), company in which Pirelli's Industrial assets were converged;

- decrease equal to euro 9,580 thousand resulting from the acquisition of a 36% stake in the subsidiary company Comercial e Importadora de Pneus Ltda following the exercise by the shareholder Distribudora Automotiva S.A. ("DASA") of a put option with respect to the Group concerning DASA's entire shareholding in Comercial e Importadora de Pneus Ltda. Following this acquisition the Group owns 100% of Commercial e Importadora de Pneus Ltda;

- decrease equal to euro 7,446 thousand resulting from the distribution of dividends during the fiscal year.

21. PROVISIONS FOR LIABILITIES AND CHARGES

The changes that occurred during the financial year are shown below:

PROVISION FOR LIABILITIES AND CHARGES - NON-CURRENT PORTION *(In thousands of euro)*	**12/31/2017**
Opening balance	170,992
Change in scope	(31,005)
Translation differences	(6,893)
Increases	9,915
Uses	(15,092)
Reversals	(534)
Other	(259)
TOTAL	**127,124**

The **non-current portion** mainly refers to provisions made by the subsidiary Pirelli Pneus Ltda, with its headquarters in Brazil, for tax and legal disputes (euro 22,069 thousand) and for labour lawsuits (euro 12,708 thousand), and to provisions made by the parent company Pirelli & C. S.p.A. for tax disputes (euro 4,574 thousand), for commercial risks, site remediation and labour disputes (euro 5,504 thousand), and for occupational diseases litigation (euro 14,657 thousand), to provisions made by Italian subsidiaries for tax risks (euro 8,910 thousand).

The item also includes contingent liabilities (whose outlay is not considered likely) which were identified during the Purchase Price Allocation and were mainly attributable to the European Commission decision made at the conclusion of the antitrust investigation regarding the energy cable business, which foresaw sanctions against Prysmian S.p.A. of approximately euro 104 million, of which a part (euro 67 million), Pirelli was held as being jointly liable with Prysmian S.p.A. despite having been found to not have been involved in the alleged cartel, based solely on the application of the principle of so-called parental liability, in that during part of the period of the alleged infringement, Prysmian S.p.A. was a subsidiary of Pirelli & C. S.p.A. This meant the joint and several liability with Prysmian S.p.A. for the amount provisioned for 50% of the risk (euro 33,500 thousand).

The item **increases** mainly refers to accruals for labour disputes within the subsidiary Pirelli Pneus Ltda (Brazil), and to tax risks.

The item **uses** were for costs incurred mainly due to the labour disputes of the subsidiaries Pirelli Pneus Ltda (Brazil), and for settling pending litigations against Pirelli Tyre S.p.A. and Pirelli C. S.p.A. for disputes relating to occupational diseases.

PROVISION FOR LIABILITIES AND CHARGES - CURRENT PORTION *(In thousands of euro)*	**12/31/2017**
Opening balance	45,987
Change in scope	(7,629)
Translation differences	(1,701)
Increases	23,149
Uses	(9,458)
Reversals	(4,661)
Other	146
TOTAL	**45,833**

The **current portion** mainly includes provisions for product claims and warranties (euro 10,932 thousand), for the remediation of disused areas (euro 6,156 thousand) and work accident insurance relative to the English subsidiary (euro 3,439 thousand).

The item **increases** mainly refers to provisions for product claims and product guarantees, to the remediation of disused areas, to risks related to rendering factories work safe, to tax risks, to labour disputes and work accidents.

The item **uses** was mainly attributable to claims received from the various units of the Group to costs incurred for the remediation of disused areas and for the settlement of tax disputes.

The **reversals** of surplus provisions mostly concerned disputes, claims, the remediation of environmental areas and insurance risks.

22. EMPLOYEE BENEFIT OBLIGATIONS

The item is composed as follows

(In thousands of euro)	**12/31/2017**	**12/31/2016**
Pension funds:		
- funded	92,144	146,363
- unfunded	91,035	96,788
Employee leaving indemnities (TFR - Italian companies)	33,083	38,194
Healthcare plans	18,885	20,761
Other benefits	38,890	65,994
TOTAL	**274,037**	**368,100**

Pension funds

The following table shows the **composition of pension funds at December 31, 2017.**

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

The following table shows **the composition of pension funds at December 31, 2016**:

(In thousands of euro)	12/31/2016						
	Germany	**Sweden**	**Total unfunded pension funds**	**USA**	**UK**	**Other countries**	**Total funded pension funds**
Funded funds							
Present value of funded liabilities				153,495	1,297,199	7,034	1,457,728
Fair value of plan assets				(122,338)	(1,182,241)	(6,786)	(1,311,365)
Unfunded funds							
Present value of unfunded liabilities	93,410	3,378	96,788				
Net liabilities recognised	**93,410**	**3,378**	**96,788**	**31,157**	**114,958**	**248**	**146,363**

The characteristics of the main pension funds in place at December 31, 2017 were as follows:

- **Germany:** a non-funded defined benefit plan based on the last salary. This fund guaranteed a pension in addition to the state pension. The plan was closed in October 1982. Consequently the participants to this plan are employees whose employment had begun prior to that date;

- **USA**: a funded defined benefit plan based on the last salary. This fund guaranteed a pension in addition to the state pension and was administered by a Trust. The plan was closed in 2001 and frozen in 2003 for employees who then transferred to a defined contribution scheme. All participants to this plan have since retired;

- **UK**: a funded defined benefit plan based on the last salary. It guarantees a pension in addition to the state pension and is administered internally by a Trust. The plans managed by the subsidiary Pirelli Tyres Ltd were closed in 2001 to new participants and frozen during 2010 for employees hired prior to 2001, who were then offered a transfer to a defined contribution plan. The plan was operated by the subsidiary Pirelli UK Ltd, which included the employees in the Cables and Systems sector which was sold in 2005, and was already frozen at the date of the disposal;

- **Sweden**: a defined benefits plan (ITP2), which is closed to new participants. The only participants are retired employees and the recipients of deferred pensions.

Changes for the 2017 financial year in the net liabilities of defined benefits (refers to funded and non-funded pension funds) were as follows:

(In thousands of euro)	**Present value of gross liabilities**	**Fair value of plan assets**	**Total net liabilities**
Opening balance at January 1, 2017	1,554,516	(1,311,365)	243,151
Translation difference	(63,468)	56,428	(7,040)
Movements through income statement:			
- current service cost	1,538	-	1,538
- cost of services rendered for previous years	(5,559)	-	(5,559)
- earnings from settlement	(1,375)	-	(1,375)
- interest expense / (income)	40,590	(35,554)	5,036
	35,194	**(35,554)**	**(360)**
Remeasurements recognized in equity:			
- actuarial (gains) / losses from change in demographic assumptions	237	-	237
- actuarial (gains) / losses from change in financial assumptions	25,746	-	25,746
- experience adjustment (gains) losses	(7,940)	-	(7,940)
- return on plan assets, net of interest income	-	(3,277)	(3,277)
	18,043	**(3,277)**	**14,766**
Employer contributions	-	(43,690)	(43,690)
Additonal employer contributions - Buy in	-	(18,674)	(18,674)
Employee contributions	250	(250)	-
Incentivised exit from benefits fund	(77,085)	77,085	-
Benefits paid	(69,404)	63,254	(6,150)
Settlements	-	-	-
Other	(1,004)	2,180	1,176
Closing balance at December 31, 2017	**1,397,042**	**(1,213,863)**	**183,179**

Changes for the 2016 financial year in the net liabilities of defined benefits (refers to funded and non-funded pension funds) were as follows:

(In thousands of euro)	**Present value of gross liabilities**	**Fair value of plan assets**	**Total net liabilities**
Opening balance at January 1, 2015	**1,507,833**	**(1,257,045)**	**250,788**
Translation difference	(183,676)	167,003	(16,673)
Movements through income statement:			
- current service cost	989	-	989
- interest expense / (income)	50,661	(43,766)	6,895
	51,650	**(43,766)**	**7,884**
Remeasurements recognized in equity:			
- (gain)/loss from change in demographic assumptions	1,816	-	1,816
- (gain)/loss from change in financial assumptions	272,810	-	272,810
- experience (gains) losses	(22,656)	-	(22,656)
- return on plan assets, net of interest income	-	(205,275)	(205,275)
	251,970	**(205,275)**	**46,695**
Employer's contributions	-	(41,035)	(41,035)
Employee contributions	24	(24)	-
Benefits paid	(72,838)	66,766	(6,072)
Settlements	-	-	-
Other	(447)	2,011	1,564
Closing balance at December 31, 2016	**1,554,516**	**(1,311,365)**	**243,151**

The current and previous cost for services rendered by employees and the gains generated from settlements are included in the item *"Personnel expenses"* (Refer to Note 31), and the net interests payable are included in *"Financial expenses"* (Refer to Note 36).

During the course of the 2017 financial year a series of exercises were initiated, defined as Liability Management Exercises, as a further measure to reduce the risks for the Group in exchange for incentives and greater flexibility. These exercises are subdivided into two types:

- Pension Increase Exercises (PIE): these consisted of offers made to retirees to swap annuities which were (partially) indexed to inflation with higher amounts initially but with reduced indexation. The reduction of this indexation, besides representing a measure of risk management, allows for the redefinition of past performance costs, with a positive effect of euro 5,335 thousand;

- Enhanced Transfer Value (ETV): these consisted of offers made to retirees for an incentivised exit from defined benefit funds. This is also primarily a risk management measure, namely to combat the exposure of the company to all pension risks (not just inflation risks, but also rates, longevity and investment risks) linked to retirement benefits amounts matured by those who accept these offers. The estimated earnings generated from extinction (euro 1,375 thousand) were mainly related to the (downward) trend in interest rates between the date of the offer and the end date of the financial year.

In addition, at the end of October 2017, with reference to three UK minor pension funds – the Pirelli General Executive Pension and Life Assurance Fund, Pirelli Tyres Limited Executive Retirement Benefits Scheme and Pirelli General Overseas Retirement Benefits Scheme - which together had recorded a gross liability at December 31, 2017 equal to euro 85,512 thousand, certain so-called *"buy in"* had been entered into which consisted of the purchase of insurance policies (so-called *"bulk annuities"*). The purchase was entirely finalised by using all the plan assets, with the addition of an additional contribution at December 31, 2017 of euro 18,674 thousand which was recognised in equity.

The policies were stipulated on an individual basis (for each member of the funds) but on a collective basis (one for each of the three pension funds) with the intention of replicating the financial profile of their respective liabilities, in order to thus relieve the Group of all the aforementioned risks.

At December 31, 2017, these insurance policies were recognised in the Financial Statements as assets servicing the plans and were on the same basis as the liabilities to which they refer.

The **composition of funded pension fund assets** was as follows:

(In thousand of euro)	**12/31/2017**				**12/31/2016**			
	listed	**unlisted**	**total**	**%**	**listed**	**unlisted**	**total**	**%**
Shares	66,421	-	66,421	5.5%	71,493	347,644	419,137	32.1%
Bonds	73,535	-	73,535	6.1%	141,921	28,405	170,326	13.0%
Insurance policies	87,717	6,040	93,757	7.7%		6,786	6,786	0.5%
Deposits	339,083	-	339,083	27.9%	306,869	(50,795)	256,074	19.5%
Balanced funds	16,813	596,829	613,642	50.6%	6,279	307,740	314,019	23.9%
Real Estate	1,258	-	1,258	0.1%	-	-	-	0.0%
Derivatives	879	4,120	4,999	0.4%		81,549	81,549	6.2%
Other	21,168	-	21,168	1.7%	10,301	53,172	63,473	4.8%
	606,874	**606,989**	**1,213,863**	**100%**	**536,864**	**774,501**	**1,311,365**	**100%**

The principal risks to which the Group is exposed in relation to the pension funds are detailed as follows:

- the volatility of the pension fund assets: in order to be able to balance liabilities, the investment strategy cannot limit its horizons exclusively to risk free assets. This implies that certain investments, such as listed securities represent high volatility for the short-term, and that this exposes the plans to risks such as the reduction in value of the assets in the short-term, and to the consequent increase in imbalances. However, this risk is mitigated by diversifying investments into numerous investment classes, through different investment managers, through different investment styles and with exposures to multiple factors which are not perfectly correlated to each other. Moreover, the investments are continuously revised in response to market conditions, and adjusted in order to maintain the overall risk at acceptable levels;

- changes in the bond yields and in the forecast inflation: the expectations of declining bond yields and/or rising inflation brings about an increase in the value of liabilities. The plans reduce this risk through investments in liability hedging assets. In the United Kingdom, the protection guaranteed by a portfolio of this type has been built up over the last few years, and as of the second quarter of 2014 it had reached a coverage which oscillates between 100% and 115% of the value of the liabilities covered by assets;

- life expectancy: the increase in life expectancy entails an increase in the value of a plan's liabilities. The UK plans were completed during the course of 2016, a process which allowed them to be, through the so-called longevity swaps, stipulated with a pool of insurance companies, to cover approximately 50% of the risks. Residual risks are evaluated by using prudent hypotheses whose adequacy is revised periodically.

In the UK the management of pension fund assets has been delegated, under the supervision and within a precise mandate attributed by the Trustees, to a Fiduciary Manager who operates in accordance with a model of Liability Driven Investment (LDI), namely using the liability benchmark as a reference so as to minimise the volatility (and thus the risk) of the deficit, which in fact has been reduced to approximately one third compared to the levels which existed prior to its introduction (at the beginning of 2011).

The key parameters of this mandate were as follows:

- a mix of assets subject to dynamic management over time, rather than a fixed allocation strategy;

- a hedge which covers approximately 100% - 115% of the risk associated with interest rates and inflation - where the percentage represents the value of assets - through the use of debt instruments such as government bonds and derivatives;

- the management of exchange rate risk which aims at covering at least 70% of the exposure to foreign currencies held in the portfolio through the use of forward contracts.

Furthermore, during the course of 2016, following the increase in financial leverage resulting from the merger of Pirelli & C. S.p.A. with Marco Polo Industrial Holding S.p.A. and the impact deriving from the covenants of the Group, an agreement (the Pension Framework Agreement) was entered into from within the refinancing process with the UK pension funds, through which, a package of measures (entered into with a pool of insurance companies, the so called Credit Support Guarantees, comprising of limited payments by way of restricted deposits into escrow accounts, and the definition of an accelerated contributions plan limited to a period of extraordinary leverage) was put in place to guarantee the *"synthetic"* restoration of these covenants to levels which existed prior to the acquisition of the Pirelli Group by Marco Polo Industrial Holding S.p.A., for the purposes of continuing the work of the gradual settlement of the relative deficits previously imposed.

In the UK, the funding arrangements and funding policies are revised every three years. The next funding evaluation is expected in 2020. In the United States funding evaluations are carried out on an annual basis.

The contributions which are expected to be paid into the unfunded pension funds during the 2018 financial year amounts to euro 6,177 thousand, while for funded pension funds the amount expected is euro 32,463 thousand.

Employees' leaving indemnities (TFR)

Changes for the financial year for the employees' leaving indemnities provision were as follows:

(In thousands of euro)	**12/31/2017**	**12/31/2016**
Opening balance	38,194	38,625
Industrial assignment	(1,949)	-
Movements through Income Statement:		
- current service cost	302	629
- interest expense	552	814
Remeasurements recognized in equity:		
- actuarial (gains)/losses arising from changes in demographic assumptions	(488)	-
- actuarial (gains)/losses arising from changes in financial assumptions	581	1,974
- experience (gains)/losses	(2,510)	-
Indemnities/advanced payments	(1,083)	(3,587)
Other	(516)	(261)
Closing balance	**33,083**	**38,194**

The current cost for services rendered by employees is included in the item "Personnel expenses" (Refer to Note 31) while interest payables are included in the item *"Financial expenses"* (Refer to Note 36).

Healthcare plans

This item refers exclusively to the healthcare plan in place in the United States.

(In thousands of euro)	**USA**
Liabilities recognised in the Financial Statements at 12/31/2017	18,885
Liabilities recognised in the Financial Statements at 12/31/2016	20,761

The following changes occurred during the period:

(In thousands of euro)	**12/31/2017**	**12/31/2016**
Opening balance	20,761	21,449
Translation differences	(2,553)	638
Movements through income statement:		
- current service cost	4	4
- interest expense	749	792
Remeasurements recognised in equity:		
- actuarial (gains) losses arising from changes in financial assumptions	691	266
- actuarial (gains) losses arising from changes in demographic assumptions		132
- experience adjustment (gains) losses	347	(1,350)
Benefits paid	(1,114)	(1,170)
TOTAL	**18,885**	**20,761**

The cost for the service is included in the item *"Personnel expenses"* (Refer to Note 31), and net interests payable is included in *"Financial expenses"* (Refer to Note 36).

The contributions which are expected to be paid into the healthcare plan during the 2018 financial year amount to euro 1,425 thousand.

Additional information regarding post-employment benefits

Net actuarial losses accrued during the 2017 financial year and recognised directly in equity amounted to euro 14,656 thousand.

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

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

The main actuarial assumptions used at **December 31, 2016** were as follows:

	Italy	**Germany**	**Netherlands**	**Sweden**	**UK**	**USA**	**Switzerland**
Discount rate	1.50%	1.50%	1.50%	2.15%	2.70%	3.90%	0.70%
Inflation rate	1.00%	1.50%	1.50%	1.50%	3.18%	N/A	1.00%

The following table presents an analysis of the payment deadlines relative to post-employment benefits:

(In thousands of euro)	**within 1 year**	**1 to 2 years**	**3 to 5 years**	**over 5 years**	**Total**
Pension funds	63,915	64,258	194,778	65,316	388,267
Employees' leaving indemnities (TFR)	2,707	2,404	7,459	10,850	23,420
Healthcare plan	1,425	1,417	4,202	6,466	13,510
	68,047	**68,079**	**206,439**	**82,632**	**425,197**

The weighted average term for bonds for post-employment benefits is equal to 15.29 years (16.17 years at December 31, 2016).

The sensitivity analysis for the relevant actuarial assumptions at the end of the 2017 financial year was as follows:

(in %)		**Impact on post employment benefits**			
	Change in assumptions	**Increase in assumptions**		**Decrease in assumptions**	
Discount rate	0.25%	decrease of	3.61%	increase of	3.83%
Inflation rate (only UK plans)	0.25%	increase of	2.46%	decrease of	2.23%

At the end of the 2016 financial year the situation was as follows:

(in %)		**Impact on post employment benefits**			
	Change in assumptions	**Increase in assumptions**		**Decrease in assumptions**	
Discount rate	0.25%	decrease of	6.53%	increase of	4.17%
Inflation rate (only UK plans)	0.25%	increase of	3.47%	decrease of	2.77%

The sole purpose of the analysis outlined above was to estimate the changes in liability in relation to changes in the discount rates and inflation rates in the UK by using the central hypothesis on the rates themselves, rather than referring to an alternative set of hypotheses.

The sensitivity analysis on the liabilities related to post-employment benefits is based on the same methodology used to calculate the liability recognised in the Financial Statements.

Other long-term benefits

The composition of other benefits is as follows:

(In thousands of euro)	**12/31/2017**	**12/31/2016**
Long-term incentive plans	-	15,072
Jubilee awards	19,262	18,303
Leaving indemnities	12,974	25,778
Other long-term benefits	6,654	6,841
TOTAL	**38,890**	**65,994**

The item "**Long-term Incentive Plans"** at December 31, 2016 included the amount earmarked for the new three-year 2016 Long-term Incentive Plan intended for the Group's management. In order to maintain the alignment of the interests of management with the interests of Shareholders, also in consideration of the launch of the new 2017-2020 strategic plan as well as Pirelli's listing, this incentive plan was closed early during the course of the financial year. As a result of the early closure, the matured liability was reclassified under the item *"payables to employees"* at December 31, 2017.

23. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Borrowings from banks and other financial institution were as follows:

(In thousands of euro)		**12/31/2017**			**12/31/2016**	
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Bonds	596,280	596,280	-	594,314	594,314	-
Borrowings from banks	3,787,428	3,298,717	488,711	5,932,336	5,349,503	582,833
Borrowings from other financial institutions	50,267	1,176	49,091	24,300	1,567	22,733
Financial leasing payables	428	324	104	78	18	60
Accrued financial expenses and deferred financial income	18,175	30	18,145	29,253	36	29,217
Other financial payables	3,679	562	3,117	7,765	561	7,204
Total	**4,456,257**	**3,897,089**	**559,168**	**6,588,046**	**5,945,999**	**642,047**

The item **bonds** refers to the unrated bond, placed by Pirelli International Plc on the Eurobond market in November 2014 for the nominal amount of euro 600 million, with a fixed coupon of 1.75%.

On February 23, 2018 Pirelli International Plc decided to exercise the option for early repayment and the subsequent cancellation of the bond. The early repayment, which will cover the entire loan, and which responds to the objective announced for the constant optimisation of the Group's financial structure, will take place through the exercise of the *"Make Whole Issuer Call"* which is provided for by the current Terms and Conditions of the loan. The operation is expected to be finalised by March 31, 2018.

The item **borrowings from banks**, which amounted to euro 3,787,428 thousand, mainly refers to:

- the use of the unsecured (*"Facilities"*) financing granted to Pirelli & C. S.p.A. and Pirelli International Plc for the amount of euro 3,277,477 thousand. The contractual refinanced total of the operation subscribed to on June 27, 2017, (with a closing date of June 29, 2017) amounted to euro 4.1 billion (it had originally amounted to euro 4.2 million). This refinancing was achieved at a lower overall cost of less than 1.85% with maturities in three and five years. This financing which had first been subscribed to by three underwriters was subsequently the subject of syndication by a pool of 18 credit institutions on July 7, 2017. It is to be noted that at December 31, 2016 the Pirelli Group was financed by secured credit facilities of which the amount of euro 5,280,746 thousand had been used, against the contractual credit amount of euro 6,289,820 thousand, which had originally been euro 6.4 billion. On June 27, 2017, Marco Polo International Italy S.p.A. subscribed to a share capital increase for Pirelli & C. S.p.A. of approximately euro 1.2 billion, which allowed the Group to reduce its bank debt by the same amount through the new financing operation. The refinancing involved the recognition of the extinction of the secured loan and the subsequent reversal to the Income Statement of the portion of costs not amortised at the reporting date (Refer to Note 36 – *"Financial expenses"*). This financing has been entirely classified under long-term borrowings from banks;

- euro 372,981 thousand relative to loans disbursed in Brazil by local banking institutions of which euro 10,746 thousand has been classified as non-current borrowings from banks;

- loans granted by the European Investment Bank (EIB) in favour of S.C. Pirelli Tyres Romania S.r.l. for local industrial investments for a total amount of euro 30,000 thousand (euro 50,000 thousand at December 31, 2016), which were fully used, with euro 20,000 thousand reported under current borrowings from banks, while the residual part of euro 10,000 thousand has been reported under non-current borrowings from banks.

- euro 51,528 thousand refers in particular to certain loans classified as current borrowings from banks granted to the Mexican subsidiaries;

- euro 31,004 thousand representing the two long term loans granted to the subsidiary Pirelli Otomobil Lastikleri (Turkey) and classified as current borrowings from the banks;

- bank finance and the use of credit facilities at local level in Russia (euro 8,762 thousand), in Japan (euro 5,925 thousand) and in Sweden (euro 5,075 thousand), classified entirely as current borrowings from banks.

At December 31, 2017 the Group recorded a liquidity margin equal to euro 1,851.5 million composed of euro 700 million in the form of a non-utilised nominal credit facility and euro 1,151.5 million in cash and cash equivalents and securities held for trading.

The change in the total borrowings from banks and other financial institutions was follows:

(In thousands of euro)	
Borrowings from banks and other financial institutions at December 31, 2016	**6,588,046**
Drawdowns of *secured financing (Senior Facilities)*	673,937
Reimbursements of *secured financing* (*Senior Facilities*)	(5,899,338)
Drawdowns of *unsecured financing (Facilities)*	4,226,064
Reimbursements of *unsecured financing (Facilities)*	(863,405)
Reimbursement of BEI borrowing	(20,000)
Net cash flow from Industrial assignment	(49,960)
Amortized cost for the period	81,336
Translation differences and other movements for the period	(280,423)
Borrowings from banks and other financial institutions at December 31, 2017	**4,456,257**

Accrued financial expenses and deferred financial income (euro 18,175 thousand) mainly refers to the accrual of interest on loans from banks to the amount of euro 16,784 thousand (euro 24,902 thousand at December 31, 2016), and to the accrued interest matured on bonds to the amount of euro 1,237 thousand (euro 1,237 thousand at December 31, 2016).

Current and non-current financial payables backed by secured guarantees (pledges and mortgages) totalled euro 676 thousand (euro 5,290,188 thousand at December 31, 2016). The amount at December 31, 2016 refers mainly to the secured "*Senior Facilities*" financing granted to Pirelli & C. S.p.A. and Pirelli International Plc.

On June 29, 2017, the real guarantees constituted on all the assets granted as collateral by the Pirelli Group were unconditionally and irrevocably cancelled against the euro 6.4 billion financing subscribed to on July 25, 2016 which was fully repaid on June 29, 2017.

The carrying amount for current financial payables is considered to approximate their fair value. The table below compares the fair value of non-current financial payables with their carrying amount:

(In thousands of euro)	**12/31/2017**		**12/31/2016**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Pirelli International Plc bonds	596,280	613,998	594,314	609,888
Borrowings from banks	3,298,717	3,355,453	5,349,503	5,349,925
Other financial payables	2,092	2,092	2,182	2,182
Total non-current financial payables	**3,897,089**	**3,971,543**	**5,945,999**	**5,961,995**

The public bond issued by Pirelli International Plc is listed and its relative fair value has been measured on the basis of prices at financial year-end. It has therefore been classified in level 1 of the hierarchy provided for by IFRS 13 – Fair Value Measurement.

The apportionment of borrowings from banks and other financial institutions according to the currency of origin for the debt, at **December 31, 2017** and **December 31, 2016** was as follows:

(In thousands of euro)	**12/31/2017**	**12/31/2016**
EUR	2,270,509	4,439,989
USD (US Dollar)	1,968,909	1,786,734
BRL (Brasilian Real)	105,471	265,122
MXN (Mexican Peso)	51,528	47,351
TRY (Turkish Lira)	31,004	37,737
Other Currencies	28,836	11,113
Total	**4,456,257**	**6,588,046**

At December 31, 2017 there were derivative hedging instruments for interest rates and exchange rates on floating rate debts in foreign currency.

The Group's exposure to changes in interest rates on financial payables, both in terms of the type of interest rate and in terms of the date of the renegotiation of the same (resetting) was subdivided as follows:

- a floating rate payable to the amount of euro 3,441,453 thousand, whose interest rate is subject to renegotiation within the first six months of 2018;

- a fixed rate payable to the amount of euro 1,014,804 thousand, whose interest rate is not subject to renegotiation until the natural maturity of the debt to which it refers (euro 414,116 thousand) due in the following 12 months and euro 600,688 thousand euro due in over 12 months.

The **average cost of debt** during the 2017 financial year was equal to 5.36% (5.82% for 2016).

With regard to the existence of financial covenants, it is to be noted that the refinancing operation (*"Facilities"*) granted to Pirelli & C. S.p.A. and Pirelli International Plc provides for the compliance with the maximum ratio (*"Total Net Leverage"*) between net indebtedness and the gross operating margin as reported in the consolidated Financial Statements of Pirelli & C. S.p.A.

The failure to comply with the financial covenant is identified as an event of default, which if exercised within the terms and conditions of the contract by a certain number of the lending banks, whereby they represent at least 66 2/3% of the total commitment, will result in the early repayment (either partial or total) of the loan with the simultaneous cancellation of the related commitment. This parameter results as having been complied with at December 31, 2017.

The refinancing operation provides for a Negative Pledge clause whose terms and conditions are consistent with the market standards for this type of credit facility.

The other outstanding financial payables do not contain financial covenants.

It is to be noted that on January 22, 2018 as part of the EMTN (Euro Medium Term Note) program approved by the Board of Directors at the end of 2017 and subscribed to on January 10, 2018, Pirelli placed a bond loan with international institutional investors for a nominal amount of euro 600 million with a five year duration at a fixed rate.

24. TRADE PAYABLES

Trade payables were composed as follows:

(In thousands of euro)		12/31/2017			12/31/2016	
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Suppliers	1,634,950	-	1,634,950	1,463,888	-	1,463,888
Bill and notes payable	38,692	-	38,692	34,604	-	34,604
Total	**1,673,642**	**-**	**1,673,642**	**1,498,492**	**-**	**1,498,492**

The carrying amount of trade payables is considered to approximate their fair value.

25. OTHER PAYABLES

Other payables were as follows:

(In thousands of euro)		12/31/2017			12/31/2016	
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Accrued expenses and deferred income	75,787	43,995	31,792	81,215	42,046	39,169
Tax payables not related to income taxes	120,100	5,730	114,370	107,991	5,868	102,123
Payables to employees	115,835	817	115,018	138,390	-	138,390
Payables to social security and welfare intitutions	71,058	21,332	49,726	86,677	36,467	50,210
Dividends payable	338	-	338	6,442	-	6,442
Other payables	256,571	2,561	254,010	449,786	3,040	446,745
Total	**639,689**	**74,435**	**565,254**	**870,500**	**87,421**	**783,079**

The item **non-current accrued expenses and deferred trade income** refers to euro 41,290 thousand in capital contributions received for investments in Mexico and Romania, whose benefits are recognised in the Income Statement in proportion to the costs for which the contribution was disbursed, to euro 2,180 thousand in costs for trade initiatives in Brazil.

The item **current accrued expenses and deferred trade income** includes euro 10,090 thousand for various trade initiatives realised in Germany and Brazil, euro 9,275 thousand in government grants and incentives received mainly in Italy, Romania and Brazil, and euro 2,525 thousand for costs related to insurance coverage in some European countries, Argentina and Turkey.

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

The item **payables to employees** mainly includes amounts accrued during the financial year but not yet paid, as well as payables from the three year Long-Term Incentive plan 2016-2018 intended for the Group's management, and closed early during the course of the 2017 financial year to the amount of euro 8,717 thousand.

The item **other current payables** (euro 254,010 thousand) mainly includes:

- euro 24,979 thousand in advance payments (euro 307,270 thousand at 31 December 2016). At December 31, 2016 the item included the amount of euro 265,045 thousand as advance payment on December 30, 2016 from the Cinda fund for the disposal of the 38% share of Pirelli Industrial finalised during the course of January 2017.
- euro 105,431 thousand for the purchase of property, plant and equipment (euro 66,789 thousand at December 31, 2016);
- euro 21,111 thousand for costs incurred in relation to the IPO process;
- euro 18,589 thousand relative to the residual debt payable to the minority shareholder Distribudora Automotiva S.A., for the purchase of a 36% stake in the subsidiary Comercial and Importadora, a Group company which owns a network of points of sale in Brazil. Following the transaction, Comercial and Importadora de Pneus Ltda was wholly owned by the Group;
- euro 18,459 thousand in payables to representatives, agents, professionals and consultants (euro 21,367 thousand at December 31, 2016);
- euro 14,872 thousand in withholding taxes on income (euro 12,476 thousand at December 31, 2016);
- euro 15,000 thousand in payables to companies in the Prometeon group;
- euro 7,857 thousand in payables to directors, auditors and supervisory bodies (euro 7,617 thousand at December 31, 2016);
- euro 2,638 thousand for debts relating to customs duties, import and transport expenses;

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

26. TAX PAYABLES

Tax payables were for the most part related to national and regional income taxes in different countries and amounted to euro 50,815 thousand (of which euro 2,399 thousand was for non-current liabilities), compared to euro 45,147 thousand at December 31, 2016 (of which euro 3,374 thousand was for non-current liabilities).

27. DERIVATIVE FINANCIAL INSTRUMENTS

The item includes the fair value of derivative instruments and is composed as follows:

(In thousands of euro)	12/31/2017				12/31/2016	
	Non current assets	**Current assets**	**Non current liabilities**	**Current liabilities**	**Current assets**	**Current liabilities**
Without adoption of hedge accounting						
Exchange rate derivatives - commercial positions	-	6,357		(6,662)	13,403	(16,102)
Exchange rate derivatives - included in net financial position	-	21,413		(11,248)	3,718	(35,742)
Hedge accounting adopted						
- cash flow hedge:						
Exchange rate derivatives - commercial positions					1,196	
Interest rate derivatives	878					
Other derivatives			(54,963)		5,672	(326)
	878	**27,770**	**(54,963)**	**(17,910)**	**23,989**	**(52,170)**
- Total derivatives included in net financial position		21,413	(54,963)	(11,248)	3,718	(35,742)

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

(In thousands of euro)	**12/31/2017**	**12/31/2016**
Current assets		
Forward foreign exchange contracts - fair value recognised in the Income Statement	27,770	17,122
Average rate forward - cash flow hedge		1,196
Futures - cash flow hedge		5,671
Total current assets	**27,770**	**23,989**
Non current assets		
Interest rate swaps - cash flow hedge	878	
Total non current assets	**878**	**-**
Current liabilities		
Forward foreign exchange contracts - fair value recognised in the Income Statement	(17,910)	(51,845)
Futures - cash flow hedge	-	(325)
Total current liabilities	**(17,910)**	**(52,170)**
Non current liabilities		
Cross currency interest rate swaps - cash flow hedge	(54,963)	-
Total non current liabilities	**(54,963)**	**-**

Derivative financial instruments not in hedge accounting

The value of **foreign currency derivatives** included in assets and liabilities corresponds to the fair value of forward currency purchases/sales outstanding at the closing date of the period. These were hedge operations for the commercial and financial transactions of the Group for which hedge accounting option was not adopted. The fair value was determined by using the forward exchange rate at the reporting date.

Derivative financial instruments with the adoption of hedge accounting

The value of **interest rate derivatives** recorded as non current assets to the amount of euro 878 thousand refers to the fair value of three forward start interest rate swaps with a notional amount of euro 250 million traded in September 2017, with start dates of June 2019 and maturing in June 2022, which exchange a fixed rate against a 6-month EURIBOR.

The objective of these derivatives, for which hedge accounting of the cash flow hedge type was adopted, is to hedge a future transaction represented by interest flows on a fixed rate liability which is considered highly probable. The change in fair value for the period, positive at euro 878 thousand has been entirely suspended in equity.

A change of +0.5% in the EURIBOR curve, all other conditions being equal, would result in a positive change of euro 3,567 thousand in the equity of the Group, while a change of -0.5% in the EURIBOR curve, all other conditions being equal, would result in a negative change of euro 3,692 thousand in the equity of the Group

The value of **other derivatives**, detected amongst non-current liabilities to the amount of euro 54,963 thousand, refers to the fair value valuation of 11 cross currency interest rate swaps with the following characteristics:

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

The objective of these derivatives, for which hedge accounting of the cash flow hedge type was adopted, was to hedge the Group against the risk of fluctuations in cash flows associated with changes in the LIBOR rate and changes in the USD/ EUR exchange rate, generated by a floating rate liability in USD for a notional amount of USD 3,124 million, equivalent to euro 2,667 million. The change in the fair value for the period was negative at euro 54,963 thousand, and was suspended in equity to the amount of euro 13,384 thousand, while euro 41,579 thousand was recognised in the Income Statement under the item "*Valuation at fair value of foreign currency derivatives*". (Refer to Note 35).

A parallel change of +0.5% in the EURIBOR and LIBOR curves, all other conditions being equal, would result in a positive change of euro 12,178 thousand in the equity of the Group, while a change of -0.5% in the same curves, all other conditions being equal, would result in a negative change of euro 12,613 thousand in the equity of the Group

28. COMMITMENTS AND RISKS

COMMITMENTS FOR THE PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

The commitments to purchase property, plant and equipment amounted to euro 141,153 thousand and refer mainly to companies in Romania, Brazil, Russia and Mexico.

COMMITMENTS FOR THE PURCHASE OF EQUITY INVESTMENTS/FUND SHARES

These refer to commitments to purchase shares in Equinox Two S.c.a., a private equity company, for an amount equal to a maximum of euro 1,784 thousand.

OTHER RISKS

Tax disputes in Brazil

The subsidiary Pirelli Pneus is involved in tax disputes and litigations as described as follows.

Disputes concerning the ICMS tax receivables assigned by the State of Santa Catarina

With reference to the dispute concerning the ICMS tax receivables (*Imposto Sobre Operações Relativas à Circulação* or state value added tax) assigned by the State of Santa Catarina, Pirelli Pneus Ltda received notices of assessment which disavowed the ICMS tax receivables. The claim was motioned by the State of São Paulo, according to which Pirelli Pneus benefited from the ICMS tax credits assigned by the State of Santa Catarina, but which were deemed to have been unlawful from the start in that they were assigned by the latter in violation of the Brazilian Constitution, in the absence of a previous agreement between the various States. The dispute has been presented before the competent administrative and tax commissions and, despite the first decisions not being favourable to Pirelli Pneus, the Group maintains that it has a good chance of winning the next court of law.

This assessment was based on an orientation in favour of the tax payer whose legal position is strengthening, in particular, as with another case under consideration by the Brazilian Supreme Court, which will have to express its legal position through a sentence with binding scope for everyone, on the impossibility for a Federal State to penalise the tax payer for the use of credits granted by law by another Federal State, even if that law did not observe constitutional rules. According to a previous jurisprudence of the Supreme Court, this dispute should be managed by the Federal States, and without unduly penalising the tax payer.

In addition to the above, a legislative provision (Complementary Law No. 160) came into force on August 8, 2017, which should put an end to this dispute between the various states in Brazil. This legislation establishes that the aforementioned States may, on a voluntary basis, sign an agreement (the so-called *"convênio"*) which given certain conditions is able to validate the incentives which up to now have been considered illegitimate, and therefore also extinguish the related sanctions imposed by the Brazilian tax authorities. To date there are still some implementative aspects to be defined before this new provision can be applied to the case in question, however there is a clear indication of the commitment by the Brazilian States to put an end to these forms of objections and to prevent new ones in the future.

The risk is estimated at approximately euro 173 million, inclusive of taxes, interests and penalties.

The risk of losing has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for this dispute.

Litigation concerning the IPI tax rate applicable to certain types of tyres

The subsidiary Pirelli Pneus is involved in a tax disputes with the Brazilian tax authorities concerning the IPI tax with particular reference to the tax rate applicable to the production and importation of tyres for the Sport Utility Vehicle (SUV), Vans and other industrial transportation vehicles (such as, for example, trucks).

According to statements by the Brazilian tax authorities in the tax assessment notices issued during the course of 2015 and 2017, the aforementioned tyres should have been subjected to the IPI tax rate for the production and importation of tyres for cars – an applicable rate of 15% - instead of the 2% rate applied by Pirelli Pneus, as provided for the production and importation of tyres for heavy industrial use vehicles. To date, the dispute is pending before the competent administrative and tax commissions and, despite a first unfavourable decision regarding the assessment relating to the 2015 fiscal period, the Group maintains that it has a good chance of winning. This position is also supported by an appraisal prepared by a Brazilian government institution (the INT - National Institute of Technology) specifically commissioned by Pirelli Pneus who concluded their analysis by equating, in light of their similar characteristics, the tyres discussed with those used for heavy industrial vehicles.

The risk is estimated at approximately euro 38 million, inclusive of tax, interests and penalties.

The risk of losing has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for this dispute.

Disputes concerning transfer pricing with respect to certain intra-group transactions

Pirelli Pneus is involved in a dispute with the Brazilian tax authorities concerning corporate income tax (IRPJ - *Imposto de Renda Pessoa Jurídica*) and social contribution (CSLL - *Contribuição Social sobre o Lucro Líquido*) payable by the company for the fiscal periods of 2008, 2011 and 2012 with reference to the application of the so-called transfer pricing regulations for import dealings with related parties.

Based on the assessment notices sent to the company during 2013, 2015 and 2016, the Brazilian tax authorities are mainly contesting the incorrect application by the company of the methodology provided for by the administrative practice then in force (IN - *Instrução Normativa 243* or normative instructions) for the evaluation of transfer prices applied to the importation of goods from related parties. To date, the claim motioned by the company is pending before the competent administrative tax courts. Even though the first administrative ruling issued proved unfavourable to Pirelli Pneus, the Group nevertheless maintains that it has a good chance of winning having assessed the intra-group transactions in question pursuant to the provisions of the legislation in force for the time being, which should prevail over the aforementioned administrative practice (IN 243) of the Brazilian tax authorities.

The risk is estimated at approximately euro 35 million, inclusive of tax, interests and penalties.

The risk of losing has not been assessed as probable and, therefore, no provision has been set aside in the Financial Statements for this dispute.

Disputes concerning the IPI tax rate with respect to the sale of tyres to the automotive sector

Pirelli Pneus is involved in a dispute concerning the IPI tax rate, (*Imposto sobre Produtos Industrializados* or tax on industrialised products) also with reference to a case of the sale of components to companies operating in the automotive sector. According to the Brazilian tax authorities claim as stated in a notice of assessment issued in 2013, Pirelli Pneus should not benefit, with reference to its secondary office established in the city of Ibiritè in the Federal State of Minas Gerais, form the IPI tax rate exemption as provided for by law in the case of sales of certain components to companies operating in the automotive sector.

The Group maintains that it has well founded reasons to object to the tax administration's claim. In particular, both the legislation applicable to this case regarding the IPI tax rate, and the precedences in case law for similar cases appear to support this position. The risk is estimated at approximately euro 21 million, inclusive of tax, interests and penalties.

The risk of losing has not been assessed as probable and, therefore, no provision has been set aside in the Financial Statements for this dispute.

Other Pirelli Pneus disputes

Pirelli Pneus is involved in three other tax disputes concerning federal taxes and excises (such as the IPI, the *PIS* and the COFINS) as well as the ICMS. In particular, Pirelli Pneus is involved in certain administrative and judicial proceedings aimed at ensuring that their own reasons prevail over those of the tax authorities, with reference to:

(i) the so called "*Operação Vulcano*" with regard to the exportation of goods to Paraguay in which, according to the Brazilian tax authorities, should not benefit from the provision for tax exemption - approximately euro 11 million inclusive of taxes, interests and penalties,

(ii) the so called *"Desenvolve"* dispute, and a dispute relative to a fiscal incentive which is recognised by the Federal State of Bahia but which, as claimed by the Brazilian tax authorities was incorrectly calculated by Pirelli Pneus - approximately euro 9 million inclusive of taxes, penalties and interest;

(iii) a dispute relating to import customs costs for natural rubber which, in the opinion of the Brazilian tax authorities, was underestimated by not taking into account the value of the intra-group royalties paid - approximately euro 10 million inclusive of taxes, penalties and interest.

For all three of the aforementioned disputes, also on the basis of the results of the first levels of judgement, the risk of losing has not been assessed as probable and, therefore, no provision has been made in the Financial Statements for these disputes.

INCOME STATEMENT

As mentioned in preceding Note 2, it is to be noted that as a result of the assignment by Pirelli & C. S.p.A. of the TP Industrial Holding S.p.A. shares, the company into which almost all of Pirelli's Industrial assets were merged, to Marco Polo International Holding Italy S.p.A., the Industrial business qualified as a *"discontinued operation"*. Pursuant to the provisions of IFRS 5, the results for the period for the *"discontinued operation"* were reclassified to the Income Statement as a single item, *"net income (loss) related to discontinued operations"*. The comparative 2016 figures were appropriately reclassified pursuant to IFRS 5.

29. REVENUES FROM SALES AND SERVICES

Revenues from sales and services were as follows:

(In thousands of euro)	**1/1 - 12/31/2017**	**1/1 - 12/31/2016**
Revenues from sales of goods	5,202,962	4,829,120
Revenues from services	149,321	147,276
Total	**5,352,283**	**4,976,396**

30. OTHER REVENUES

The item is composed as follows:

(In thousands of euro)	**1/1 - 12/31/2017**	**1/1 - 12/31/2016**
Other income from Prometeon Group	223,542	211,773
Sales of Industrial products	223,482	282,526
Gains on disposal of property, plant and equipment	1,865	43,835
Rent income	3,759	7,000
Insurance indemnities and other refunds	18,118	9,713
Recoveries and reimbursements	59,871	73,179
Government grants	8,596	6,875
Other income	89,300	61,324
Total	**628,533**	**696,225**

The item **other income from the Prometeon Group** mainly includes sales of raw materials for the amount of euro 112,522 thousand, semi-finished products and materials for the amount of euro 29,077 thousand, and services rendered for the amount of euro 43,228 thousand paid to the companies of the Prometeon Group. Refer also to Note 42 – *"Related party transactions".*

The item **sales of industrial products** mainly refers to revenues and income generated by the sale of tyres for buses and trucks carried out by way of a distribution network controlled by the Group.

The item **gains on the disposal of property, plant and equipment** at December 31, 2016 referred mainly to the sale of real estate in Milan, Italy used for R&D for euro 27,199 thousand, in Basel, Switzerland for euro 12,336 thousand and in San Donato, Italy for euro 2,199 thousand.

The item **insurance indemnities and other refunds** includes an amount received in respect of a settlement agreement linked to the closing of an insurance policy in Italy for euro 6,815 thousand.

The item **recoveries and reimbursements** includes, in particular:

- refunds of taxes and duties for a total of euro 27,321 thousand, received in Italy amounting to euro 10,673 thousand, and in Germany amounting to euro 3,334 thousand in grants for tyre disposals and gas and energy purchases, and in Brazil amounting to euro 12,099 thousand in refunds for IVA (value added tax) credits;

- tax refunds totalling euro 9,933 thousand arising from tax incentives obtained in Argentina and in the state of Bahia, Brazil for commercial exports;

- proceeds from the sale of tyres and scrap materials obtained from the United Kingdom for a total of euro 5,283 thousand;

- income from the sale of tyres for testing and the recovery of transport expenses incurred in Germany for euro 2,718 thousand;

- rebates from utilities (electricity) of euro 2,243 thousand;

The item **other income** includes income from sporting activities amounting to euro 32,963 thousand.

Other income for the previous financial year included **non-recurring events** amounting to euro 41,734 thousand (6% of the total) which referred to capital gains from real estate. (Refer to Note 41).

31. PERSONNEL EXPENSES

The item is composed as follows:

(In thousands of euro)	**1/1 - 12/31/2017**	**1/1 - 12/31/2016**
Wages and salaries	787,798	746,492
Social security and welfare contributions	181,660	169,447
Costs for employee leaving indemnities and similar	17,177	17,291
Costs for defined contribution pension funds	21,689	20,889
Costs for defined benefit pension funds	(5,928)	799
Costs for jubilee awards	3,748	5,044
Costs for defined contribution healthcare plans	20,457	18,861
Other costs	8,046	7,485
Total	**1,034,647**	**986,308**

(*) The balances refers to the consolidated financial statement of Pirelli following the merger with Marco Polo Holding S.p.A. Which has been restated following the completion of the PPA and the classification of the Income Statement data relative to the Industrial Business under the item "net income (loss) from discontinued operations"

The item personnel expenses for 2017 includes **non-recurring events** for a total of euro 2,578 thousand (0.2% of the total) for the retention plan (Refer to Note 41).

32. DEPRECIATION, AMORTISATION AND IMPAIRMENTS

The item is composed as follows:

(In thousands of euro)	**1/1 - 12/31/2017**	**1/1 - 12/31/2016**
Amortisation	120,196	114,961
Depreciation	250,673	227,623
Impairment of property, plant and equipment	588	-
Total	**371,457**	**342,584**

33. OTHER COSTS

The item is subdivided as follows:

(In thousands of euro)	**1/1 - 12/31/2017**	**1/1 - 12/31/2016**
Selling costs	306,108	285,162
Purchases of goods for resale	478,745	491,093
Purchases of natural rubber for Prometeon Group	106,331	88,602
Fluids and energy	159,830	150,143
Advertising	286,178	272,091
Consultants	56,656	62,481
Maintenance	56,112	54,545
Warehouse operating costs	70,381	59,165
Lease, rental and lease installments	121,984	114,854
Outsourcing	73,643	65,753
Travel expenses	57,461	53,859
IT expenses	33,547	30,609
Key managers compensations	9,610	7,388
Other provisions	33,063	20,622
Duty stamps, duties and local taxes	36,422	33,799
Canteen	18,101	15,881
Bad debts	17,659	16,619
Insurance	30,937	27,060
Cleaning expenses	15,892	14,422
Waste disposal	18,302	17,568
Security expenses	10,773	10,863
Telephone expenses	11,098	10,723
Other	175,827	193,431
Total	**2,184,660**	**2,096,733**

The item other costs for 2017 includes **non-recurring events** for a total of euro 70,146 thousand (3.2% of the total) mainly refers to costs incurred for the IPO process. (Refer to Note 41)

34 NET INCOME (LOSS) FROM EQUITY INVESTMENTS

34.1 Share of the net income (loss) from equity investments in associates and joint ventures

The **share of the net income (loss) from equity investments in associates and joint ventures** was evaluated using the equity method and was negative to the amount of euro 8,252 thousand, and refers mainly to investments in Prelios S.p.A. (negative at euro 3,118 thousand), in Focus Investments S.p.A. (negative at euro 759 thousand), and in the joint venture PT Evoluzione Tyres in Indonesia (negative at euro 9,613 thousand) and offset by the positive pro-rata results for Fenice S.r.l at euro 5,002 thousand. For further details reference should be made to preceding Note 11 *"Investments in Associates and Joint Ventures".*

34.2 Gains on equity investments

(In thousands of euro)	**1/1 - 12/31/2017**	**1/1 - 12/31/2016**
Capital gain on disposal of investment in Prelios S.p.A.	5,809	-
Release of Fenice S.r.l. impairment	-	7,364
Other gains on equity investments	188	933
Total	**5,997**	**8,297**

Gains on equity investments amounted to euro 5,997 thousand and refer mainly to capital gains following the disposal of the investment in Prelios S.p.A. (euro 5,809 thousand). For further details reference should be made to preceding Note 11 *"Investments in associates and Joint Ventures"*.

34.3 Losses on equity investments

(In thousands of euro)	**1/1 - 12/31/2017**	**1/1 - 12/31/2016**
Impairment of investments in associates	754	20,987
Impairment of available-for-sale financial assets	13,416	11,067
Other losses on equity investments	264	1,685
TOTAL	**14,434**	**33,739**

This item for the financial year amounted to euro 14,434 thousand and refers mainly to the investments in Pirelli de Venezuela C.A. (euro 7,616 thousand), in Equinox Two S.C.A. (euro 3,062 thousand), in Emittenti Titoli S.p.A. (euro 1,441 thousand) and in Alitalia S.p.A. (euro 781 thousand).

34.4 Dividends

This item amounted to euro 9,834 thousand and mainly includes dividends received from Mediobanca S.p.A. to the amount of euro 5,829 thousand (euro 4,253 thousand for 2016), from Equinox Two S.C.A. to the amount of euro 3,049 thousand, and from Fin. Priv. S.r.l. to the amount of euro 757 thousand (euro 554 thousand for 2016).

35. FINANCIAL INCOME

The item is composed as follows:

(In thousands of euro)	**1/1 - 12/31/2017**	**1/1 - 12/31/2016**
Interest	17,098	32,254
Other financial income	9,285	10,552
Net gains on exchange rates	102,157	-
Total	**128,540**	**42,806**

The item **interest** includes euro 5,752 thousand for interest on fixed income securities, euro 3,918 thousand for interest receivables due from financial institutions, and euro 1,734 thousand for interest on trade receivables.

The item **other financial income** mainly includes euro 8,944 thousand for interest matured on tax credits (tax receivables) and on security deposits provided by the Brazilian subsidiaries as a guarantee for legal and tax disputes.

The item **net gains (losses) on exchange rates** which amounted to euro 102,157 thousand (losses on exchange rates amounted to euro 1,501,768 thousand and gains which amounted to euro 1,603,925 thousand) refers to the adjustment at end of period exchange rates to items expressed in currencies other than the functional currency and still outstanding at the reporting date, and to the net gains realised on items closed during the course of the financial year.

36. FINANCIAL EXPENSES

The item is composed as follows

(In thousands of euro)	**1/1 - 12/31/2017**	**1/1 - 12/31/2016**
Interest	255,096	330,742
Commissions	29,587	58,187
Other financial expenses	9,250	8,694
Net losses on exchange rates	-	18,100
Net interest costs on employee benefit obligations	7,295	9,547
Valuation at fair value of securities held for trading	-	12
Valuation at fair value of exchange rate derivatives	189,922	38,744
Valuation at fair value of other derivatives	-	5,970
Total	**491,150**	**469,996**

The item **interest** includes euro 47,070 thousand relative to the new unsecured (Facilities) financing granted to Pirelli & C. S.p.A. and Pirelli International Plc subscribed to on June 27, 2017 and euro 154,323 thousand relative to the new secured (Senior Facilities) financing granted to

Pirelli & C. S.p.A. and Pirelli International Plc, which was repaid early on June 29, 2017, of which euro 61,244 thousand refers to the consequent reversal to Income Statement of the portion of costs not amortised at the closing date. The item also includes euro 14,045 thousand for net interest income on hedging instruments on interest rates and exchange rates (Cross Currency Interest Rate Swap). For further details reference should be made to Note *27 "Derivative financial instruments"*.

The item also includes euro 12,466 thousand relative to the bond placed by Pirelli International Plc on the Eurobond market in November 2014.

The item **commissions** includes in particular euro 10,680 thousand relative to costs for operations for the assignment of receivables with pro-soluto clauses mainly in LatAm, Italy and Germany, and euro 5,969 thousand for commitment fees incurred by Pirelli & C. S.p.A. and Pirelli International Plc for the revolving credit facility.

The item **valuation at fair value of exchange rate derivatives** refers to the purchase/sale of the forward exchange rate hedge contracts to cover commercial and financial transactions in accordance with the exchange rate risk management policy of the Group. For transactions still open at the end of the financial year, the fair value was determined using the forward exchange rate at the reporting date. The valuation at fair value is composed of two elements: the interest component which is tied to the interest rate spread between the currencies which are subject to the individual hedges, equal to a net cost of euro 53,324 thousand, and the exchange rate component at a net cost of euro 136,598 thousand.

In comparing the net losses on exchange rates, which totalled euro 102,157 thousand, with the valuation at fair value of the exchange rate component of derivatives for hedging exchange rates which totalled to a net cost of euro 136,598 thousand, there results a negative imbalance of euro 34,441 thousand. The foreign exchange loss was mainly incurred in Argentina, where, compared to the impairment of the Argentine peso of approximately 15% compared to the previous financial year, the costs of coverage would have been equal to approximately 25% of the exposure in foreign currency.

The item other financial expenses include **non-recurring events** for a total of euro 61,244 thousand (12.5% of the total) relative to the early closure of secured funding ("Senior Facilities") as described in the item entitled interest. During the 2016 financial year, the amount of euro 25,390 thousand (5.4% of the total) referred to the *"Make Whole Issuer Call"* fee for the financial year in relation to the early closure of the USD Private Placement bond (Refer to Note 41).

37. TAXES

Taxes were composed as follows:

(In thousands of euro)	**1/1 - 12/31/2017**	**1/1 - 12/31/2016**
Current taxes	162,382	120,980
Deferred taxes	(121,534)	(45,724)
Total	**40,848**	**75,256**

Tax expenses for 2017 amounted to euro 40,848 thousand against pre-tax earnings of euro 304,118 thousand. The tax rate for 2017 was positively impacted by the detection of deferred tax assets on tax losses and other temporary differences recognised during the financial year (surplus gross operating income for the share of interest payables which were not deducted and the ACE tax concession) pertinent to the Italian companies.

Non-recurring events to the amount of euro 103,881 thousand were included under taxes, and mainly refer to the recognition of the deferred tax assets (pre-paid taxes) of the Italian companies (Refer to Note 41).

The reconciliation between theoretical and effective taxes is as follows:

(In thousands of euro)	**2017**
A) Net income (loss) before taxes	**304,118**
B) Theoretical taxes	**82,112**
Main causes for changes between estimated and effective taxes:	
Tax incentives foreign subsidiaries	(10,700)
Non-deductible costs	33,600
Deferred tax assets recognised on tax losses and other items related to previous periods	(80,552)
Use of Italian prior years tax losses on which no deferred tax assets were recognised	(37,600)
Change in tax rates on deferred taxes recognized due to change in nominal tax rates	9,300
Taxes not related to income	23,600
Other	21,088
C) Effective taxes	**40,848**
Theoretical tax rate (B/A)	27%
Effective tax rate (C/A)	13%

The Group's theoretical tax burden is calculated taking into account the nominal tax rates of the countries where the Group's principal companies operate, as shown below:

	2017	2016
Europe		
Italy	27.90%	31.40%
Germany	30.00%	30.00%
Romania	16.00%	16.00%
Great Britain	19.00%	20.00%
Turkey	20.00%	20.00%
Russia	20.00%	20.00%
NAFTA		
USA	38.00%	38.00%
Mexico	30.00%	30.00%
Central and South America		
Argentina	35.00%	35.00%
Brazil	34.00%	34.00%
Asia / Pacific		
China	25.00%	25.00%

The share of taxes paid by geographical area was as follows:

- 44% Europe;
- 21% LatAm;
- 23% Apac;
- 9% NAFTA;
- 3% Russia and MEAI.

The term paid taxes refers to the total amount of income taxes effectively paid during the tax period by the Group companies to the respective jurisdictions of tax residence, to income tax payments paid in 2017, to income taxes paid during the course of 2017 but relative to previous financial years (e.g. income tax balances relative to 2016) or to payments relative to tax assessments for previous annuities. The taxes paid also include withholding taxes incurred on the cross-border payments of dividends, interest and royalties which have been reported in the tax residence jurisdictions of the recipient.

38. ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

As a result of the assignment by Pirelli & C. S.p.A of TP Industrial Holding S.p.A. shares, to Marco Polo International Holding Italy S.p.A., which occurred on March 15, 2017, the Industrial business qualified as a "*discontinued operation*". The table below shows the Income Statement figures for

2017 for the first quarter for the Industrial business, as well as the results for the twelve months for certain residual Industrial activities currently undergoing separation. The comparable financial data for 2016 was appropriately reclassified pursuant to IFRS 5.

(In thousands of euro)	2017	2016
Revenues from sales and services	232,801	860,264
Other income	156,187	59,692
Changes in inventories of unfinished, semi-finished and finished products	49,550	(21,614)
Raw materials and consumables used (net of change in inventories)	(184,027)	(473,445)
Personnel expenses	(71,558)	(231,470)
Amortisation, depreciation and impairment	(18,772)	(49,220)
Other costs	(161,863)	(106,702)
Increase in fixed assets for internal work	46	197
Operating income (loss)	**2,364**	**37,702**
Financial income	1,670	8,370
Financial expenses	(10,200)	(21,385)
Net income (loss) before tax	**(6,166)**	**24,687**
Tax	(1,189)	(41,049)
Net income (loss)	**(7,355)**	**(16,362)**
Reversal of reserve on foreign currency translation	(80,208)	-
Total net income (loss) from discontinued operations	**(87,563)**	**(16,362)**

The value of the "*assets held for sale"* (euro 60,729 thousand) is mainly attributable to the Industrial production plants held by the Chinese controlled company, which will be sold to the Prometeon Group during the course of 2018.

39. EARNINGS/(LOSSES) PER SHARE

The earnings/(losses) per share are given by the ratio between the earnings/losses attributable to the Parent Company and the weighted average of the number of ordinary shares outstanding during the period, with the exclusion of treasury shares.

(In thousands of euro)	**2017**	**2016**
Net income attributable to the Parent Company related to **continuing operations**	263,955	154,809
Weighted average number of ordinary shares outstanding (in thousands)	853,232	706,464
Earnings/(loss) per share related to continuing operations (in euro per share)	**0.309**	**0.219**

Net income attributable to the Parent Company related to **discontinued operations**	(87,563)	(19,746)
Weighted average number of ordinary shares outstanding (in thousands)	853,232	706,464
Earnings/(loss) per share related to discontinued operations (in euro per share)	**(0.103)**	**(0.028)**

It is to be noted that the number of shares used to calculate earnings per share reflects all the transactions detailed in Note 20 "*Equity*".

It is also to be noted that the earnings/(loss) per base share and per diluted share are the same as there was no potential issue of shares with dilutive effects on the results.

40. DIVIDENDS PER SHARE

In 2017, Pirelli & C. S.p.A did not distribute any dividends to its shareholders.

41. NON-RECURRING EVENTS

Pursuant to CONSOB Notification No. DEM/6064293 of July 28, 2006, the impact on the Group's income, financial position and equity for non-recurring events and operations, was as follows:

(millions of euro)	**Equity**	**Net income (loss) for the financial year**	**Cash flows**
Financial statement (a)	**4,177.0**	**175.7**	**(342.8)**
Operating costs	(72.7)	(72.7)	(31.2)
Financial expenses	(61.2)	(61.2)	0.0
Tax	103.9	103.9	0.0
Total impact non recurring items (b)	**(30.0)**	**(30.0)**	**(31.2)**
Total adjusted (a-b)	**4,207.0**	**205.7**	**(311.6)**

The impact on the individual items of the consolidated Income Statement was as follows:

(millions of euro)	**1/1 - 12/31/2017**	**1/1 - 12/31/2016**
Other revenues:		
- Gain on disposal of property, plant and equipment	-	*41.7*
Personnel expenses :		
- Retention Plan	*(2.6)*	-
Other costs:		
- Industrial Reorganization	*(2.1)*	-
- IPO costs	*(61.9)*	-
- Other	*(6.1)*	*(23.7)*
Impact on operating income	**(72.7)**	**18.0**
Financial expenses:		
- Refinancing impact June 2017 transaction costs	*(61.2)*	-
- Fee related to the "Make Whole Issuer Call" for the anticipated closing of USD Private Placement bond loan	-	(25.4)
Impact on net income (loss) before tax	**(133.9)**	**(7.4)**
Tax:		
- Recognition of deferred tax assets of italian companies and operating income adjustments and financial expenses	*103.9*	1.3
Impact on net income (loss) from continuing operations	**(30.0)**	**(6.1)**
Impact on net income (loss)	**(30.0)**	**(6.1)**

The impact of non-recurring events on the operating income (loss) for the 2017 financial year amounted to a total of euro 72.7 million and differs from the value reported in Directors' Report on Operations relative to non-recurring and restructuring expenses (euro 93.2 million), in that it did not include restructuring expenses which amounted to a total of euro 20.6 million euros.

42. RELATED PARTY TRANSACTIONS

The following table summarises the items from the Statement of Financial Position and the Income Statement and which include related party transactions and their relative impact.

STATEMENT OF FINANCIAL POSITION *(In millions of euro)*	**Total reported at 12/31/2017**	**of which related parties**	**% incidence**	**Total reported at 12/31/2016**	**of which related parties**	**% incidence**
Non current assets						
Other receivables	**204.1**	12.0	5.88%	**226.9**	6.6	2.93%
Current assets						
Trade receivables	**652.5**	62.7	9.61%	**679.3**	2.8	0.41%
Other receivables	**400.5**	36.5	9.11%	**275.6**	6.2	2.24%
Income tax receivables	**35.5**	0.1	0.17%	**64.4**	-	0.0%
Non-current liabilities						
Borrowings from banks and other financial institutions	**3,897.1**	-	-	**5,946.0**	0.6	0.01%
Current liabilities						
Borrowings from banks and other financial institutions	**559.2**	-	-	**642.0**	0.8	0.12%
Trade payables	**1,673.6**	198.0	11.83%	**1,498.5**	22.6	1.51%
Other payables	**565.3**	16.4	2.91%	**783.1**	-	-
Income tax payables	**48.4**	9.9	20.44%	41.8	-	-

INCOME STATEMENT *(in millions of euro)*	**2017**	**of which related parties**	**% incidence**	**2016**	**of which related parties**	**% incidence**
Revenue from sales and services	**5,352.3**	10.8	0.20%	**4,976.4**	3.5	0.07%
Other income	**628.5**	230.6	36.69%	**696.2**	2.3	0.33%
Raw materials and consumables used	**(1,859.8)**	(46.5)	2.50%	**(1,540.5)**	-	0.00%
Personnel expenses	**(1,034.6)**	(11.0)	1.06%	**(986.3)**	(9.0)	0.91%
Other costs	**(2,184.7)**	(375.0)	17.16%	**(2,096.7)**	(29.7)	1.42%
Financial income	**128.5**	35.3	27.48%	**42.8**	0.2	0.49%
Financial expenses	**(491.2)**	(41.1)	8.36%	**(470.0)**	-	0.0%
Net income (loss) from equity investments	**(6.9)**	(8.3)	120.38%	**(20.0)**	(1.2)	6.13%
Net income (loss) from discontinued operations	**(87.6)**	(9.5)	10.90%	**(16.4)**	-	-

CASH FLOW (in millions of euro)	**2017**	**of which related parties**	**% incidence**	**2016**	**of which related parties**	**% incidence**
Net cash flows operating activities:						
Trade receivables	**73.6**	90.6	122.97%	**144.9**	-	-
Trade payables	**447.4**	86.2	19.27%	**201.8**	-	-
Other receivables/payables	**(39.4)**	70.5	n.s.	**(38.5)**	-	-
Net cash flows investing activities:						
Disposal of property, plant and equipment	**73.5**	61.0	82.99%	**91.6**	-	-
Repayment of share capital and reserves from associates	**8.6**	8.6	100.00%	**100.4**	100.4	100.00%
Disposals (Acquisition) of investments in associates and JV	**17.2**	-	-	**(4.7)**	(4.7)	100.00%
Net cash flows financing activities:						
Change in Financial receivables/Securities held for trading	**218.0**	190.0	87.14%	**(44.3)**	-	-

The effects of the related party transactions contained in the Income Statement and the Statement of Financial Position, on the consolidated data for the Pirelli & C. Group at December 31, 2017 were as follows:

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

(In millions of euro)

Revenues from sales/services and other income.	2.4	The amount refers mainly to rental income and related rental property management fees received from the Prelios Group (euro 0.5 million), and for services rendered to PT Evoluzione Tyres (euro 0.4 million) and sales of materials and services rendered to Joint Stock Company "Kirov Tyre Plant" (euro 1.4 million).
Other costs	37.3	This item includes acquisition costs for the purchase of energy and machine hire from Industriekraftwerk Breuberg GmbH (euro 21 million), costs for the acquisition of products from PT Evoluzione Tyres (euro 15.6 million) and the supply of services by the consortium CORIMAV (euro 0.3 million) and costs for the purchases of materials from Joint Stock Company "Kirov Tyre Plant" (euro 0.3 million)
Financial income	0.9	The amount refers to interest on the loan granted by Pirelli International Plc and Pirelli Tyre S.p.A. to PT Evoluzione Tyres.
Financial expenses	0.1	This item mainly refers to expenses payable to International Media Holding S.p.A.
Other non-current receivables	12.0	This item refers to the loan granted by Pirelli Tyre S.p.A. to PT Evoluzione Tyres.
Current trade receivables	1.8	This item includes receivables for services rendered to Joint Stock Company "Kirov Tyre Plant" (euro 0.4 million) and to PT Evoluzione Tyres (euro 1.4 million).
Other current receivables	14.8	The amount refers to a loan granted by Pirelli International Plc to PT Evoluzione Tyres (euro 5.8 million) and to advances received from PT Evoluzione Tyres (euro 4.3 million), and sales of materials and molds to Joint Stock Company "Kirov Tyre Plant" (euro 4.7 million)
Current trade payables	24.0	The amount mainly refers to payables for the purchase of energy from Industriekraftwerk Breuberg GmbH and trade payables to PT Evoluzione Tyres and Joint Stock Company "Kirov Tyre Plant"
Other current trade payable	0.4	Other payables refers mainly to the acquisition of equipments from Joint Stock Company "Kirov Tyre Plant"

Net cash flow investing activities	8.6	The amount refers to the dividends received by Fenice S.r.l..

TRANSACTIONS WITH OTHER RELATED PARTIES

With reference to the transactions with Prometeon Group the economic values reported on the table refer to the whole 2017 even if the Prometeon Group became related party starting from March the 15th, 2017, when Pirelli & C S.p.A. assigned the shares of TP Industrial Holding S.p.A. to Marco Polo International Holding Italy S.p.A..

(*In millions of euro*)

Revenues from sales and services	8.4	This item mainly refers to the sale of goods and services rendered by Pirelli Tyre S.p.A. (euro 1.9 million) and Pirelli Pneus Ltda (euro 4.1 million) and services rendered to the Hangar Bicocca Foundation (euro 1.9 million).
Other income	230.6	It referes to royalties from Aeolus related to the licence contract signed on 2016 (euro 7 million). In addition, it refers to other income from Prometeon Group for: - Natural rubber sales: euro 112.5 million - Raw material sales of Pirelli Pneus Ltda to Prometeon Group (euro 26 million) to be transformed under Toll manifacturing contract. - Long term service agreement: euro 18.9 million - Royalties related to brand licence contract: euro 18.4 million - Finished and semifinished product sales: euro 18 million - Logistic services: euro 12.8 million - Transitional service agreement: euro 4.4 million - Other: euro 11.1 million
Raw materials and consumables used	46.5	This item mainly includes costs from the Prometeon Group for: - Direct/consumable materials and compound purchases: euro 24.4 million - Semifinished product purchases: euro 13 million - Natural and synthetic rubber purchases: euro 8 million - Other: euro 0.4 million
Other costs	328.0	This item includes contributions to Fondazione Hangar Bicocca and Fondazione Pirelli (euro 3.2 million) and other costs related to purchases from Prometeon Group for: - Truck product purchases: euro 163 million of which Comercial e Importadora de Pneus Ltda (euro 151 million), for the brasilian sales and distribution network, and other group's companies (euro 12 million). - Car/Moto and semifinished product purchases: euro 151 million of which Pirelli Otomobil Lastikleri A.S. (euro 97.8 million) related to Off-take contract and Pirelli Pneus Ltda (euro 45.8 million) related to Toll manufacturing contract and other (euro 7.4 million) - Externalization: euro 0.2 million - Other: euro 10.6 million
Financial expenses	41.0	This item includes financial expenses payables to the Prometeon Group and refers mainly to losses on exchange arising on hedging transactions (euro 38.4 million).
Financial income	34.4	This item includes financial income receivables from the Prometeon Group and refers mainly to gains on exchange arising on hedging transactions (euro 29.5 million).
Current trade receivables	61.0	This item includes receivables for royalties from Aeolus Tyre Co., Ltd (euro 7 million) and trade receivables to the amount of euro 53.6 million from the Prometeon Group.
Current tax receivables	0.1	This item refers mainly to receivables from the companies of the Prometeon Group
Other current receivables	21.7	This item refers mainly to receivables from the companies of the Prometeon Group (euro 19.8 million)
Trade payables	174.0	This item refers mainly to trade payables to the Prometeon Group (euro 173.9 million)
Other current payables	16.1	This item refers mainly to trade payables to the Prometeon Group (euro 16 million)
Current tax payables	9.9	This item refers to the companies of the Prometeon Group for tax consolidation interrupted in 2017.

Other income discontinued operations	56.4	Sales of Industrial product of Pirelli Tyre Co., Ltd to Prometeon Group
Other costs discontinued operations	65.9	Costs for acquisition of Industrial product of Pirelli neumaticos S.A.I.C. from Prometeon Group

Net cash flow operating activities	247.3	Working capital change towards Prometeon Group
Net cash flow investing activities	61.0	The amount refers to the cash in received for the sale of the know-how license to Prometeon Group.
Net cash flow financing activities	190.0	The amount refers to the collection of financial receivables from Prometeon Group.

During the course of the financial year, the process of separating the Industrial business from the Consumer business was completed. It was implemented as part of the industrial evaluation and reorganisation project, as provided for by the sale and purchase and co-investment agreement signed, amongst others, by ChemChina, Camfin and LTI in March 2015, aimed at strengthening the plans for the development of Pirelli's Consumer Activities and the protection of geographically strategic areas, as well as to separate and give independent importance to the activities related to the production and commercialisation in Italy and/or abroad of tyres for heavy vehicles for industrial or agricultural use, or for passenger transport (hereinafter ***"Industrial Reorganisation"***). As a result of the Industrial Reorganisation, the Prometeon Tyre Group S.r.l. (formerly Pirelli Industrial S.r.l.), of which 52% is currently held by Marco Polo International Italy S.p.A. (***"Marco Polo"***) through TP Industrial Holding S.p.A. (***"TPIH"***), of which 38% is currently held by High Grade (HK) Investment Management Limited, and of which10% is currently held by Aeolus Tyre Co. Ltd., previously included in the Pirelli Financial Statements for 2016 as a direct subsidiary of Pirelli & C. S.p.A., has been classified in the present Financial Statements as a Pirelli related party in that it is controlled by ChemChina (through, amongst others, TPIH and Marco Polo), a company which also indirectly controls Pirelli & C. S.p.A..

The following are the main existing agreements between the companies which belong to the Pirelli Group and the group headed by the Prometeon Tyre Group S.r.l. (***"PTG"***) and the Aeolus Tire Co., Ltd. (***"Aeolus"***). These agreements were the subject of the disclosure included as part of the Registration Document filed with CONSOB on September 15, 2017, following the notification of authorisation by way of Protocol No. 0106982/17 dated September 15, 2017 drawn up on the occasion of the admission to listing of Pirelli shares, on the Mercato Telematico Azionario (screen-based stock exchange), organised and managed by Borsa Italiana S.p.A..

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License agreements stipulated in the context of industrial reorganisation

In the context of the Industrial Reorganisation, during the course of the 2016 financial year, Pirelli Tyre signed a number of licensing agreements with Aeolus and the PTG aimed at allowing them (i) access to the Premium technology developed by Pirelli in the activities relative to Industrial Tyres, and (ii) the use of some of the trademarks owned by the Pirelli Group.

License agreement with Aeolus

On June 28, 2016, Pirelli Tyre signed a patent and know-how licensing agreement with Aeolus as well as for technical assistance relative to Industrial Tyres (***"Industrial Products"***) with a duration of up until December 31, 2030 with an automatic bi-annual renewal unless cancelled (the ***"Aeolus License Agreement"***).

Under the Aeolus License Agreement, the licensee company shall have the right to develop, manufacture and sell the Industrial Tyres, with the right to sub-license to the companies it controls.

The license is non-exclusive and Pirelli has undertaken to not grant third parties licenses for the production of similar Industrial Products which are subject to the Aeolus License Agreement for commercial purposes, and therefore to allow for the creation of a new competitor in the operative sector of the licensee company.

For the duration of the Aeolus License Agreement, Pirelli shall provide technical assistance to Aeolus and its subsidiaries, by providing a minimum of twenty and a maximum of thirty personnel per year for the first five years.

As described in the following table, the Aeolus License Agreement provides for the payment of royalties as a percentage of turnovers with fixed minimum and pre-fixed maximum amounts which are subject to an annual adjustment, starting from 2019, on the basis of the Euro HICPC index. The royalties percentage may be updated every five years based on certain predetermined performance indicators.

	If and when Aeolus holds more than 50% of the share capital of PTG		**If and when Aeolus holds less than 50% of the share capital of PTG**	
	Royalty amounts	**Maximum amount**	**Royalty amounts**	**Maximum amount**
2016	0	-	0	-
2017	The highest amount between (i) 1% of annual net revenues from sales and (ii) euro 7 million from net annual revenues from sales which do not include sales pertaining to PTG and its subsidiaries.	euro 12 million	The highest amount between1% of annual net revenues from sales and a fixed amount of euro 7 million.	euro 12 million
2018	The highest amount between (i) 2% of annual net revenues from sales which do not include sales pertaining to PTG and its subsidiaries and 1% of annual net revenues from sales pertaining to PTG and its subsidiaries and (ii) euro 25 million.	euro 36 million	The highest amount between 2% of annual net revenues from sales and a fixed amount of euro 15 million.	euro 20 million
2019.-2020	The highest amount between (i) 2% of annual net revenues from sales and (ii) a fixed amount of euro 38 million.	euro 49 million	The highest amount between 2% of annual net revenues from sales and a fixed amount of euro 17 million.	euro 22 million
As of 2021	The highest amount between (i) 2% of annual net revenues from sales and (ii) euro 38 million.	euro 54 million	The highest amount between 2% of annual net revenues from sales and a fixed amount of euro 17 million.	euro 22 million

It also provides that the risks associated with the production of tyres (as well as any other business risk) remain the liability of the licensee, who undertakes to indemnify and hold Pirelli Tyre S.p.A. and its affiliated companies harmless against any damage that may arise. This license is limited to the Industrial tyres only as the use of Pirelli technology for different products is excluded.

License agreement for know-how with PTG

In 2016, Pirelli Tyre signed two know-how licensing agreements with the PTG which concern:

(i) the first, effective as of April 1, 2016, is a know-how license relative to the installation and management of plants and machinery which fall under the scope of the PTG, and to the production and quality systems. This license remains effective as long as the relevant know-how does not become public and entails the payment of a one-off royalty fee of approximately euro 61 million, determined on the basis of an evaluation conducted by an independent expert;

(ii) the second, effective as of January 1, 2016, is a license for know-how and for patents relative to Industrial processes and products. The license is valid until 2030 with automatic renewals of 5 years unless cancelled. This license provides for the payment of royalties from 2018 onwards. In particular, the royalties expected for 2018 are the higher amount between 1% of the annual net revenues of the PTG and its subsidiaries and euro 10 million, and from 2019 onwards the higher amount between 2% of the annual net revenues of the PTG and its subsidiaries and euro 21 million. On the basis of the provisions of the License Agreement with Aeolus, the license granted to the PTG will cease to have effect following the acquisition of control of the PTG by Aeolus, after which the royalties established by the Aeolus License Agreement shall apply.

It also provides that the risks associated with the production of tyres (as well as any other business risk) remain the liability of the licensee, who undertakes to indemnify and hold Pirelli Tyre S.p.A. and its affiliated companies harmless against any damage that may arise. This license is limited to the Industrial tyres only as the use of Pirelli technology for different products is excluded.

Brand license agreement with PTG

In 2017 Pirelli Tyre signed a new license agreement, which terminated and substituted the previous 2016 agreement, with the PTG for a period of 10 years effective as of January 1, 2017 (with an annual automatic renewal unless cancelled) concerning the non-exclusive license of some of the Pirelli Group’s brands, including the PIRELLI and FORMULA brand, for the production and sale of products relative to the Industrial activities, with the right to sub-license to the subsidiaries of the PTG and, from the moment when the PTG will be controlled by Aeolus, to Aeolus and its other subsidiaries.

This agreement provides for the payment of royalties corresponding to 2% of the net sales of the licensee and the sub-licensees of the products bearing the licensed trademarks with a minimum guaranteed annual amount of (i) euro 15 million for 2017 and 2018 and (ii) euro 21 million as of 2019.

The trademarks subject to licensing may be used only for the production and commercialisation of tyres related to the Industrial activities (any use for products other than those licensed is prohibited). The methods of use of the brands must be approved by Pirelli Tyre, and with regard to the PIRELLI brand, in the promotional and marketing activities a logo will be used with different colours compared to that used by Pirelli Tyre its Consumer Activities.

The license agreement includes specific provisions for the control and approval of the use of the trademarks by Pirelli Tyre as regards the quality of the products bearing the licensed trademarks placed on the market by the licensee (and sub-licensees). PTG and sub-licensees may use the trademarks licensed only on the products approved by Pirelli Tyre S.p.A. who also has the right to carry out inspections at the locations of the PTG and its sub-licensees for the verification of the correct compliance with contractual obligations. It also provides that the risks associated with the production of tyres (as well as any other business risk) remain the liability of the licensee, who undertakes to indemnify and hold Pirelli Tyre S.p.A. and its affiliated companies harmless against any damage that may arise.

Withdrawal clauses are not included in the license agreement. There are termination clauses for the failure to fulfil obligations and resolution clauses protecting Pirelli Tyre for situations concerning the quality of the products, the unauthorised use of trademarks, and in case the separate license for the use of the technology granted by Pirelli Tyre is terminated.

Service contracts stipulated in the context of the Industrial Reorganisation

Again, during the course of the 2016 financial year, in context of the separation from the Pirelli Group of the activities relative to Industrial Tyres, the Pirelli Group, on the one hand, and the PTG and some of its subsidiaries on the other, signed several service contracts of different duration aimed at the temporary supply on the part of the Pirelli Group of wide-ranging services and assistance in order to guarantee full operational continuity to the PTG and/or its subsidiaries during the phase following the separation.

In Colombia and Turkey, some residual services are rendered by the PTG's local subsidiaries for the benefit of the Pirelli Group's local companies, due to temporary needs arising from the implementation of the segregation process in the pertinent countries. In particular:

- in Colombia, the services rendered by the PTG's local subsidiaries for the benefit of the Pirelli Group companies include, amongst other things, administration and control, treasury, financial coordination, tax management, planning and reporting; control of human resources management, legal labour law support, recruiting, occupational health; and management of claims, for a variable fee commensurate with the actual use of resources, which is paid on an annual basis;

- in Turkey, the services rendered by the PTG's local subsidiaries for the benefit of the Pirelli Group companies include, among other things, control activities of human resources, legal labour law support, recruiting, payroll services, industrial relations, sales management for the Original Equipment channel, marketing, industrial planning, warehouse planning, quality control, for a variable fee commensurate with the actual use of resources, which is paid on an annual basis;

In more detail, the following types of agreements have been signed:

(i) the so called Long Term Services Agreements (LTA), relative to the supply of services in the fields of Information Technology, purchasing and logistics. These contracts have a multi-year duration and unless otherwise agreed between the parties, will cease to be effective respectively, at December 31, 2020 for IT services and purchasing, and at December 31, 2019 for logistics related services.

(ii) the so called Transitional Services Agreements (TSA) for the provision of a wider range of services for different areas and sectors for each country depending on and within the limits of the specific needs there present, (e.g. staff, finance, administration and control, HR, sales and marketing, and quality control). These contracts are renewable annually. The next expiry has been fixed as December 31, 2018.

Both the LTA and TSA provide for payment at market conditions determined by the value enhancement of services on a cost-plus basis. The fee due for each service was determined based on the estimate of the cost of resources dedicated to providing the service. The cost-plus principle corresponds to the cost of human resources increased by a profit percentage expressly reported in each contract.

Business relationships in place with PTG

Supply agreements, both active and passive, exist between the companies of the Pirelli Group and the PTG or companies controlled by it, concerning raw materials (i.e., natural rubber and carbon black) or finished products. These agreements were signed during the course of the 2016 financial year as part of the Industrial Reorganisation. It is maintained that these relationships do not construe a situation of dependence and that, therefore, the interruption or non-renewal of the same would not impact the Pirelli Group's business continuity.

The following is a description of the main supply contracts stipulated during 2016 by the Pirelli Group in the context of the Industrial Reorganisation:

(i) the Off-Take contract (i.e. the production on behalf of the customer of products having characteristics as requested by the customer, using raw materials purchased by the manufacturer which are specially processed) for the production of Consumer tyres and some semi-finished products used by Pirelli for the production of racing tyres, by the Izmit Turkish plant owned by the PTG for Pirelli Otomobil Lastikleri A.Ş., a Turkish subsidiary of Pirelli.

This contract has a duration of up until December 31, 2018, and is renewable for subsequent 12 month periods, with financial terms and conditions determined on the basis of the production cost which is increased by a margin of 7%. In order to ensure that the characteristics of the products meet the specifications indicated, Pirelli has reserved the right to carry out quality controls during the various processing phases. The producer cannot sub-contract production to third parties and must manufacture only at the plants approved by the client; only products that meet the agreed specifications can bear the Pirelli trademark; any non-conforming products shall be destroyed; production volumes are determined on the basis of non-binding annual forecasts, agreed by November of the previous year, followed by binding orders on a monthly basis according to the actual needs of the customer. The manufacturer guarantees that the products are free from defects and comply with the specifications. In the case of serious breaches which the producer is not able to remedy, the customer has the right to terminate the contract at short notice.

(ii) the Toll Manufacturing contract (i.e. the production on behalf of the customer of products having characteristics as requested by the customer, using raw materials supplied by the same customer to the manufacturer for the purpose of the execution of the contract) for the production of motorcycle tyres by TP Industrial de Pneus Brasil Ltda, a Brazilian company controlled by the PTG (in the Gravatai plant) for Pirelli Pneus Ltda, a Brazilian company controlled by Pirelli, has a duration of up until December 31, 2018, and is renewable, with financial terms and conditions which provide for a purchase price which is equal to the cost of production increased by a margin of 5%, subject to a quarterly review in lieu of any changes in the production cost, using a calculation matrix agreed between the parties; production volumes are determined on the basis of non-binding annual forecasts, agreed by the end of November of the previous year, followed by binding orders on a monthly basis according to the actual needs of the customer. The manufacturer guarantees that the products are free from defects and comply with the specifications. In the case of serious breaches which the producer is not able to remedy, the customer has the right to terminate the contract at short notice. It is to be noted that these supplies are temporary as it is expected that as of 2018 production will return to being carried out by a Pirelli Group company.

(iii) agreements for the supply of semi-finished products by TP Endustriyel ve Ticari Lastikler A.S., a company of the PTG, to various Pirelli Group companies located in Romania and Italy, which ceased on December 31, 2017.

(iv) agreements for the supply of natural rubber from Pirelli International Plc to the Alexandria Tire Company SAE, Prometeon Turkey Endustriyel ve Ticari Lastikler Anonim Şirketi, and TP Industrial de Pneus Brasil Ltda, respectively Egyptian, Turkish and Brazilian companies controlled by the PTG, which have a duration of up until December 31, 2017, are renewable and provide financial terms and conditions determined by using the share price of the raw material increased by a spread in order to remunerate the assets and risks borne by the supplier. This trade relationship ended in 2017.

(v) agreements for the supply of carbon black between the International Tire Company LLC, a company belonging to the group headed by the PTG, to Pirelli Tyres Romania S.r.l., to Pirelli Deutschland GmbH and to Pirelli UK Tyres Ltd, respectively Romanian, German and English companies controlled by Pirelli, all of which had a duration of up until December 31, 2017, and were further renewable.

The aforesaid Off-Take and Toll Manufacturing agreements provide that the information obtained in the execution of the contract may also only be used only for the purposes of the contract, and exclude any license or right to use the same information to produce Consumer products outside the two existing contracts. There are no provisions with non-compete or exclusive obligations.

It is also be noted that during the course of the 2016 financial year, as part of the Industrial Reorganisation, the International Tire Company LLC and Pirelli Tyre (Suisse) S.A., a Swiss company controlled by Pirelli, signed a distribution contract for Consumer tyres, for the import and distribution of Pirelli Consumer tyres on a non-exclusive basis by International Tire Company LLC in the Egyptian territory. This contract, with an annual duration is automatically renewable from year to year unless cancelled by way of written notification with at least 90 days notice, provides for the purchase price of the products as covered by the contract (i.e. Consumer tyres) which is equal to that indicated in the Pirelli price list on the date of the order. It is expected that this commercial relationship will end during the 2018 financial year.

Even after the separation of the Pirelli Group from the Industrial activities, some residual activities relative to Industrial tyres were still held by the Pirelli Group itself, particularly in Argentina and China.

In addition, there remain the following residual commercial relationships involving the supply of Industrial Tyres: (a) the PTG's Brazilian subsidiary, TP Industrial de Pneus Brasil Ltda, sells to Pirelli's Argentinian subsidiary, Pirelli Neumaticos S.A.I.C., (b) the PTG's Brazilian subsidiary, TP Industrial de Pneus Brasil Ltda sells to Pirelli's Chilean subsidiary, Pirelli Neumaticos Chile Ltda, (c) Pirelli's Chinese subsidiary Pirelli Tyre Co., Ltd, sells to the PTG, (d) the PTG's Swiss subsidiary, Prometeon Tyre Group (Suisse) SA, sells to Pirelli's Australian subsidiary, Pirelli Tyres Australia Pty Ltd, (e) the PTG's Brazilian subsidiary, TP Industrial de Pneus Brasil Ltda, sells to Comercial e Importadora de Pneus Ltda, (f) the PTG's German subsidiary, Prometeon Tyre Deutschland GMBH sells to Pneumobil Reifen KFZ-Technik GmbH, and (g) the PTG sells to Dackia Aktiebolag.

BENEFITS FOR KEY MANAGERS OF THE COMPANY

At December 31, 2017 the remuneration payable to key managers totalled euro 20,614 thousand. The portion relative to employee benefits was recognised in the Income Statement under "Personnel expenses" for the amount of euro 11,004 thousand and under the item "Other Costs" for euro 9,610 thousand, also in the Income Statement.

43. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

On **January 10, 2018** Pirelli launched the sale of the ordinary shares held in Mediobanca S.p.A. and reserved for *“qualified investors”* in Italy and institutional investors abroad, pursuant to Regulation S of the United States Securities Act of 1933 as subsequently amended, and in the United States of America limited to *“Qualified Institutional Buyers”* pursuant to Rule 144 A of the United States Securities Act of 1933, through an accelerated book-building procedure. On January 11, 2018 Pirelli announced that it had successfully completed the disposal – through the aforesaid procedure - of 15,753,367 ordinary shares held in Mediobanca - which corresponded to approximately 1.8% of the share capital with voting rights, and which represented the entire investment held directly by Pirelli in Mediobanca**.** The total net income for Pirelli derived from the operation amounted to approximately euro 152.8 million.

On **January 22, 2018** as part of the EMTN (Euro Medium Term Note) program approved at the end of 2017 and subscribed to on January 10, 2018, Pirelli placed a bond loan with international institutional investors for a nominal amount of euro 600 million with a five-year duration at a fixed rate. The issue, with a yield of 110 basis points based on the official reference rate, allowed for the debt to be optimised by lengthening maturities and reducing the cost of the debt. As evidence of investor confidence towards Pirelli, at closing, the loan saw the collection of orders amounting to euro 2.4 billion on the part of 280 international investors. The effective yield at maturity is set as equal to 1.479%. The securities have been listed on the Luxembourg Stock Exchange. Furthermore, during the course of the first weeks of January, Pirelli initiated an operation to amend the financial terms and conditions of the Group’s main banking facilities - regarding a total notional amount of euro 4.2 billion which includes a revolving credit facility of euro 700 million - which will see an applied reduction to the interest margin of 30 basis points.

On **February 23, 2018** Pirelli International Plc (a subsidiary of Pirelli) decided to exercise the option of early repayment and the subsequent cancellation of the *“Pirelli International Plc Euro 600,000,000 1.750 per cent. Guaranteed Notes due November 18, 2019”*, listed on the Luxembourg Stock Exchange and maturing on November 18, 2019 (the *“Notes 2019”).* The early repayment, which will cover all of the 2019 Notes, and which responds to the objective announced for the constant optimisation of the Group’s financial structure, will take place through the exercise of the *“Make Whole Issuer Call”* which is provided for by the current Terms and Conditions of the loan. The operation is expected to be finalised by March 31, 2018.

On **February 26, 2018** the Board of Directors of Pirelli, in line with that which was announced during the IPO, approved the adoption of a new 3-year 2018-2020 monetary incentive plan (LTI Plan) – destined to all management (about 290 people) – correlated to the targets for the period 2018/2020 contained in the 2017/2020 industrial plan.

The LTI (*Long Term Incentive*) Plan was approved – also in accordance with article 2389 of the civil code – at the proposal of the Remuneration Committee and with the favourable opinion of the Board of Statutory Auditors, in relation to the subjects for whom this opinion is requested. In the part linked to *Total Shareholder Return*, the LTI Plan will be submitted for approval at the Shareholders’ meeting called to approve results for the 12 months ended on 31 December 2017.

The LTI Plan, in line with the mechanisms of variable retribution adopted at the international level, is also based on the performance of Pirelli shares (*Total Shareholder Return*) allowing in this way the alignment of management and shareholder interests.

The LTI Plan – as in the past totally self-financed, in so far as the relative charges are included in the economic figures of the industrial plan – includes an on/off condition, represented by the company's deleveraging (*Net Financial Position/Ebitda Adjusted* ratio below 2 times on 31 December 2020) and the following targets:

- Group Return on Sales (ROS), with a weight at target of 30% of the LTI premium;
- Group "absolute" Total Shareholder Return, with a weight at target of 40% of the LTI premium;
- Group "relative" Total Shareholder Return compared with a selected panel of peers, with a weight at target of 20% of the LTI premium;
- Position of Pirelli on the *Dow Jones Sustainability World Index* ATX Auto Components sector, with a weight at target of 10% of the LTI premium.

The LTI Plan terminates on 31 December 2020 and sets in the second quarter of 2021 the date of the eventual payment of the medium/long term incentive matured, on condition that, on 31 December 2020, the relationship as an employee of the participant has not ended. The participants in the LTI plan include, among others, the *Executive Vice Chairman and Chief Executive Officer* of Pirelli & C., Marco Tronchetti Provera, the *Executive Vice President and Chief Financial Officer*, Francesco Tanzi; the *Executive Vice President and Chief Planning and Controlling Officer*, Maurizio Sala; the *Executive Vice President and Strategic Advisor Technology*, Maurizio Boiocchi; the *Executive Vice President and Chief Commercial Officer* Roberto Righi; the *Senior Vice President Manufacturing*, Francesco Sala; the E*xecutive Vice President Business Unit Prestige & Motorsport & COO Region Europe*, Andrea Casaluci and the *Executive Vice President Pirelli Digital*, Luigi Staccoli. The LTI plan also applies to senior managers and Executives of the Group (including board member Giovanni Tronchetti Provera) and can be also extended to those who, during the course of the 3-year period, assume, either through internal career growth or new hiring, an Executive position.

The LTI Plan is also aimed at retention. In the event that the employee relationship ends before the end of the 3-year period, with the exception of natural circumstances, the recipient's ceases to participate in the LTI Plan and as a consequence the LTI premium will not be provided, not even pro-quota. In the case of Board Members holding particular roles to whom specific attributions are delegated (it is the case of the Executive Vice Chairman and Chief Executive Officer Mr. Marco Tronchetti Provera) who cease in the role because their mandate has been completed and are not subsequently nominated, not even as board members, pro-quota payment of the LTI premium is foreseen.

For further information on the functioning of the LTI Plan, one may refer to the Remuneration Report which will be submitted (for the part relative to Policy in relation to Pirelli remuneration for

2017) for a consultative vote of the Shareholders' meeting called to approve results for the year ended 31 December 2017, as well as the illustrative report and the information document relative to the LTI Plan which will be made available to the public, under the conditions and modes called for by prevailing law, and also regulation.

44. OTHER INFORMATION

Research and development expenses

Research and development expenses for the 2017 financial year amounted to euro 221.5 million and represented 4.1% of sales.

Remuneration for Directors and Auditors

The compensation paid to the Directors and Auditors was as follows:

(In thousands of euro)	**2017**	**2016**
Directors	7,554	6,594
Statutory Auditors	296	280
TOTAL	**7,850**	**6,874**

Employees

The breakdown by category of the average consolidated headcount of employees is as follows:

	2017	**2016**
Executives and white collar staff	6,611	6,268
Blue collar staff	22,412	21,121
Temporary workers	1,621	1,568
TOTAL	**30,644**	**28,957**

Remuneration for Independent Auditors

Pursuant to the applicable laws, the total fees for the 2017 financial year for auditing services and for services other than auditing services rendered by the company PricewaterhouseCoopers S.p.A. and by other entities belonging to its network were as follows.

(In thousands of euro)	**Company that provided the service**	**Company that received the service**	**Partial fees**	**Total fees**	
Independent auditing services (1)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	1,920		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	708		
	Network PricewaterhouseCoopers	Subsidiaries	1,351	**3,979**	*53%*
Independent certification services (2)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	1,973		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	63		
	Network PricewaterhouseCoopers	Subsidiaries	43	**2,079**	*28%*
Services other than auditing (3)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	405		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	297		
	Network PricewaterhouseCoopers	Subsidiaries	759	**1,461**	*19%*
				7,519	100%

(1) the item "Independent auditing services" includes 1.850 thousands of euro paid for the audit of the Interim carve out consolidated financial statements of the Consumer Business of Pirelli Group included in the Registration Document released for the IPO of Pirelli & C. S.p.A. in the Milan Stock Exchange, successfully completed on October 4, 2017.

(2) the item "Independent certification services" includes mainly amounts paid for certification services for the IPO of Pirelli & C. S.p.A. in the Milan Stock Exchange, successfully completed on October 4, 2017 (1.973 thousands of euro).

(3) the item "Services other than auditing" include amounts paid for services other than auditing mainly (1.444 thousands of euro) awarded before October 4, 2017, date of completion of the IPO of Pirelli & C. S.p.A. In the Milan Stock Exchange.

Unusual and/or exceptional transactions

Pursuant to CONSOB Notice No.6064293 of July 28, 2006, it should be noted that during the 2017 financial year that the Company did not carry out any unusual and/or exceptional transactions as defined in the aforesaid Notice.

Exchange rates

The main exchange rates used for consolidation were as follows:

(local currency vs euro)	**Period-end exchanges rates**		**Change in %**	**Average exchange rates**		**Change in %**
	12/31/2017	**12/31/2016**		**2017**	**2016**	
Swedish Krona	**9.8438**	9.5525	3.05%	**9.6339**	9.4694	1.74%
Australian Dollar	**1.5346**	1.4596	5.14%	**1.4729**	1.4880	(1.01%)
Canadian Dollar	**1.5039**	1.4188	6.00%	**1.4646**	1.4655	(0.06%)
Singaporean Dollar	**1.6024**	1.5234	5.19%	**1.5587**	1.5275	2.04%
U.S. Dollar	**1.1993**	1.0541	13.77%	**1.1295**	1.1069	2.04%
Taiwan Dollar	**35.6588**	34.0748	4.65%	**34.3737**	35.7006	(3.72%)
Swiss Franc	**1.1702**	1.0739	8.97%	**1.1115**	1.0902	1.95%
Egyptian Pound	**21.3245**	20.1624	5.76%	**20.2283**	11.0216	83.53%
Turkish Lira (new)	**4.5155**	3.7099	21.71%	**4.1174**	3.3406	23.25%
New Romanian Leu	**4.6597**	4.5411	2.61%	**4.5676**	4.4898	1.73%
Argentinian Peso	**22.3658**	16.7497	33.53%	**18.7185**	16.3620	14.40%
Mexican Peso	**23.6250**	21.5539	9.61%	**21.3756**	20.6984	3.27%
South African Rand	**14.8054**	14.4570	2.41%	**15.0433**	16.2618	(7.49%)
Brazilian Real	**3.9693**	3.4042	16.60%	**3.6094**	3.8603	(6.50%)
Chinese Renminbi	**7.8365**	7.3123	7.17%	**7.6269**	7.3514	3.75%
Russian Ruble	**68.8668**	63.8111	7.92%	**65.8497**	74.1209	(11.16%)
British Pound	**0.8872**	0.8562	3.63%	**0.8766**	0.8195	6.97%
Japanese Yen	**135.0100**	123.4000	9.41%	**126.6909**	120.1972	5.40%

NET FINANCIAL POSITION

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

(In thousands of euro)	**Note**	**12/31/2017**	**12/31/2016**
Current borrowings from banks and other financial institutions	**23**	559,168	642,047
Current derivative financial instruments (liabilities)	**27**	11,248	35,742
Non-current borrowings from banks and other financial institutions	**23**	3,897,089	5,945,999
Non current derivative financial instruments (liabilities)	**27**	54,963	-
Total gross debt		**4,522,468**	**6,623,788**
Cash and cash equivalents	**19**	(1,118,437)	(1,532,977)
Securities held for trading	**18**	(33,027)	(48,597)
Current financial receivables and other assets	**15**	(36,511)	(29,951)
Current derivative financial instruments (assets)	**27**	(21,413)	(3,718)
Net financial debt *		**3,313,080**	**5,008,545**
Non-current financial receivables and other assets	**15**	(94,585)	(95,714)
Total net financial (liquidity)/debt position		**3,218,495**	**4,912,831**

* Pursuant to Consob Notice of July 28, 2006 and in compliance with CESR recommendation of February 10, 2005 "Recommendations fot the consistent implementation of the European Commission regulation on Prospectuses".

SCOPE OF CONSOLIDATION

Companies consolidated line-by-line

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Europe						
Austria						
Pirelli GmbH	Tyre	Wien	Euro	726,728	100.00%	Pirelli Tyre (Suisse) SA
Belgium						
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700,000	100.00%	Pirelli Tyre (Suisse) SA
France						
Pneus Pirelli S.A.S.	Tyre	Villepinte	Euro	1,515,858	100.00%	Pirelli Tyre S.p.A.
Germany						
Deutsche Pirelli Reifen Holding GmbH	Tyre	Breuberg / Odenwald	Euro	7,694,943	100.00%	Pirelli Tyre S.p.A.
Drahtcord Saar Geschaeftsfuehrungs GmbH I.L (in liquidation)	Tyre	Merzig	Dm	60,000	50.00%	Pirelli Deutschland GmbH
Driver Handelssysteme GmbH	Tyre	Breuberg / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Deutschland GmbH	Tyre	Breuberg / Odenwald	Euro	23,959,100	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Personal Service GmbH	Tyre	Breuberg / Odenwald	Euro	25,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
PK Grundstuecksverwaltungs GmbH	Tyre	Hoechst / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Diver Reifen und KFZ-Technik GmbH (ex Pneumobil Reifen und KFZ-Technik GmbH)	Tyre	Breuberg / Odenwald	Euro	259,225	100.00%	Deutsche Pirelli Reifen Holding GmbH
Greece						
Elastika Pirelli C.S.A.	Tyre	Elliniko-Argyroupoli	Euro	11,630,000	99.90%	Pirelli Tyre S.p.A.
					0.10%	Pirelli Tyre (Suisse) SA
Pirelli Hellas S.A. (in liquidation)	Tyre	Athens	US $	22,050,000	79.86%	Pirelli Tyre S.p.A.
The Experts in Wheels - Driver Hellas C. S.A.	Tyre	Elliniko-Argyroupoli	Euro	100,000	72.80%	Elastika Pirelli C.S.A.

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Italy						
Driver Italia S.p.A.	Tyre	Milan	Euro	350,000	71.48%	Pirelli Tyre S.p.A.
Driver Servizi Retail S.p.A.	Tyre	Milan	Euro	120,000	100.00%	Pirelli Tyre S.p.A.
HB Servizi S.r.l.	Services	Milan	Euro	10,000	100.00%	Pirelli & C. S.p.A.
Maristel s.r.l.	Services	Milan	Euro	1,020,000	100.00%	Pirelli & C. S.p.A.
Pirelli & C. Ambiente S.r.l.	Sustainable mobility	Milan	Euro	10,000	100.00%	Pirelli & C. S.p.A.
Pirelli Industrie Pneumatici S.r.l.	Tyre	Settimo Torinese (To)	Euro	40,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Servizi Amministrazione e Tesoreria S.p.A.	Services	Milan	Euro	2,047,000	100.00%	Pirelli & C. S.p.A.
Pirelli Sistemi Informativi S.r.l.	Information Systems	Milan	Euro	1,010,000	100.00%	Pirelli & C. S.p.A.
Beijing Industrial Holding S.r.l.(ex Pirelli Industrial S.r.l.)	Tyre	Milan	Euro	10,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyre S.p.A.	Tyre	Milan	Euro	558,154,000	100.00%	Pirelli & C. S.p.A.
Poliambulatorio Bicocca S.r.l.	Services	Milan	Euro	10,000	100.00%	Pirelli Tyre S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104,000	91.32%	Pirelli & C. S.p.A.
					2.95%	Pirelli Tyre S.p.A.
					0.95%	Poliambulatorio Bicocca S.r.l.
					0.95%	Driver Italia S.p.A.
					0.98%	Pirelli Industrie Pneumatici S.r.l.
					0.95%	Pirelli Servizi Amministrazione e Tesoreria S.p.A.
					0.95%	Pirelli Sistemi Informativi S.r.l.
					0.95%	HB Servizi S.r.l.
The Netherlands						
E-VOLUTION Tyre B.V.	Tyre	Rotterdam	Euro	170,140,000	99.98%	Pirelli Tyre S.p.A. (65% of the voting share capital)
Pirelli China Tyre N.V.	Tyre	Rotterdam	Euro	38,045,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Rotterdam	Euro	18,152	100.00%	Pirelli Tyre (Suisse) SA
Poland						
Driver Polska Sp. z o.o.	Tyre	Warsaw	Pol. Zloty	100,000	65.50%	Pirelli Polska Sp. z o.o.
Pirelli Polska Sp. z o.o.	Tyre	Warsaw	Pol. Zloty	625,771	100.00%	Pirelli Tyre S.p.A.

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
United Kingdom						
CTC 2008 Ltd	Tyre	Burton on Trent	British Pound	100,000	100.00%	Pirelli UK Tyres Ltd
Pirelli Cif Trustees Ltd	Financial	Burton on Trent	British Pound	4	25.00%	Pirelli General Executive Pension Trustees LTD
					25.00%	Pirelli General & Overseas Pension Trustees LTD
					25.00%	Pirelli Tyres Executive Pension Trustees LTD
					25.00%	Pirelli Tyres Pension Trustees LTD
Pirelli International plc	Financial	Burton on Trent	Euro	250,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Motorsport Services Ltd	Tyre	Burton on Trent	British Pound	1	100.00%	Pirelli Tyre S.p.A.
Pirelli General Executive Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli UK Ltd
Pirelli General & Overseas Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli UK Ltd
Pirelli Tyres Executive Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli Tyres Ltd
Pirelli Tyres Ltd	Tyre	Burton on Trent	British Pound	16,000,000	100.00%	Pirelli UK Tyres Ltd
Pirelli Tyres Pension Trustees Ltd	Financial	Burton on Trent	British Pound	1	100.00%	Pirelli Tyres Ltd
Pirelli UK Ltd	Financial	Burton on Trent	British Pound	163,991,278	100.00%	Pirelli & C. S.p.A.
Pirelli UK Tyres Ltd	Tyre	Burton on Trent	British Pound	85,000,000	100.00%	Pirelli Tyre S.p.A.
Slovakia						
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Euro	6,639	100.00%	Pirelli Tyre S.p.A.
Romania						
S.C. Pirelli & C. Eco Technology RO S.r.l.	Sustainable mobility	Slatina	Rom. Leu	40,002,000	100.00%	Pirelli Tyre S.p.A.
S.C. Pirelli Tyres Romania S.r.l.	Tyre	Slatina	Rom. Leu	853,912,300	100.00%	Pirelli Tyre S.p.A.
Russia						
Closed Joint Stock Company "Voronezh Tyre Plant"	Tyre	Voronezh	Russian Rouble	1,520,000,000	100.00%	Limited Liability Company Pirelli Tyre Russia
Joint Stock Company "Scientific-Research Study Center of New Technologies & Materials "ATOM"	Tyre	Moscow	Russian Rouble	312,411,000	54.78%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company Pirelli Tyre Services	Tyre	Moscow	Russian Rouble	54,685,259	95.00%	Pirelli Tyre (Suisse) SA
					5.00%	Pirelli Tyre S.p.A.
Limited Liability Company "AMTEL-Russian Tyres"	Tyre	Moscow	Russian Rouble	10,000	100.00%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company "Industrial Complex Kirov Tyre"	Tyre	Kirov	Russian Rouble	348,423,221	100.00%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company Pirelli Tyre Russia	Tyre	Moscow	Russian Rouble	4,000,000	99.91%	E-VOLUTION Tyre B.V.
					0.09%	OOO Pirelli Tyre Services

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Spain						
Euro Driver Car S.L.	Tyre	Valencia	Euro	960,000	58.44%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
					0.31%	Omnia Motor S.A. - Sociedad Unipersonal
Omnia Motor S.A. - Sociedad Unipersonal	Tyre	Valencia	Euro	1,502,530	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Pirelli Neumaticos S.A. - Sociedad Unipersonal	Tyre	Valencia	Euro	25,075,907	100.00%	Pirelli Tyre S.p.A.
Tyre & Fleet S.L. - Sociedad Unipersonal	Tyre	Valencia	Euro	20,000	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Sweden						
Dackia Aktiebolag	Tyre	Taby	Swed. Krona	31,000,000	100.00%	Pirelli Tyre S.p.A.
Inter Wheel Sweden Aktiebolag	Tyre	Karlstad	Swed. Krona	1,000,000	100.00%	Dackia Aktiebolag
Pirelli Tyre Nordic Aktiebolag	Tyre	Bromma	Swed. Krona	950,000	100.00%	Pirelli Tyre S.p.A.
Switzerland						
Pirelli Group Reinsurance Company SA	Reinsurance	Basel	Swiss Franc	8,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre (Suisse) SA	Tyre	Basel	Swiss Franc	1,000,000	100.00%	Pirelli Tyre S.p.A.
Turkey						
Pirelli Otomobil Lastikleri A.S.	Tyre	Istanbul	Turkey Lira	85,000,000	100.00%	Pirelli Tyre S.p.A.
Hungary						
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint	3,000,000	100.00%	Pirelli Tyre S.p.A.

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
North America						
Canada						
Pirelli Tire Inc.	Tyre	St-Laurent (Quebec)	Can. $	6,000,000	100.00%	Pirelli Tyre (Suisse) SA
U.S.A.						
Pirelli North America Inc.	Tyre	New York (New York)	US $	10	100.00%	Pirelli Tyre S.p.A.
Pirelli Tire LLC	Tyre	Rome (Georgia)	US $	1	100.00%	Pirelli North America Inc.
Prestige Stores LLC	Tyre	Wilmington (Delaware)	US $	10	100.00%	Pirelli Tire LLC
Central/South America						
Argentina						
Pirelli Neumaticos S.A.I.C.	Tyre	Buenos Aires	Arg. Peso	101,325,176	66.50%	Pirelli Tyre S.p.A.
					28.50%	Prometeon Tyre Group S.r.l. (ex-
					5.00%	Pirelli Pneus Ltda
Prometeon Tyre Group de Argentina S.A.U.	Tyre	Buenos Aires	Arg. Peso	100,000	100.00%	Pirelli Neumaticos S.A.I.C.
TP Industrial Tyres S.A.	Tyre	Buenos Aires	Arg. Peso	100,000	95.00%	Pirelli Tyre S.p.A.
					5.00%	Pirelli Pneus Ltda
Brazil						
Comercial e Importadora de Pneus Ltda	Tyre	Sao Paulo	Bra. Real	101,427,384	100.00%	Pirelli Comercial de Pneus Brasil Ltda
CPA - Comercial e Importadora de Pneus Ltda	Tyre	Sao Paulo	Bra. Real	200,000	100.00%	Comercial e Importadora de Pneus Ltda
Ecosil - Industria Quimica do Brasil Ltda	Tyre	Meleiro	Bra. Real	9,699,055	97.88%	Pirelli Pneus Ltda
Pirelli Comercial de Pneus Brasil Ltda	Tyre	Sao Paulo	Bra. Real	509,328,303	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda
Pirelli Latam Participaçoes Ltda	Tyre	Sao Paulo	Bra. Real	115,344,668	100.00%	Pirelli Tyre S.p.A.
Pirelli Ltda	Financial	Santo Andrè	Bra. Real	14,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Pneus Ltda	Tyre	Santo Andrè	Bra. Real	241,698,354	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda
Comércio e Importação Multimarcas de Pneus Ltda (ex-Pirelli Properties Ltda)	Tyre	Sao Paulo	Bra. Real	3,691,500	85.00%	Pirelli Tyre S.p.A.
					15.00%	Pirelli Latam Participaçoes Ltda
RF Centro de Testes de Produtos Automotivos Ltda	Tyre	Elias Fausto (Sao Paulo)	Bra. Real	6,812,000	100.00%	Pirelli Pneus Ltda
TLM - Total Logistic Management Serviços de Logistica Ltda	Tyre	Santo Andrè	Bra. Real	3,074,417	99.99%	Pirelli Pneus Ltda
					0.01%	Pirelli Ltda
Chile						
Pirelli Neumaticos Chile Ltda	Tyre	Santiago	Chile Peso/000	1,918,450,809	84.98%	Pirelli Comercial de Pneus Brasil Ltda
					15.00%	Pirelli Latam Participaçoes Ltda
					0.02%	Pirelli Ltda
Colombia						
Pirelli Tyre Colombia S.A.S.	Tyre	Santa Fe De Bogota	Col. Peso/000	222,522	85.00%	Pirelli Comercial de Pneus Brasil Ltda
					15.00%	Pirelli Latam Participaçoes Ltda

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Mexico						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Silao	Mex. Peso	35,098,400	99.98%	Pirelli Tyre S.p.A.
					0.02%	Pirelli Ltda
Pirelli Neumaticos S.A. de C.V.	Tyre	Silao	Mex. Peso	3,249,016,500	99.40%	Pirelli Tyre S.p.A.
					0.60%	Pirelli Latam Participaçoes Ltda
Pirelli Servicios S.A. de C.V.	Tyre	Silao	Mex. Peso	50,000	99.00%	Pirelli Tyre S.p.A.
					1.00%	Pirelli North America Inc.
Africa						
Egypt						
Pirelli Egypt Tyre Trading S.A.E.	Tyre	Cairo	Egy. Pound	250,000	98.00%	Pirelli Tyre S.p.A.
					1.00%	Pirelli Industrie Pneumatici S.r.l.
					1.00%	Pirelli Tyre (Suisse) SA
Pirelli Egypt Consumer Tyre Distribution S.A.E.	Tyre	Cairo	Egy. Pound	5,000,000	98.00%	Pirelli Egypt Tyre Trading S.A.E.
					1.00%	Pirelli Tyre S.p.A.
					1.00%	Pirelli Tyre (Suisse) SA
South Africa						
Pirelli Tyre (Pty) Ltd	Tyre	Centurion	S.A. Rand	1	100.00%	Pirelli Tyre (Suisse) SA
Oceania						
Australia						
Pirelli Tyres Australia Pty Ltd	Tyre	Sydney	Aus. $	150,000	100.00%	Pirelli Tyre (Suisse) SA
New Zealand						
Pirelli Tyres (NZ) Ltd	Tyre	Auckland	N.Z. $	100	100.00%	Pirelli Tyres Australia Pty Ltd
Asia						
China						
Pirelli Tyre (Jiaozuo) Co., Ltd. (ex-Jiaozuo Aeolus Tyre Co., Ltd)	Tyre	Jiaozuo	Ch. Renminbi	350,000,000	80.00%	Pirelli Tyre S.p.A.
Pirelli Tyre Co., Ltd	Tyre	Yanzhou	Ch. Renminbi	1,721,150,000	90.00%	Pirelli China Tyre N.V.
Pirelli Tyre Trading (Shanghai) Co., Ltd	Tyre	Shangai	US $	700,000	100.00%	Pirelli China Tyre N.V.
TP Trading (Beijing) Co., Ltd	Tyre	Beijing	Ch. Renminbi	2,000,000	100.00%	Beijing Industrial Holding S.r.l.(ex Pirelli Industrial S.r.l.)
Yanzhou HIXIH Ecotech Environment Co., Ltd	Sustainable mobility	Yanzhou	Ch. Renminbi	130,000,000	100.00%	Pirelli Tyre Co. Ltd
Korea						
Pirelli Korea Ltd	Tyre	Seoul	Korean Won	100,000,000	100.00%	Pirelli Asia Pte Ltd
Japan						
Pirelli Japan Kabushiki Kaisha	Tyre	Tokyo	Jap. Yen	2,200,000,000	100.00%	Pirelli Tyre S.p.A.
Singapore						
Pirelli Asia Pte Ltd	Tyre	Singapore	Sing. $	2	100.00%	Pirelli Tyre (Suisse) SA
Taiwan						
Pirelli Taiwan Co. Ltd	Tyre	New Taipei City	N.T. $	10,000,000	100.00%	Pirelli Tyre (Suisse) SA

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

Other investments considered

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Belgium						
Euroqube S.A. (in liquidation)	Services	Brussels	Euro	84,861,116	17.79%	Pirelli & C. S.p.A.
France						
Aliapur S.A.	Tyre	Lion	Euro	262,500	14.17%	Pneus Pirelli S.A.S.
					0.11%	Pirelli Tyre S.p.A.
Italy						
Fin. Priv. S.r.l.	Financial	Milan	Euro	20,000	14.29%	Pirelli & C. S.p.A.
Poland						
Centrum Utylizacji Opon Organizacja Odzysku S.A.	Tyre	Warsaw	Pol. Zloty	1,008,000	14.29%	Pirelli Polska Sp. ZO.O.
United Kingdom						
Tlcom I Ltd Partnership	Financial	London	Euro	1,154	10.83%	Pirelli UK Ltd
Czech Republic						
ELT Management Company Czech Republic S.R.O.	Tyre	Brno	Czech crown	5,940,000.00	16.67%	Pirelli Tyre (Suisse) SA
Venezuela						
Pirelli de Venezuela C.A.	Tyre	Valencia	Ven. Bolivar/000	20,062,679	96.22%	Pirelli Tyre S.p.A.

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

SEPARATE FINANCIAL STATEMENTS

AT DECEMBER 31, 2017

STATEMENT OF FINANCIAL POSITION

(in euro)	**Note**	**12/31/2017**	*of which related parties (Note 37)*	**12/31/2016**	*of which related parties (Note 37)*
Property, plant and equipment	8	41,335,010		43,420,596	
Intangible assets	9	2,274,121,987		2,275,835,098	
Investments in subsidiaries	10	4,568,309,362		4,930,701,308	
Investments in associates	11	10,204,402		33,077,976	
Other financial assets	12	224,593,085		182,561,819	
Other receivables	13	14,819,551		14,829,806	
Non-current assets		**7,133,383,397**		**7,480,426,603**	
Trade receivables	14	52,045,402	*43,721,766*	61,691,992	*56,915,412*
Other receivables	13	45,164,222	*13,972,980*	651,850,183	*635,261,974*
Cash and cash equivalents	15	1,749,490	-	1,805,342	
Tax receivables	16	110,632,072	*104,054,274*	84,621,445	*77,839,951*
Derivative financial instruments	17	94,846	*94,846*	515,329	*515,329*
Current assets		**209,686,032**		**800,484,291**	
Total assets		**7,343,069,429**		**8,280,910,894**	
Equity:					
- Share capital		1,904,374,936		1,342,280,641	
- Other reserves		2,163,146,083		1,490,073,812	
- Retained earnings reserve		-		305,401,651	
- Net income (loss) for the year		170,850,918		68,477,271	
Total Equity	18	**4,238,371,937**		**3,206,233,375**	
Borrowings from banks and other financial institutions	19	2,331,646,999		4,103,995,774	*560,914*
Other payables	23	211,511		310,771	
Provisions for liabilities and charges	20	45,677,712		45,950,392	
Employee benefit obligations	21	2,071,744		3,964,639	
Provision for deferred tax liabilities	24	554,828,134		633,330,000	
Derivative financial instruments	17	29,715,928	*29,715,928*	-	
Non-current liabilities		**2,964,152,028**		**4,787,551,576**	
Borrowings from banks and other financial institutions	19	16,856,013	*9,411,654*	192,055,076	*6,452,639*
Trade payables	22	29,694,193	*4,819,768*	32,425,237	*1,581,870*
Other payables	23	75,212,817	*27,491,367*	37,125,846	*14,875,883*
Provisions for liabilities and charges	20	-		5,476,807	
Tax payables	25	18,636,545	*18,407,661*	20,042,977	*19,814,093*
Derivative financial instruments	17	145,896	*145,896*	-	
Current liabilities		**140,545,464**		**287,125,943**	
Total Liabilities and Equity		**7,343,069,429**		**8,280,910,894**	

INCOME STATEMENT

(in euro)	**Note**	**1/1-12/31/2017**	*of which related parties (Note 37)*	**1/1-12/31/2016**	*of which related parties (Note 37)*
Revenues from sales and services	26	42,084,384	*41,349,034*	55,991,047	*55,269,739*
Other income	27	105,778,332	*99,323,081*	149,849,089	*110,523,686*
- of which non recurring events	36			*29,398,345*	
Raw materials and consumables used	28	(183,120)		(209,409)	
Personnel expenses	29	(26,709,830)	*(4,779,614)*	(26,826,868)	*(4,482,334)*
- of which non recurring events	36	*(1,691,015)*		-	
Amortisation, depreciation and impairment	30	(4,899,942)		(9,241,257)	
Other costs	31	(167,059,757)	*(18,618,209)*	(106,343,413)	*(9,245,923)*
- of which non recurring events	36	*(62,390,073)*		*(7,250,000)*	
Operating income (loss)		**(50,989,933)**		**63,219,189**	
Net income (loss) from equity investments	32	204,415,855		172,447,821	
- gains on equity investments		2,752,299	*2,564,250*	463,795	
- losses on equity investments		(13,833,292)	*(11,479,999)*	(107,159,101)	*(104,344,529)*
- dividends		215,496,848	*208,870,744*	279,143,127	*272,562,738*
Financial income	33	116,744,745	*10,680,847*	49,939,161	*49,714,098*
Financial expenses	34	(240,118,416)	*(103,275,015)*	(286,870,074)	*(6,878,318)*
- of which non recurring events	36	*(41,966,793)*		-	
Net income (loss) before taxes		**30,052,251**		**(1,263,903)**	
Taxes	35	140,798,667		69,741,174	
- of which non recurring events	36	*96,107,664*		(6,954,500)	
Total net income (loss) for the year		**170,850,918**		**68,477,271**	

STATEMENT OF COMPREHENSIVE INCOME

(in euro)	1/1-12/31/2017	1/1-12/31/2016
A - Net income (loss)	**170,850,918**	**68,477,271**
Other components of comprehensive income:		
B - Items that will not be reclassified to income statement:		
- Net actuarial gains (losses) on employee benefits	17,555	(55,913)
Total B	**17,555**	**(55,913)**
C - Items reclassified / that may be reclassified to income statement:		
Fair value adjustment of derivatives designated as cash flow hedge		
- Gains /(losses) arising from adjustment to fair value	(7,117,489)	-
- (Gains) / losses reclassified to income statement	(270,006)	-
- Tax effect	1,708,197	-
Fair value adjustment of other financial assets available for sale:		
- Gains /(losses) arising from adjustment to fair value	40,486,365	(16,509,969)
- (Gains) / losses reclassified to income statement	1,439,103	(3,225)
Total C	**36,246,170**	**(16,513,194)**
B+C Total other components of comprehensive income	**36,263,725**	**(16,569,107)**
A+B+C Total comprehensive income (loss) for the year	**207,114,643**	**51,908,164**

STATEMENT OF CHANGES IN EQUITY

(in euro)	Share Capital	Legal Reserve	Surplus Reserve	Concentration Reserve	Other reserves	IAS Reserves *	Merger Reserve	Cash flow Hedge Reserve	Reserve from results carried forward	Net result of the year	**Total**
Total at 12/31/2015	**1,343,285,421**	**152,113,517**	**-**	**12,466,897**	**-**	**96,531,260**	**-**	**-**	**311,232,731**	**(1,701,751)**	**1,913,928,076**
Breakdown of result as per resolution of April 27, 2016											
- Dividend	-	-	-	-	-	-	-	-	-	-	-
- Legal reserve	-	-	-	-	-	-	-	-	-	-	-
- Retained earnings	-	-	-	-	-	-	-	-	(1,701,750)	1,701,750	-
Other changes	-	-	-	-	92,534,791	(92,264,785)	-	-	314,418	-	584,424
Purchase special shares	(1,004,780)	-	-	-	-	-	-	-	(4,443,748)	-	(5,448,528)
Merger Marco Polo Industrial Holding S.p.A.	-	-	-	-	-	-	1,245,261,239	-	-	-	1,245,261,239
Other items of the comprehensive income statement	-	-	-	-	-	(16,569,107)	-	-	-	-	(16,569,107)
Result for the year	-	-	-	-	-	-	-	-	-	68,477,271	68,477,271
Total comprehensive income/(loss) for the year	-	-	-	-	-	*(16,569,107)*	-	-	-	*68,477,271*	*51,908,164*
Total at 12/31/2016	**1,342,280,641**	**152,113,517**	**-**	**12,466,897**	**92,534,791**	**(12,302,632)**	**1,245,261,239**	**-**	**305,401,651**	**68,477,271**	**3,206,233,375**
Board resolution of 6 March, 2017	-	116,962,590	-	-	-	-	-	-	(116,962,590)		-
Reserve distribution assignment TP Industrial	-	-	-	-	-	-	(175,912,021)	-	(188,439,061)		(364,351,082)
Breakdown of result as per resolution of April 27, 2017											
- Dividend	-	-	-	-	-	-	-	-	-	-	-
- Legal reserve	-	-	-	-	-	-	-	-	-	-	-
- Retained earnings	-	-	-	-	-	-	-	-	68,477,271	(68,477,271)	-
Annulment treasury shares	3,099,893								(3,099,893)		-
Share capital increase	558,994,402	-	630,380,599	-	-	-	-	-		-	1,189,375,001
Board resolution of August 1, 2017	-	111,798,881	-	-	-	-	(46,421,503)	-	(65,377,378)	-	-
Other items of the comprehensive income statement	-	-	-	-	-	36,263,725	-	-	-	-	36,263,725
Result for the year	-	-	-	-	-	-	-	-	-	170,850,918	170,850,918
Total comprehensive income/(loss) for the year	-	-	-	-	-	*36,263,725*	-	-	-	*170,850,918*	*207,114,643*
Total at 12/31/2017	**1,904,374,936**	**380,874,988**	**630,380,599**	**12,466,897**	**92,534,791**	**23,961,093**	**1,022,927,715**	**-**	**-**	**170,850,918**	**4,238,371,937**

(in euro)	**Breakdown of IAS Reserves ***				
	Reserve for fair Value adjustment of available-for-sale financial assets	**Reserve for actuarial gains/losses**	**Cash flow hedge reserve**	**Tax effect**	**TOTAL**
Balance at 12/31/2015	**94,464,885**	**2,066,375**	**-**	**-**	**96,531,260**
Other components of comprehensive income	(16,513,194)	(55,913)	-	-	(16,569,107)
Other movements	(92,534,791)	-	270,006	-	(92,264,785)
Balance at 12/31/2016	**(14,583,100)**	**2,010,462**	**270,006**	**-**	**(12,302,632)**
Other components of comprehensive income	41,925,468	17,555	(7,387,495)	1,708,197	36,263,725
Balance at 12/31/2017	**27,342,368**	**2,028,017**	**(7,117,489)**	**1,708,197**	**23,961,093**

STATEMENT OF CASH FLOWS

(in euro)

		Note	1/1-12/31/2017	*of which related parties (Note 37)*	1/1-12/31/2016	*of which related parties (Note 37)*
	Result before taxes		30,052,251		(1,263,903)	
	Reversal depreciation, amortization and write-downs		4,899,942		9,241,257	
	Reversal financial expenses		240,118,416	*103,275,015*	286,870,074	*6,878,318*
	Reversal financial income		(116,744,745)	*(10,680,847)*	(49,939,161)	*(49,714,098)*
	Reversal result from investments		(204,415,855)	*(199,954,995)*	(172,447,821)	*(168,218,210)*
	Taxes paid		-		-	
	Change in trade receivables		9,646,590	*13,193,646*	(20,004,841)	*(19,599,381)*
	Change in trade payables		(2,731,044)	*3,237,898*	(8,507,227)	*139,636*
	Change in other receivables/other payables		22,708,000	*12,585,217*	(6,010,830)	*5,048,548*
	Change in tax receivables/tax payables		22,393,548	*36,366,068*	(36,461,826)	*23,265,705*
	Change in personnel provisions and other provisions		(2,165,575)		38,542,093	
	(Gains)/losses from sales of tangible and intangible assets		11,240		(29,398,345)	
A	**Net cash generated/(used) by operating activities**		**3,772,768**		**10,619,470**	
	Investments in tangible assets	8	(338,274)		(539,000)	
	Disposal of property, plant & equipment		26,639		75,180,000	
	Investments in intangible assets	9	(1,550,850)		(2,073,000)	
	Disposal of intangible assets		750,000		-	
	Investments in shareholdings in subsidiaries	10	(9,705,361)	*(9,705,361)*	(1,600,000)	*(1,600,000)*
	Investments in shareholdings in associated companies		-	-	(4,692,000)	*(4,692,000)*
	Investments in other financial assets	12	(2,459,092)		(2,394,000)	
	Disposal of other financial assets		2,365		11,221,403	
	Disposal of shareholdings in subsidiaries		7,938	*7,938*	15,000	*15,000*
	Disposal of shareholdings in associated companies	11	17,209,724	*17,209,724*	-	-
	Dividends received	32	215,496,848	*208,870,744*	279,143,127	*272,562,738*
B	**Net cash generated/(used) by investment activities**		**219,439,937**		**354,261,530**	
	Increase in share capital	18	1,189,375,000		-	
	Redemption special shares		-	-	(1,240,000)	-
	Dividends paid		-		-	
	Change in financial receivables	13	629,710,507	*629,710,507*	335,915,901	*335,915,901*
	Change in financial payables	19	(1,884,066,984)	*9,000,000*	(488,263,988)	-
	Financial income/(financial expenses)	32	(158,287,080)	*(53,865,315)*	(236,930,723)	*6,619,562*
C	**Net cash generated/(used) by financing activities**		**(223,268,557)**		**(390,518,810)**	
D	**Total net cash generated/(used) in the year (A+B+C)**		**(55,852)**		**(25,637,810)**	
E	**Cash and cash equivalents at the beginning of the year**		**1,805,342**		**146,152**	
F	**Cash and cash equivalents of Marco Polo Industrial Holding S.p.A**		**-**		**27,297,000**	
G	**Cash and cash equivalents at the end of the year (D+E+F)**		**1,749,490**		**1,805,342**	

EXPLANATORY NOTES

1. GENERAL INFORMATION

Pirelli & C. S.p.A. (hereinafter also Pirelli, the "Company" or the "Parent Company") is a corporation organised under the laws of the Republic of Italy.

Founded in 1872, it is a holding company that manages, coordinates and funds the activities of subsidiaries (hereinafter Pirelli Group).

The registered office of the Company is in Viale Piero e Alberto Pirelli 25 – Milan.

With effect from October 4, 2017, the shares of Pirelli & C. S.p.A. are listed on the Mercato Telematico Azionario (MTA), managed by Borsa Italiana S.p.A. With the start of negotiations, the management and coordination activities of Marco Polo International Italy S.p.A. ceased. The subject of the Global Sale Offer was 350 million ordinary shares, at a price of euro 6.5 per share for a capitalization of euro 6.5 billion.

The Greenshoe option, granted as part of the transaction by Marco Polo International Italy S.p.A. to the placement consortium for 50 million shares, was partially exercised on November 2, 2017 for a total of 18,904,836 million shares. Including the Greenshoe option, the Sale Offer therefore concerned 368,904,836 Pirelli ordinary shares and, consequently, the total proceeds deriving from the Sale Offer and exclusively due to the Selling Shareholder amount to approximately euro 2.4 billion. As a result of the partial exercise of the Greenshoe Option, Marco Polo International Italy S.p.A. holds 631,095,164 Pirelli ordinary shares corresponding to about 63% of the share capital.

Pirelli & C. S.p.A. is directly controlled by Marco Polo International Italy S.p.A., (after the merger with Marco Polo International Holding Italy S.p.A.) and indirectly controlled by China National Chemical Corporation ("ChemChina"), a "state-owned enterprise" (SOE) under Chinese law, with registered office in Beijing, referring to the Central Government of the People's Republic of China.

On February 26, 2018, the Board of Directors authorized publication of these Financial Statements ("Financial Statements or Separate Financial Statements").

Significant Events 2017

The following significant events took place during 2017:

- On **March 15, 2017**, the Ordinary Shareholders' Meeting of Pirelli & C. S.p.A. resolved the assignment to the sole shareholder Marco Polo International Holding Italy S.p.A. of all the 32,870,380 shares held in TP Industrial Holding S.p.A. TP Industrial Holding S.p.A. is the company that holds 52% of the share capital of Pirelli Industrial S.r.l. (now Prometeon Tyre Group S.r.l), a company that includes the Industrial assets of Pirelli.

- **At the end of June**, Marco Polo International Italy S.p.A. - direct shareholder of Pirelli after the merger by incorporation of Marco Polo International Holding Italy S.p.A. - subscribed a capital increase, including share premium, of approximately euro 1.2 billion. It is also noted that on June 27, 2017 (with closing on June 29), Pirelli & C. S.p.A. and Pirelli International Plc signed a new refinancing contract on an unsecured basis for a total amount of euro 4.2 billion with a syndicate of leading international banks, whose first draw-downs were used, together with the proceeds deriving from the capital increase indicated above, to fully repay on June 29, 2017 the financing entered into in 2016 for an amount of euro 6.4 billion and consequently cancel all the real guarantees provided for this financing. The new refinancing was completed on improved terms compared to the previous loan completed in 2016, in particular by reducing the all-in cost but also thanks to the extension of its average life, thus contributing to improving the financial profile of Pirelli.

- **At the end of July 2017**, Burlington Loan Management DAC, an Irish investment vehicle managed by Davidson Kempner Capital Management LP, signed a contract with Pirelli, Intesa Sanpaolo S.p.A., UniCredit S.p.A. and Fenice S.r.l. for the purchase of 44.86% of the capital held by the latter in Prelios S.p.A. for a total of 611,910,548 shares. The price for the purchase and sale was set at euro 0.116 per share, equal to a total of euro 70.9 million, of which approximately euro 17.2 million due to Pirelli, approximately euro 24.5 million to Fenice, vehicle invested in by Pirelli and the remaining part - in proportion to the investment held - to Intesa Sanpaolo and UniCredit. The closing of the purchase and sale transaction - with simultaneous collection - was finalized on **December 28, 2017**.

- On **October 4, 2017**, Pirelli shares were listed on the Milan Stock Exchange on the Mercato Telematico Azionario (MTA), organized and managed by Borsa Italiana S.p.A., as previously described.

- On **December 21, 2017**, the Pirelli Board approved an EMTN (euro Medium Term Note) program for the issue of senior unsecured non-convertible bonds for a maximum value of euro 2 billion. The adoption of the EMTN program responds to the objective of constant optimization of the Pirelli financial structure and allows timely seizing favourable windows on the bond market. As part of this program, the Board of Directors authorized the issue, to be executed by January 31, 2019, of one or more bonds, to be placed with institutional investors, for a total maximum amount of up to euro 1.0 billion.

2. BASIS FOR PREPARATION

The 2017 financial statements represent the separate financial statements of the Parent Company Pirelli & C. S.p.A.

These Financial Statements have been prepared on a going concern assumption since the Directors have verified the absence of financial, operational or other types of indicators that could indicate critical issues regarding the ability of the Company to meet its obligations in the foreseeable future and in particular in the next 12 months. The description of the ways in which the Company manages financial risks is contained in Chapter 4 Financial risk management policy and 6 Capital management policy of these Explanatory Notes.

In application of Legislative Decree of February 28, 2005, no. 38, “Exercise of the options provided for by art. 5 of regulation (EC) no. 1606/2002 on international accounting standards”, issuers are required to prepare not only the consolidated financial statements but also the financial statements of the Company in compliance with the international accounting standards (IFRS) issued by the International Accounting Standards Board (IASB) and published in the Official Journal of the European Community (GUCE).

IFRS include all International Financial Reporting Standards, International Accounting Standards (IAS), all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC).

The Financial Statements have been prepared on the basis of the conventional historical cost criterion, except for the financial assets available for sale and derivative instruments measured at fair value.

Financial Statements

The Separate Financial Statements at December 31, 2017 consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Explanatory Notes, and are accompanied by the Directors’ Report on Operations.

The Company has chosen to represent the Income Statement by nature of expense, assets and liabilities in the Statement of Financial Position are divided into current and non-current and the Cash Flow Statement has been prepared using the indirect method.

It shall also be noted that the Group has applied the provisions of Consob Resolution no. 15519 of July 27, 2006 in regard to the formats of financial statements and Consob Notice no. 6064293 of July 28, 2006 in regard to corporate disclosure.

In order to provide greater clarity and comparability of the financial statement items, the amount of the corresponding items of the previous year were adjusted where necessary.

All amounts included in the Notes, unless otherwise specified, are in thousands of euro.

3. ACCOUNTING STANDARDS

The accounting standards used in the preparation of Separate Financial Statements are the same as those used for the purposes of preparing the consolidated financial statements where applicable, except in relation to the assessment of investments in subsidiaries and associate companies and dividends, as indicated below.

Investments in subsidiaries and associated companies

Investments in subsidiaries and associates are recognized at cost, net of any impairment losses.

In the presence of specific impairment indicators, the value of investments in subsidiaries and associated companies, determined based on the historical cost basis, is tested for impairment.

The indicators are as follows:

- The book value of the investment in the separate financial statements exceeds the book value of the investee's net assets (inclusive of any associates goodwill) expressed in the consolidated financial statements;
- The dividend distributed by the investee exceeds the total undistributed profits of the investment from the date of purchase;
- The operating result achieved by the investee company is significantly lower than the amount expected in the management plan, if this indicator can be considered significant for the reference company;
- There are expectations of significantly decreasing operating results for future years;
- Existence of changes in the technological, market, economic or regulatory environment in which the investee operates that may generate significant negative economic effects on the company's results.

The impairment test consists of comparing the carrying amount and the recoverable value of the investment.

If the recoverable amount of an investment is lower than the carrying amount, the latter is reduced to the recoverable amount. This reduction constitutes an impairment loss recognized in the Income Statement.

The recoverable amount of an investment is identified as the greater of fair value and value in use. The value in use of an investment is the present value of future cash flows expected to originate from a cash-generating investment. The value in use reflects the effects of factors that may be entity specific, factors that may not be applicable to any entity.

With specific reference to the investment in the subsidiary Pirelli Tyre S.p.A., the recoverable value to be used, if it were necessary to proceed with an impairment test, would correspond to the fair value, and would be obtained starting from the fair value of Pirelli & C. S.p.A. equal to its Stock Market capitalization without considering any control premium, adjusted downwards for the fair value of the assets of Pirelli & C. S.p.A. other than the investment in Pirelli Tyre S.p.A. (for example, the Pirelli brand), and upwards for the fair value of the liabilities of Pirelli & C. S.p.A. (mainly its Net Financial Position).

If the reason for impairment ceases to exist, the carrying amount of the investment is recognized in the Income Statement, up to the original cost.

Dividends

Dividend income is recognized in the income statement when the right to receive payment is established, which normally corresponds to the resolution approved by the Shareholders' Meeting for the distribution of dividends.

International accounting standards and/or interpretations issued but not yet in force

Pursuant to IAS 8 "Accounting standards, changes in accounting estimates and errors", the following are the new Standards or Interpretations that have been issued but have not yet come into force or have not yet been endorsed by the European Union at December 31, 2017, and which are therefore not applicable, and the foreseeable impacts on the Separate Financial Statements.

None of these standards and interpretations have been adopted in advance.

- IFRS 9 – Financial Instruments

  This standard, endorsed by the European Union, is applicable from January 1, 2018. The Company will apply the new standard starting from the mandatory effective date, using the retrospective application method and making use of the practical expedient granted by the standard, based on which the 2017 comparative figures will not be restated. The Company revised the financial assets and liabilities and the assessment of the effects deriving from the application of the new accounting standard was substantially completed. No significant impacts are expected on the result, shareholders' equity and the main performance indicators of the Company on the date of first application (January 1, 2018). The analysis also showed that there are substantially no impacts in terms of application and organization, also considering the limited number of transactions that fall within the scope of IFRS 9.

  The main impacts deriving from the adoption of the new standard are summarized below:

  1. Classification and measurement: the equity instruments currently classified as financial assets available for sale, in substantial continuity with respect to the accounting treatment adopted in accordance with IAS 39, will be designated as financial assets with changes in fair value recognized in equity with the sole exception of the investment in Mediobanca

S.p.A., sold in the first days of January 2018, for which the changes in fair value will be recognized in the Income Statement. It is noted that the fair value adjustment reserve related to assets available for sale outstanding at December 31, 2017 (positive for euro 27,342 thousand) will be reclassified to a new reserve in equity for investments designated as financial assets with the changes in fair value recognized in equity, while it will be reclassified in profits carried forward for the investment in Mediobanca S.p.A.. These reserves will not be reversed to the income Statement if the investment is sold. The new rules for the classification and measurement of financial liabilities have no impact on the company, as the company has no financial liabilities designated at fair value recognized in the income statement;

2. Impairment of financial instruments: based on the valuations made, the adoption of the approach based on expected losses (instead of realized losses) will not entail any change in the bad debt provision for trade receivables;

3. Hedge accounting: the Company will adopt the new rules for hedge accounting required by IFRS 9 starting from January 1, 2018. Hedging relations outstanding at December 31, 2017 meet the conditions required by IFRS 9 for the adoption of hedge accounting.

- IFRS 15 – Revenues from contracts with customers and clarifications regarding IFRS 15

This standard, endorsed by the European Union, is applicable from January 1, 2018. The Company will apply the new standard using the “modified” application method, i.e. accounting for the cumulative effect of the initial application as of January 1, 2018.

The assessment of the effects deriving from the application of the new accounting standard has been substantially completed and significant impacts on the result, shareholders’ equity and the main performance indicators of the Company at the date of first application are not expected (January 1, 2018).

- IFRS 16 – Leases

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

The new standard will mainly impact the accounting treatment of leasing contracts currently classified as operating leases according to IAS 17. The main impacts can be detailed as follows:

- Recognition in the item tangible assets of the current value of lease fees that on the basis of contractual agreements have the characteristics to be considered as non-eliminable and simultaneous recognition of an increase in financial liabilities. Assets will be depreciated based on the duration of the contract;

- The cost of lease fees now recognized under the item other costs will be replaced by the recognition of the depreciation of the assets recognized in the previous point. A financial component will also be recognized under the item Financial expenses.

At December 31, 2017, the Company has non-cancellable commitments for operating leases of euro 112,239 thousand (see note 8).

The Company will calculate the portion of payments related to short-term contracts and to contracts that concern “small assets” to assess whether to use the exemption granted by the standard for non-capitalization of such contracts.

The Company has not yet assessed the potential impact of other adjustments that may be necessary, such as the change in the definition of the duration of contracts, the different accounting treatment of variable payments and options for renewal and/or early settlement. As a result, it is not yet possible to determine the amount of financial assets and liabilities that will have to be recognized under the new standard and how the latter will impact the income statement and statement of cash flows.

With regard to the transition, the Group is evaluating whether to apply the simplified approach that allows not considering the restatement of the comparative period in the first year of application.

4. FINANCIAL RISK MANAGEMENT POLICY

The measurement and management of the financial risks of Pirelli & C. S.p.A. are consistent with as defined by the Group policies.

The Pirelli Group is exposed to financial risks. These are principally associated with foreign exchange rates, fluctuations in interest rates, the price of financial assets held as investments, the ability of customers to meet their obligations to the Group (credit risk), and raising funds on the market (liquidity risk).

Financial risk management is an integral part of Group business management and is handled directly by the headquarters in accordance with guidelines issued by the Finance Department on the basis of general risk management strategies defined by the Managerial Risk Committee.

The main financial risk categories to which the Company is exposed are shown below:

Exchange rate risk

This risk is generated by the commercial and financial transactions that are executed in currencies other than the euro. Exchange rate fluctuations between the time when the commercial or financial relationship is established and when the transaction is completed (collection or payment) may generate foreign exchange gains or losses.

The Group's objective is to minimise the effects on the Income Statement of foreign exchange rate risk related to volatility. To achieve this objective, Group procedures make the Operating Units responsible for collecting complete information about the assets and liabilities that are subject to transaction exchange rate risk. This risk is hedged with forward contracts made with the Group Treasury.

The items subject to exchange rate risk are mainly represented by receivables and payables denominated in foreign currency.

The Group Treasury is responsible for hedging the net position for each currency and, in accordance with established guidelines and restrictions, it closes all risk positions by trading derivative contracts on the market, which typically take the form of forward contracts.

The Group has decided not to opt for hedge accounting pursuant to IAS 39, insofar as the representation of the economic and financial effects of the hedging strategy on foreign exchange rate risk is still substantially guaranteed even without adopting such option.

Furthermore, it shall be noted that as part of the annual and three-year planning process, exchange rate forecasts are made using the best information available on the market. The fluctuation in exchange rates between the time when the forecast is made and the time when the commercial or financial transaction occurs represents the exchange rate risk on future transactions.

From time to time, the Group assesses the need to engage in hedging transactions on future transactions for which it typically uses both forward and optional purchase or sale transactions such as risk reversal (i.e., zero cost collar).

The Company enters into derivative contracts, cross currency interest rate swaps, to hedge for which hedge accounting is activated when the conditions set out in IAS 39 are fulfilled.

Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial asset or liability will change due to fluctuations in market interest rates.

The Group assesses based on market circumstances whether to enter into derivative contracts, typically interest rate swaps, to hedge for which hedge accounting is activated when the conditions set out in IAS 39 are fulfilled.

At December 31, 2017, the Company had a negative net financial position, with all financial payables at variable rates.

In other conditions being equal, a hypothetical increase or a decrease of 0.50% in the level of interest rates would result, year on year, respectively in a net negative and positive impact on the Income Statement of euro 8,920 thousand.

(in thousands of euro)	**+0,50%**		**-0.50%**	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
Impact on the net result	(8,920)	(12,222)	8,920	12,222

The effects on the Company's equity resulting from the changes in the LIBOR and EURIBOR rates calculated on the hedging instruments for interest rates which were outstanding at December 31, 2017 are detailed in Note 17, "*Derivative financial instruments*".

Price risk associated with financial assets

The company is exposed to price risk, which is limited to the volatility of financial assets such as listed and unlisted stocks and bonds; these assets are classified as financial assets available for sale.

Derivatives hedges are not set up to limit the volatility of these assets.

Financial assets available for sale consist of listed securities amounted to euro 179,204 thousand (euro 141,474 thousand at December 31, 2016) and those represented by securities indirectly associated with listed shares (Fin. Priv. S.r.l.) amounted to euro 19,908 thousand (euro 19,200 thousand at December 31, 2016, also inclusive of the investment in Emittenti Titoli); these financial assets represent 89% of total financial assets subject to price risk (88% at December 31, 2016); a +5% change in the above listed securities, other things being equal, would result in a positive change of euro 8,960 thousand of the Company's shareholders' equity (positive for euro 7,073 thousand at December 31, 2016), while a -5% change of these listed securities, other things being equal, would result in a negative change of euro 8,960 thousand of the Company's shareholders' equity (negative for euro 7,073 thousand at December 31, 2016).

Credit risk

Credit risk represents the Company's exposure to contingent losses resulting from default by commercial and financial counterparties. The Company's exposure for commercial obligations is mainly towards Group companies, for financial obligations totally towards Group companies.

In order to limit the risk for commercial obligations to third parties, the Company has procedures in place for assessing the potential and financial soundness of customers, for monitoring the expected cash flows and for any recovery actions. With regard to financial counterparties for the management of temporarily excess resources, the Company only uses interlocutors of high credit standing and constantly monitors exposures to individual counterparties.

The Company does not hold public debt instruments from any European country, and constantly monitors its net credit exposure to the banking system.

Liquidity risk

Liquidity risk represents the risk that the financial resources available are insufficient to meet the financial and commercial obligations pursuant to the contractual terms and conditions.

The principal instruments used by the Group to manage liquidity risk are comprised by its annual and three-year financial and cash-pooling plans. These allow complete and fair detection and measurement of incoming and outgoing cash flows. The differences between plans and actual data are constantly analysed.

The Group has implemented a centralised cash pooling system for the management of collection and payment flows in compliance with various local currency and tax laws. Banking relationships are negotiated and managed centrally, in order to ensure coverage of short and medium-term financial needs at the lowest possible cost. The procurement of medium and long-term resources on the capital market is also streamlined through centralised management.

Prudent management of the risk described above requires maintaining an adequate level of cash or cash equivalents and/or highly liquid short-term financial instruments, and the availability of funds through an adequate amount of committed credit facilities and/or recourse to the capital market, while diversifying the products and their maturities to seize the best available opportunities.

At December 31, 2017, the Company had, aside from cash equal to euro 1,749 thousand (euro 1,805 thousand at December 31, 2016), unused credit facilities equal to euro 100,000 thousand (euro 200,000 thousand at December 31, 2016) maturing Q2 2022.

The maturities of financial liabilities at December 31, 2017 may be broken down as follows:

(in thousands of euro)	12/31/2017				
	up to 1 year	**from 1 to 2 years**	**from 2 to 5 years**	**over 5 years**	**Total**
Payables to banks and other lenders	57,666	53,314	2,447,334	-	2,558,315
Trade payables	29,694	-	-	-	29,694
Other payables	75,213	212	-	-	75,425
Derivative financial instruments	146	3,638	26,077	-	29,861
Total	**162,719**	**57,164**	**2,473,411**	**-**	**2,693,295**

The maturities of financial liabilities at December 31, 2016 may be broken down as follows:

(in thousands of euro)	12/31/2016				
	up to 1 year	**from 1 to 2 years**	**from 2 to 5 years**	**over 5 years**	**Total**
Payables to banks and other lenders	296,015	1,916,275	2,508,418	-	4,720,708
Trade payables	32,425	-	-	-	32,425
Other payables	37,126	311	-	-	37,437
Total	**365,566**	**1,916,585**	**2,508,418**	-	**4,790,569**

5. INFORMATION ON FAIR VALUE

5.1. Fair value measurement

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

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

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

(in thousands of euro)	**Note**	**12/31/2017**	**Level 1**	**Level 2**	**Level 3**
FINANCIAL ASSETS					
Available-for-sale financial assets:					
Other financial assets					
-equities and shares	12	209,323	179,204	19,909	10,210
-investment funds	12	15,270	-	15,270	-
Derivative hedging instruments					
Current derivative financial instruments	17	95	-	95	-
TOTAL ASSETS		**224,688**	**179,204**	**35,274**	**10,210**
FINANCIAL LIABILITIES					
Financial liabilities at fair value through profit or loss					
Current derivative financial instruments	17	146	-	146	-
Derivative hedging instruments					
Non current derivative financial instruments	17	29,716	-	29,716	-
TOTAL LIABILITIES		**29,862**	**-**	**29,862**	**-**

At December 31, 2016, the breakdown was as follows:

(in thousands of euro)	Note	12/31/2016	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Available-for-sale financial assets:					
Other financial assets					
-equities and shares	12	167,926	141,477	19,201	7,248
-investment funds	12	14,636	-	14,636	-
Derivative hedging instruments					
Current derivative financial instruments	17	515	-	515	-
TOTAL ASSETS		**183,077**	**141,477**	**34,352**	**7,248**
FINANCIAL LIABILITIES					
Financial liabilities at fair value through profit or loss					
Current derivative financial instruments	17	-	-	-	-
Derivative hedging instruments					
Non current derivative financial instruments	17	-	-	-	-
TOTAL LIABILITIES		-	-	-	-

The following table shows the changes of financial assets that occurred in level 3:

(in thousands of euro)	12/31/2017	12/31/2016
Opening balance	7,248	6,684
Increases	781	2,395
Decreases	-	(94)
Reclassification	-	(3)
Transfer from level 2 to level 3	2,730	-
Impairment	(912)	(2,290)
Fair value adjustments recognized in equity	363	556
Closing balance	**10,210**	**7,248**

These financial assets consist mainly of equity investments in Istituto Europeo di Oncologia (European Institute of Oncology) (euro 6,599 thousand), and Emittenti Titoli (euro 2,748 thousand).

The item increases refers to the capital increase related to the investment in Alitalia – Compagnia Area Italiana S.p.A. (euro 781 thousand).

The item impairment mainly refers to the investments in Alitalia-Compagnia Aerea Italiana S.p.A. (euro 781 thousand) and Movincom Servizi S.r.l. (euro 121 thousand).

In 2017, there were no transfers from level 1 to level 2 and vice versa, while there was a transfer from level 2 to level 3 following the sale, by Emittenti Titoli, of its investment in the company London Stock Exchange. The Fair Value of Emittente Titoli was in fact determined considering also in transparency the Fair Value of the shares held in London Stock Exchange by Emittente Titoli.

The fair value of financial instruments traded on active markets is based on the price quotations published at the reporting date. These instruments, included in level 1, comprise primarily equity investments classified as financial assets available for sale.

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

- market prices for similar instruments;
- the fair value of cross currency interest rate swaps is calculated by discounting estimated future cash flows based on observable yield curves;
- the fair value of foreign exchange derivatives (forward contracts) is determined by using the forward exchange rate at the reporting date.

5.2 Categories of financial assets and liabilities

The following are the carrying amounts for each class of financial asset and liability identified by IAS 39:

(in thousands of euro)	**Note**	**12/31/2017**	***12/31/2016***
FINANCIAL ASSETS			
Loans and receivables			
Other non-current receivables	13	14,820	14,830
Current trade receivabels	14	52,045	61,692
Other current receivables	13	45,164	651,850
Cash	15	1,749	1,805
Available-for-sale financial assets			
Other financial assets	12	224,593	182,562
Derivative hedging instruments			
Derivative financial instruments	17	95	515
Total financial assets		**338,466**	**913,254**
FINANCIAL LIABILITIES			
Financial liabilities at fair value through profit or loss			
Derivative financial instruments	17	146	-
Financial liabilities at amortized cost			
Non-current borrowings from banks and other financial institutions	19	2,331,647	4,103,996
Current borrowings from banks and other financial institutions	19	16,856	192,055
Current trade payables	22	29,694	32,425
Other non-current payables	23	212	311
Other current payables	23	75,213	37,126
Derivative hedging instruments			
Derivative financial instruments	17	29,716	-
Total financial liabilities		**2,483,484**	**4,365,913**

6. CAPITAL MANAGEMENT POLICY

The Company's objective is to maximise the return on net invested capital while maintaining the ability to operate over time, ensuring adequate returns for its shareholders and benefits for the other stakeholders, with progressive deleverage of the financial structure in the short/medium medium term.

In order to achieve these objectives, as well as pursuing satisfactory earnings results and generating cash flows, the Company may adjust its policy regarding dividends and the configuration of the Company's capital.

7. ESTIMATES AND ASSUMPTIONS

The preparation of the Financial Statements requires Directors to apply accounting standards and methodologies which, under certain circumstances, are based on subjective assessments and estimates that are based on historical experience and assumptions that are considered reasonable and realistic from time to time depending on the circumstances. The final results of the items of the financial statements for which said estimates and assumptions were used may differ from those in the financial statements that show the effects of the occurrence of the event subject of the estimate due to the uncertainty that characterizes the assumptions and conditions on which the estimates are based.

Below is a brief description of the accounting standards that, in relation to Pirelli & C. S.p.A., involve more than others a higher level of subjectivity by the management in making estimates and for which a change in the conditions underlying the assumptions used could have a significant impact on the financial information.

Pirelli Brand (intangible assets with indefinite useful life)

The Pirelli Brand is an intangible fixed asset with an indefinite useful life not subject to amortisation, but pursuant to IAS 36, is tested for impairment annually or more frequently, if specific events or circumstances arise that may indicate a reduction in value.

The impairment test at December 31, 2017 was performed using the assistance of an independent third-party professional.

The configuration for the recoverable amount for the purpose of the impairment test at December 31, 2017 is the fair value, calculated on the basis of the income approach (the so-called Level 3 of the hierarchy of IFRS 13 – Fair Value measurement) and is based on:

- the consensus forecasts by equity analysts with respect to the forecast revenues for the period 2018-2020 in that they were more prudent than the projections made by management;
- an evaluation criterion is obtained by the sum of parts which also takes into account the contribution of royalties from the Prometeon Tyre Group for the use the Pirelli trademark in relation to the industrial segment;

- the royalty rate applied to the revenues of the Consumer High Value and Consumer Standard evaluation units was deduced from the royalty rates implicit in the valuations made by an independent entity relative to the main brands of the listed companies of the Tyre sector, and was equal to an average royalty rate of 4.6%. With reference to the contribution in terms of royalties from the Prometeon Tyre Group, the royalty rate used as provided for by the license agreement was equal to 2%;
- a discount rate of 9.0%, which included a premium determined on the basis of the risk of the specific asset;
- a growth rate of g in the terminal value assumed to be equal to zero;
- the TAB (Tax Amortisation Benefit) that is, the tax benefit that could potentially benefit the market participant due to the possibility of fiscally amortising the asset.

For the purposes of impairment testing, the recoverable amount of the Pirelli Brand cum-TAB was compared with the carrying amount of the Brand cum-TAB and no losses in value emerged.

Investments in subsidiaries

Investments are assessed to establish whether there was a decrease in value, to be recognized with a write-down, if there are indications that it will be difficult to recover their net carrying amount through use. To establish the presence of said indications, Directors must make subjective assessments on the basis of information available within the Company and the market, as well as historical experience. Moreover, if it is determined that a potential impairment may be generated, the Company calculates this loss using appropriate measurement techniques. The proper identification of elements indicating the existence of a potential impairment loss, and the estimates for calculating the amount of such losses, depend on factors that may vary over time, affecting the assessments and estimates made by Directors.

Provisions for risks and charges

Provisions are set aside against contingent legal and tax liabilities, representing the risk of negative outcome. The value of the provisions recorded in the financial statements relating to these risks represents the best estimate at the date made by the directors. Such an estimate entails making assumptions that depend on factors that may change over time and which could therefore have a material impact with respect to the current estimates made by Directors for the preparation of the Company’s Financial Statements.

Taxes

Significant elements of estimation are necessary in defining the forecasts of current taxes for the year and deferred tax assets and liabilities.

8. TANGIBLE ASSETS

The items in question and the related changes are detailed as follows:

(In thousands of euro)	**Land**	**Buildings**	**Plant and machinery**	**Industrial and commercial equipment**	**Other assets**	**Assets in progress and advances**	**Total**
Net value as of December 31, 2015	**21,112**	**67,486**	**1,122**	**24**	**5,425**	**-**	**95,169**
Increases	-	-	-	-	64	475	539
Decreases	(12,091)	(33,691)	(19)	-	(42)	-	(45,843)
Depreciation	-	(3,974)	(219)	(7)	(725)	-	(4,925)
Other	-	(1,515)	(4)	-	-	-	(1,519)
At 31 December 2016	**9,021**	**28,306**	**880**	**17**	**4,722**	**475**	**43,421**
Of which	-	-	-	-	-	-	-
- Historical cost	9,021	54,944	4,686	985	14,612	475	84,723
- Accumulated depreciation	-	(26,638)	(3,806)	(968)	(9,890)	-	(41,302)
Net value as of December 31, 2016	**9,021**	**28,306**	**880**	**17**	**4,722**	**475**	**43,421**
Increases	-	332	-	-	118	-	450
Decreases	-	(112)	-	-	(37)	-	(149)
Reclassification	-	475	-	-	-	(475)	-
Depreciation	-	(1,705)	(219)	(5)	(458)	-	(2,387)
At 31 December 2017	**9,021**	**27,296**	**661**	**12**	**4,345**	**-**	**41,335**
Of which	-	-	-	-	-	-	-
- Historical cost	9,021	55,639	4,686	985	14,693	-	85,024
- Accumulated depreciation	-	(28,343)	(4,025)	(973)	(10,348)	-	(43,689)
Net value as of December 31, 2017	**9,021**	**27,296**	**661**	**12**	**4,345**	**-**	**41,335**

Increases in the year for euro 450 thousand mainly refer to improvements to owned properties.

Financial expenses on tangible assets were not capitalized.

The total of the future minimum payments due for non-cancellable operating leases amount to euro 112,239 thousand, of which:

- euro 8,281 thousand within one year;
- euro 66,858 thousand between one and five years;
- euro 37,100 thousand over 5 years.

9. INTANGIBLE ASSETS

The items in question and the related changes are detailed as follows:

(in thousands of euro)	**Brand**	**Software Licenses**	**Other assets**	**Assets in progress and advances**	**Total**
At 31 December 2015	**-**	**1,229**	**4,732**	**634**	6,595
Increases	2,270,000	171	1,152	750	2,272,073
Decreases	-	(35)	-	-	(35)
Reclassification	-	56	578	(634)	-
Amortisation	-	(343)	(2,455)	-	(2,798)
At 31 December 2016	**2,270,000**	**1,078**	**4,007**	**750**	**2,275,835**
Increases	-	311	1,084	156	1,551
Decreases	-	-	-	(750)	(750)
Amortisation	-	(387)	(2,127)	-	(2,514)
At 31 December 2017	**2,270,000**	**1,002**	**2,964**	**156**	**2,274,122**

The item Brand refers to the value of the Pirelli Brand (intangible asset with indefinite useful life), for an amount of euro 2,270,000 thousand, which originated following the allocation of the merger deficit, generated following the incorporation of the parent company Marco Polo International Holding Italy S.p.A. in 2016. The allocation of the deficit was made consistently with the consolidated financial statements as a result of the completion of the Purchase Price Allocation.

The assessment of the useful life of brands is based on a number of factors including competitors, market share, brand history, product lifecycle, operational plans and macroeconomic scenario of the countries in which the relating products are sold. Specifically, the useful life of the Pirelli Brand has been evaluated as indefinite on the basis of its over one hundred year successful history (born in 1872) as well as the intention and ability of the group to continue investing in supporting and upholding the brand.

The increases in the year mainly include charges for the purchase of software applications (euro 625 thousand), licenses (euro 311 thousand), systems for personnel management (euro 295 thousand) and treasury (euro 85 thousand).

No impairment was carried out during the 2017 financial year.

Impairment test of the Pirelli Brand (intangible assets with indefinite useful life)

The Pirelli Brand at euro 2,270,000 thousand is an intangible fixed asset with an indefinite useful life and as such is not subject to amortisation, but pursuant to IAS 36, is tested for impairment annually or more frequently, if specific events or circumstances arise that may indicate a reduction in value.

The impairment test as at December 31, 2017 was carried out with the assistance of an independent third party professional.

The configuration of the recoverable amount for impairment testing purposes at December 31, 2017 was calculated on the basis of the income approach (the so-called Level 3 of the hierarchy of IFRS 13 – Fair Value measurement) and is based on:

- the consensus forecasts by equity analysts with respect to the forecast revenues for the period 2018-2020 in that they were more prudent than the projections made by management;
- the evaluation criterion is obtained by the sum of parts which also takes into account the contribution of royalties from the Prometeon Tyre Group for the use the Pirelli trademark in relation to the industrial segment;
- the royalty rate applied to the revenues of the Consumer High Value and Consumer Standard segment was deduced from the royalty rates implicit in the valuations made by an independent entity relative to the main brands of the listed companies of the Tyre sector and was equal to an average royalty rate of 4.6%. With reference to the contribution in terms of royalties from the Prometeon Tyre Group, the royalty rate used as provided for by the license agreement was equal to 2%;
- a discount rate of 9.0%, which included a premium determined on the basis of the risk of the specific asset;
- a growth rate of g in the terminal value assumed to be equal to zero;
- the TAB (Tax Amortisation Benefit) that is, the tax benefit that could potentially benefit the market participant due to the possibility of fiscally amortising the asset.

For the purposes of impairment testing, the recoverable amount of the Pirelli Brand cum-TAB was compared with the carrying amount of the Brand cum-TAB and no losses in value emerged.

A sensitivity analysis was also carried out in relation to the Key Assumptions used in the valuation of the royalty rate (for the Consumer evaluation unit and for the contribution in terms of royalties from the Prometeon Group); the discount rate, and the g growth factor. The fair value remained higher than the carrying amount even assuming the following changes in the sole Key assumption:

- a downwardly change in the royalty rates for the Consumer evaluation units of 50 basis points and the simultaneous zero balance for royalties from the license agreement with Prometeon Tyre Group;
- an upwardly change in the discount rate of150 basis points;
- a downwardly change in the g growth rate of 150 basis points.

10. INVESTMENTS IN SUBSIDIARIES

At December 31, 2017, this item amounted to euro 4,568,309 thousand (euro 4,930,701 thousand at December 31, 2016) and the breakdown is as follows:

(in thousands of euro)	**12/31/2017**	**12/31/2016**
HB Servizi S.r.l.	230	364
Maristel S.p.A.	1,315	1,315
Pirelli & C. Ambiente S.r.l.	2,095	-
Pirelli Group Reinsurance Company S.A.	6,346	6,346
Pirelli Ltda	9,666	9,666
Pirelli Servizi Amministrazione e Tesoreria S.p.A.	3,238	3,238
Pirelli Sistemi Informativi S.r.l.	1,655	1,655
Pirelli Tyre S.p.A.	4,521,792	4,521,792
Pirelli UK Ltd.	21,871	21,871
Servizi Aziendali Pirelli S.C.p.A.	101	103
T.P. Industrial Holding S.p.A. before Pirelli Labs S.p.A.	-	364,351
Total	**4,568,309**	**4,930,701**

Below are the changes during the year:

(in thousands of euro)	**12/31/2017**	**12/31/2016**
Opening balance	**4,930,701**	**1,141,926**
Increases	9,707	200,266
Impairment	(2,262)	(4,114)
Decreases	(364,360)	(198,686)
Merger deficit	-	3,791,309
Reclassification from provision for risks and charges	(5,477)	-
Closing balance	**4,568,309**	**4,930,701**

The increases refer to euro 8,700 thousand for the capital payment in Pirelli & C. Ambiente S.r.l. and euro 1,000 thousand for the capital payment in HB Servizi S.r.l.

The company checks the recognized values of its investments and the existence of impairment indicators on the basis of as set out in paragraph 3 Accounting Standards – Investments in subsidiaries and associates. At December 31, 2017, impairment indicators were identified on investments in Pirelli & C. Ambiente S.r.l and HB Servizi S.r.l. and therefore it was necessary to perform impairment test for the aforementioned investments. The aforementioned impairment test revealed an impairment loss on the investment in Pirelli & C. Ambiente S.r.l for euro 1,128 thousand and in HB Servizi S.r.l for euro 1,134 thousand.

From the other investments in subsidiaries, no impairment indicators were identified and therefore no impairment tests were necessary to be performed.

The decrease refers to the allocation, resolved on March 15, 2017, to the sole shareholder Marco Polo International Holding Italy S.p.A. of all the 32,870,380 shares held in TP Industrial Holding S.p.A., carried out through the distribution of reserves for the amount of euro 364,351 thousand.

The reclassification of the provision for risks and charges refers to the accrual made at December 31, 2016 related to the investment in Pirelli & C. Ambiente S.r.l. for the settlement of losses exceeding the book value at that date. The provision was reclassified in 2017 to reduce the value of the investment, which became large following the capital contribution of euro 8,700 thousand previously described.

Further details are set out in the Annexes to the explanatory notes.

11. INVESTMENTS IN ASSOCIATED COMPANIES

At December 31, 2017, this item amounted to euro 10,204 thousand (euro 33,078 thousand at December 31, 2016) and the breakdown is as follows:

(in thousands of euro)	**12/31/2017**	**12/31/2016**
Listed securities		
Prelios S.p.A.	-	13,642
Unlisted securities		
Consorzio per le Ricerche sui Materiali Avanzati (CORIMAV)	104	104
Eurostazioni S.p.A. - Roma	6,271	6,271
Fenice S.r.l.	2,477	9,048
Focus Investments S.p.A.	1,352	4,000
International Media Holding S.p.A.	-	13
Total	**10,204**	**33,078**

The breakdown of changes is indicated below:

(in thousands of euro)	**12/31/2017**	**12/31/2016**
Opening balance	**33,078**	**134,332**
Increases	-	4,692
Decreases	(13,655)	(11,192)
Impairment	(9,219)	(94,754)
Closing balance	**10,204**	**33,078**

The decreases mainly refer to the disposal of the Prelios S.p.A. investment on December 28, 2017 to Lavaredo S.p.A., a newly established joint stock company designated by the Burlington fund counterparty in the transaction whose closing took place in December 2017. The sale generated a capital gain of euro 2,564 thousand.

The item impairment refers for euro 6,571 thousand to the investment in Fenice S.r.l. regarding which an impairment indicator was identified as the company distributed reserves for euro 8,566 thousand, higher than the portion of the result in the consolidated financial statements. The write-down related to the investment in Focus Investments S.p.A. for euro 2,648 thousand is attributable to the adjustment of the book value to the fair value of the same inclusive of the “liquidation preference”.

Further details are set out in the Annexes to the explanatory notes.

12. OTHER FINANCIAL ASSETS

At December 31, 2017, the item in question amounted to euro 224,593 thousand (euro 182,562 thousand at December 31, 2016) and refers to financial assets available for sale, measured at fair value, with changes in fair value recognized in equity.

The breakdown is as follows:

(in thousands of euro)	**12/31/2017**	**12/31/2016**
Financial assets available-for-sale		
Listed securities		
Mediobanca S.p.A. - Milano	149,027	122,167
RCS Mediagroup S.p.A. - Milano	30,177	19,307
Unlisted securities		
Fin. Priv Srl	19,908	16,471
Fondo Comune di Investimento Immobiliare Anastasia	15,270	14,636
Istituto Europeo di Oncologia S.r.l.	6,599	6,231
Emittenti Titoli S.p.A.	2,748	2,729
Other companies	864	1,021
Total	**224,593**	**182,562**

The changes in the year are shown below:

(in thousands of euro)	**12/31/2017**	**12/31/2016**
Opening balance	**182,562**	**199,062**
Increases	2,459	13,061
Decreases	(2)	(10,758)
Fair value adjustment recognised in equity	40,486	(16,510)
Impairment	(912)	(2,290)
Reclassification	-	(3)
Closing balance	**224,593**	**182,562**

Increases for the year refer to the purchase of 1,559,250 shares of the company RCS Mediagroup S.p.A. for euro 1,678 thousand and the subscription of 74,555,289 new shares of the investment in Alitalia-Compagnia Aerea Italiana S.p.A. for euro 781 thousand.

The fair value adjustments to equity relate mainly to investments in Mediobanca S.p.A. (positive for euro 26,859 thousand), in RCS Mediagroup S.p.A. (positive for euro 9,193 thousand), in Fin. Priv. S.r.l. (positive for euro 3,437 thousand), in Fondo Comune di investimento Anastasia (positive for euro 633 thousand), and in Istituto Europeo di Oncologia (positive for euro 368 thousand).

The item impairment mainly refers to the equity investment in Alitalia-Compagnia Aerea Italiana S.p.A. (euro 781 thousand) and Movincom Servizi S.r.l. (euro 121 thousand).

For listed securities, the fair value corresponds to the Stock Exchange listing at December 31, 2017. For unlisted securities and real estate funds, the fair value was estimated according to available information.

Further details are set out in the Annexes to the explanatory notes.

13. OTHER RECEIVABLES

The breakdown of other receivables is as follows:

(in thousands of euro)	12/31/2017			12/31/2016		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Other receivables from subsidiaries	2,040	-	2,040	2,010	-	2,010
Financial receivables from subsidiaries	8,793	-	8,793	633,130	-	633,130
Guarantee deposits	712	712	-	709	709	-
Other receivables from third parties	18,604	14,108	4,496	19,581	14,121	5,460
Receivables from tax authorities for taxes not related to income	26,224	-	26,224	9,616	-	9,616
Financial accrued interest income	3,122	-	3,122	98	-	98
Financial prepaid expenses	489	-	489	1,536	-	1,536
Total other receivables	**59,984**	**14,820**	**45,164**	**666,680**	**14,830**	**651,850**

Financial receivables from subsidiaries mainly refer to the interest-bearing current account, settled at market rates, held with Pirelli International Plc for euro 4,082 thousand (at December 31, 2016 equal to euro 201,405 thousand) and to the receivable from Pirelli International PLC for the charge-back of guarantee commissions for euro 4,771 thousand.

The change compared to the previous year is due to the repayment by the subsidiary Pirelli Tyre S.p.A. of the loan of euro 430,000 thousand, which was disbursed in October 2016.

Other non-current receivables from third parties mainly refer to a deposit relating to a long-term contract.

Receivables from tax authorities for taxes not related to income for euro 26,224 thousand refer mainly to receivables for VAT, which increased compared to the previous year.

Financial accrued interest income refer to portions of interest accrued but not yet collected on cross currency interest swap derivative contracts related to the unsecured syndicated financing "Facilities" granted to Pirelli & C. S.p.A..

Prepaid financial expenses relate mainly to the commissions on the revolving and term loan credit line.

The book value of financial receivables and other receivables approximates their fair value.

14. TRADE RECEIVABLES

Trade receivables amount to euro 52,045 thousand compared to euro 61,692 thousand of the previous year and the breakdown is as follows:

(in thousands of euro)	**12/31/2017**	**12/31/2016**
Receivables from subsidiaries	42,159	55,830
Receivables from associates	3	1,085
Receivables from other companies	14,088	8,836
Total receivables - gross amount	**56,250**	**65,751**
Provision for bad debt	(4,205)	(4,059)
Total receivables	**52,045**	**61,692**

Below is the breakdown of trade receivables based on the currency in which they are expressed:

(in thousands of euro)	**12/31/2017**	**% of total trade receivables**	**12/31/2016**	**% of total trade receivables**
EUR	48,139	86%	59,321	90%
USD (Dollar USA)	2,381	4%	2,474	4%
RUB (Ruble Russia)	5,699	10%	3,956	6%
Other currencies	31	-	-	-
Totale	**56,250**		**65,751**	

Receivables from subsidiaries at December 31, 2017 mainly include the amounts that Pirelli & C. S.p.A. charges for services rendered through Corporate functions. The aforementioned receivables are due within the financial year and do not show overdue balances significant amount.

Receivables from other companies of euro 14,088 thousand (euro 8,836 thousand at December 31, 2016), shown gross of the bad debt provision of euro 4,205 thousand, are past due for euro 8,725 thousand.

Overdue receivables and receivables due have been valued in accordance with the Group policies described in the paragraph relating to credit risk management within the “Financial risk management policy”.

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

The change in the provision for bad debts is shown below:

(in thousands of euro)	**12/31/2017**	**12/31/2016**
Opening balance	**4,059**	**3,102**
Increases/Decreases	146	957
Closing balance	**4,205**	**4,059**

For trade receivables, the carrying amount is considered to approximate the applicable fair value.

15. CASH AND CASH EQUIVALENTS

At December 31, 2017, they amount to euro 1,749 thousand, against euro 1,805 thousand at December 31, 2016 and refer to balances of bank accounts in euro repayable on demand.

The credit risk associated with cash and cash equivalents is to be considered limited because the counterparties are represented by leading national and international banking institutions.

It is believed that the value of cash and cash equivalents is in line with their fair value.

16. TAX RECEIVABLES

At December 31, 2017, they amount to euro 110,632 thousand (euro 84,621 thousand at December 31, 2016).

The amount mainly includes:

- receivables from Group companies participating in the tax consolidation for euro 104,054 thousand (euro 77,840 thousand at December 31, 2016). The increase compared to the previous year substantially depends on the greater contribution of the positive taxable result by the subsidiary Pirelli Tyre S.p.A.;
- receivables from the Inland Revenue for IRES for 2008/2014 for euro 5,347 thousand, unchanged compared to December 31, 2016;
- receivables for IRAP advances paid for euro 925 thousand, unchanged compared to the previous year.

17. DERIVATIVE FINANCIAL INSTRUMENTS

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

(in thousands of euro)	**12/31/2017**			**12/31/2016**		
	Non Current Assets	**Non Current Liabilities**	**Current Liabilities**	**Non Current Assets**	**Non Current Liabilities**	**Current Liabilities**
Without adoption of hedge accounting						
Exchange rate derivative instruments - trade positions	95	-	146	515	-	-
In hedge accounting						
- cash flow hedge:						
Other derivative instruments	-	29,716	-	-	-	-
Total derivative instruments	**95**	**29,716**	**146**	**515**	**-**	**-**

The above derivatives are fully stipulated with the Group's treasury company, Pirelli International PLC.

Derivative financial instruments not in hedge accounting

The value of **foreign currency derivatives** corresponds to the fair value of forward currency purchases/sales outstanding at the closing date of the year. These involve hedges of the Company's commercial transactions for which hedge accounting was not adopted. The fair value is determined by using the forward exchange rate at the reporting date.

Derivative financial instruments in hedge accounting

The value of **other derivatives**, recognized as non-current liabilities for euro 29,716 thousand, refers to the fair value measurement of 4 cross currency interest rate swaps with the following characteristics:

Instrument	Notional (in thousands of USD	Start date	Deadline	Description
CCIRS	170,422	Jul-17	Jul-19	pay floating EURIBOR / receive floating LIBOR
CCIRS	284,037	Jul-17	Jun-20	pay floating EURIBOR / receive floating LIBOR
CCIRS	681,690	Jul-17	Jun-20	pay floating EURIBOR / receive floating LIBOR
CCIRS forward start	170,422	Jul-19	Jun-22	pay fix EURIBOR / receive floating LIBOR

The objective of these derivatives, for which hedge accounting of the cash flow hedge type was adopted, is to hedge the Company against the risk of fluctuations in cash flows associated with changes in the LIBOR rate and changes in the USD/EUR exchange rate, generated by a liability in USD at variable rate with a notional value of USD 1,136,149 thousand, equivalent to euro 947,344 thousand (see note 19 Borrowings from banks and other financial institutions). The change in the fair value of the period negative for euro 29,716 thousand was suspended in equity for euro 7,117 thousand, while euro 22,599 thousand was recognized in the Income Statement under the item "net expenses on derivatives" (note 34).

Other things being equal, a hypothetical increase and decrease of 0.50% of the EURIBOR and LIBOR curves would have respectively a positive net impact of euro 1,541 thousand and a negative net impact of euro 1,596 thousand on the shareholders' equity of the Company.

18. SHAREHOLDERS' EQUITY

Equity amounted to euro 4,238,372 thousand (euro 3,206,233 thousand at December 31, 2016).

The statement of changes in equity is shown in the main financial statements.

Equity went from euro 3,206,233 thousand at December 31, 2016 to euro 4,238,372 thousand at December 31, 2017. The positive change is essentially due to the capital increase, equal to euro 1,189,375 thousand, inclusive of share premium, signed in June 2017 by Marco Polo International Italy S.p.A. (direct shareholder following the merger with Marco Polo International Holding Italy S.p.A.) which was offset by the reduction related to the assignment of all the shares of TP Industrial Holding S.p.A. (parent company of the Industrial business). In addition, the change is due to the adjustment to fair value of derivatives designated as cash flow hedge (negative for 5,409 thousand), to the fair value adjustment of financial assets available for sale (positive for euro 41,925 thousand) and to the net result for the year (positive for euro 170,851 thousand):

Share capital

The share capital at December 31, 2017, fully subscribed and paid-in, amounts to euro 1,904,374,935.66 divided into 1,000,000,000 ordinary shares without nominal value.

The share capital went from euro 1,345,381 thousand gross of portfolio treasury shares (euro 1,342,281 thousand net of portfolio treasury shares), divided into 207,625,214 shares, at December 31, 2016, to euro 1,904,375 thousand, divided into 1,000,000,000 shares at December 31, 2017.

The change in the number of shares was determined by the following transactions:

(i) the conversion of all outstanding special shares into the corresponding number of ordinary shares, the annulment of all 351,590 ordinary treasury shares and all 772,792 special treasury shares without reducing the share capital and splitting shares in 1,032,504,160;

(ii) the Capital Increase, fully subscribed by Marco Polo International Italy S.p.A. on June 29, 2017, for euro 1,189,375 thousand, of which euro 558,994 thousand allocated to share capital and euro 630,381 thousand to the share premium reserve, through the issue of 429,005,680 new ordinary shares, without nominal value;

(iii) the grouping of the company’s ordinary shares in 1,000,000,000 with respect to 1,461,509,840 shares outstanding at August 1, 2017

Legal reserve

At December 31, 2017, the legal reserve amounted to euro 380,875 thousand, with an increase of 228,762 thousand compared to December 31, 2016, following the allocation to the legal reserve of the amount of euro 116,963 thousand profits carried forward, approved by the Shareholders’ Meeting of March 6, 2017, and the subsequent allocation to the legal reserve of the amount of euro 111,799 thousand by means of withdrawals of euro 65,377 thousand from the reserve for results carried forward and of euro 46,421 thousand from the merger reserve, approved by the Shareholders' Meeting of August 1, 2017.

Surplus reserve

At December 31, 2017, the share premium reserve amounted to euro 630,381 thousand and was generated following the capital increase.

Concentration reserves

At December 31, 2017, concentration reserves amounted to euro 12,467 thousand and unchanged compared to December 31, 2016.

Other reserves

At December 31, 2017, other reserves amounted to euro 92,535 thousand and unchanged compared to December 31, 2016.

IAS reserves

At December 31, 2017, the IAS reserves amounted to euro 23,961 thousand and refer to the reserve for the fair value adjustment of financial assets available for sale (positive for euro 27,342 thousand), to the actuarial gains/losses reserve (positive for euro 2,028 thousand) and the cash flow hedge reserve, net of the tax effect (negative for euro 5,409 thousand).

Merger reserve

At December 31, 2017, the merger reserve amounted to euro 1,022,928 thousand compared to euro 1,245,261 thousand at December 31, 2016. The reserve was generated following the merger by incorporation of Marco Polo International Holding Italy S.p.A. in Pirelli & C. S.p.A. in 2016 and was used in 2017 to increase the legal reserve.

Reserve from results carried forward

At December 31, 2017, the reserve for results carried forward was zero compared to euro 305,402 thousand at December 31, 2016. The decrease was mainly due to the allocation of all the shares of TP Industrial Holding S.p.A. (euro 188,439 thousand) and for allocation to the legal reserve (euro 116,963 thousand).

In accordance with the provisions of art. 2427, no. 7-bis of the Italian Civil Code, in the following table each item of equity is indicated analytically, with indication of its origin, possibility of use and distributability, as well as of its use in previous years:

(in thousands of euro)	**Amount**	**Possible use**	**Available portion**	**Summary of reserves uses in the last 3 previous years**
Share capital	1,904,375		-	-
Surplus reserve	630,381	A, B, C	630,381	-
Legal reserve	380,875	B	380,875	-
Other reserves				-
- Concentration reserve	12,467	A, B, C	12,467	-
- Other Reserves	92,535	A, B	92,535	-
- IAS Reserves	23,961	-	-	-
- Merger Reserve	1,022,928	A, B, C	1,022,928	-
Retained earnings	-			-
Total	**4,067,522**		**2,139,186**	
Non distributable			473,410	
Residual available share			**1,665,776**	

A to increase the share capital
B to cover losses
C to distribute to the shareholders

19. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

The breakdown of the item borrowings from banks and other financial institutions is as follows:

(in thousands of euro)	**12/31/2017**			**12/31/2016**		
	Total	**Not current**	**Current**	**Total**	**Not current**	**Current**
Borrowings from banks	2,331,086	2,331,086	-	4,267,340	4,103,435	163,905
Other financial payables	12,021	561	11,460	4,378	561	3,817
Accrued liabilities	5,396	-	5,396	24,333	-	24,333
Total	**2,348,503**	**2,331,647**	**16,856**	**4,296,051**	**4,103,996**	**192,055**

The item **borrowings from banks** refers to the use of the unsecured financing line (“Facilities”) granted to Pirelli & C. S.p.A. as part of the refinancing operation, which also involved Pirelli International Plc, signed on June 27, 2017 (with closing on June 29, 2017). The portion of lines granted to Pirelli & C. is equal to euro 2.5 billion used for euro 2.4 billion at December 31, 2017. The refinancing of the Group was carried out at a total cost of less than 1.85% and with maturity at three and five years. The loan initially underwritten by three underwriters was subsequently subject to review at a syndicate of 18 credit institutions on July 7. It is noted that at December 31, 2016, the Company was financed by secured credit lines used for euro 4,267,340 thousand. On June 27, 2017, Marco Polo International Italy S.p.A. subscribed a share capital increase for Pirelli & C. S.p.A. for approximately euro 1.2 billion, which allowed the Company to reduce the bank debt by the same amount in the new refinancing transaction. The loan is fully classified as long-term borrowings from banks.

The item **other financial payables** includes euro 9,000 thousand for the payable to the subsidiary Pirelli International Plc and euro 2,460 thousand for the payable to shareholders following the squeeze out operation.

The **accrued expenses** item essentially refers to interest that has accrued on the term loans but has not yet been paid (euro 5,396 thousand).

Below are the changes in borrowings from banks:

(In thousands of euro)

Borrowings from banks at December 31, 2016	**4,267,340**
Drawdowns of *secured financing (Senior Facilities)*	249,108
Reimbursements of *secured financing* (*Senior Facilities*)	(4,509,537)
Drawdowns of *unsecured financing (Facilities)*	2,879,641
Reimbursements of *unsecured financing (Facilities)*	(499,450)
Amortisation of bank/financial expenses	57,265
Exchange differences	(113,281)
Borrowings from banks at December 31, 2017	**2,331,086**

The carrying amount of current payables is considered to approximate their fair value. The table below compares the fair value of non-current financial payables with their carrying amount:

(in thousands of euro)	12/31/2017		12/31/2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Borrowings from banks	2,331,086	2,364,230	4,103,996	4,103,996
Other financial payables	561	561	561	561
Total borrowings from banks and other financial institutions - non current	**2,331,647**	**2,364,791**	**4,104,557**	**4,104,557**

The breakdown of borrowings from banks and other financial institutions by currency of origin of the payable at December 31, 2017 and December 31, 2016 is as follows:

(in thousands of euro)	12/31/2017	12/31/2016
EUR	1,403,382	3,573,011
USD (Dollar USA)	945,121	722,479
Total	**2,348,503**	**4,295,490**

At December 31, 2017, there are hedging derivatives for interest rate and exchange rate on payables at variable rate in foreign currency.

With reference to the presence of financial covenants, it should be noted that the financing ("Facilities") granted to Pirelli & C. S.p.A. and Pirelli International Plc requires compliance with a maximum ratio ("Total Net Leverage") between net indebtedness and gross operating profit as resulting from the Consolidated Financial Statements of Pirelli & C. S.p.A. Failure to comply with the financial covenant is identified as an event of default which, if not remedied and exercised by a number of lending banks representing at least 66 2/3 percent of the total commitment, will result in early repayment (partial or total) of the loan with simultaneous cancellation of the related commitment.

This parameter was fully satisfied at December 31, 2017.

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

The other outstanding financial payables do not contain financial covenants.

It is noted that on January 22, 2018, under the EMTN program approved at the end of 2017 and entered into on January 10, 2018, Pirelli placed a bond at international institutional investors for a nominal amount of euro 600 million with a five-year term at fixed rate.

NET FINANCIAL POSITION (alternative performance indicator not required by IFRS accounting standards)

The table below shows the breakdown of the net financial position and net financial debt at December 31, 2017 and December 31, 2016, determined in accordance with the provisions of Consob communication DEM/6064293 of July 28, 2006 and in compliance with the ESMA/2013/319 Recommendations.

(in thousands of euro)	**Note**	**12/31/2017**	*of which related parties (note 37)*	**12/31/2016**	*of which related parties (note 37)*
Current borrowings from banks and other financial institutions	**19**	16,856	*9,001*	192,055	*772*
Non-current borrowings from banks and other financial institutions	**19**	2,331,647		4,103,996	*561*
Non-current derivative financial instruments (liabilities)	**17**	29,716	29,716		
Total gross debt		**2,378,219**		**4,296,051**	
Cash and cash equivalents	**15**	(1,749)		(1,805)	
Current financial receivables and other assets	**13**	(12,404)	*(11,915)*	(634,763)	*(633,227)*
Net financial debt *		**2,364,066**		**3,659,482**	
Non-current financial receivables and other assets	**13**	(712)		(709)	
Total net financial (liquidity)/debt position		**2,363,354**		**3,658,774**	

* Pursuant to Consob Notice of July 28, 2006 and in compliance with CESR recommendation of February 10, 2005 "Recommendations fot the consistent implementation of the European Commission regulation on Prospectuses".

20. PROVISIONS FOR RISKS AND CHARGES

The following is a detail of changes of the item in question:

(in thousands of euro)	**12/31/2017**			**12/31/2017**		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Opening balance	**51,427**	**45,950**	**5,477**	**14,746**	**14,346**	**400**
Increases	3,656	3,656	-	14,873	9,396	5,477
Reversals	(530)	(530)	-	(8,405)	(8,405)	-
Uses	(8,875)	(3,398)	(5,477)	(3,287)	(2,887)	(400)
Merger deficit	-	-	-	33,500	33,500	-
Total provision for liabilities and charges	**45,678**	**45,678**	**-**	**51,427**	**45,950**	**5,477**

The provisions for risks and charges refer for euro 33,500 thousand to contingent liabilities (whose outlay is not considered probable) identified in the Purchase Price Allocation referable to the decision taken by the European Commission at the conclusion of the antitrust investigation initiated with respect to the business of energy cables, which provides for a fine for Prysmian of about euro 104 million for a portion of which, equal to euro 67 million, Pirelli & C. S.p.A., although not involved in the alleged cartel, is called to respond jointly with Prysmian exclusively in application of the so-called "parental liability" principle, because, during part of the period of the alleged infringement, Prysmian was controlled by Pirelli. The item also includes provisions made for legal and tax disputes (euro 3,471 thousand), labour disputes (euro 3,421 thousand) and other risks, and expenses, mainly expenses for reclamation of areas (euro 5,286 thousand).

Increases in the year relate mainly to the provision to adjust the provision to the actual requirements for legal and tax proceedings.

The releases mainly refer to the release of tax provisions.

The reclassification of the provision for risks and charges refers to the accrual made at December 31, 2016 relating to the investment in Pirelli & C. Ambiente S.r.l. for the settlement of losses exceeding the carrying amount of the same at that date. The provision was reclassified in 2017 to reduce the value of the investment, which became large following the capital contribution of euro 8,700 thousand, as described in note 10.

21. PERSONNEL PROVISIONS

Personnel provisions amount to euro 2,072 thousand (euro 3,965 thousand at December 31, 2016). The item includes the employees' leaving indemnities (TFR), which amounts to euro 1,385 thousand (euro 1,248 thousand at December 31, 2016) and other employee benefits for euro 687 thousand (euro 2,717 thousand at December 31, 2016).

The decrease compared to the previous year is attributable to the payable relating to the 2016-2018 Long-Term Incentive Plan for the Management of the Pirelli Group, which was classified under other payables, following the early closing of the Plan approved by the Board of Directors on July 28, 2017.

Employees' leaving indemnities (TFR)

The changes in the year 2017 for the employees' leaving indemnities (TFR) are the following:

(in thousands of euro)	**12/31/2017**	**12/31/2016**
Opening balance	**1,248**	**1,548**
Movements through income statement	1,136	1,201
Actuarial (gains)/losses recognized in equity	17	55
Indemnities, advance payments, relocations, payment to funds	(1,016)	(1,556)
Total employees' leaving indemnities (TFR)	**1,385**	**1,248**

The amounts recognized in the income statement are included in the item “Personnel Costs” (note 29).

Net actuarial gains accrued in 2017, recognized directly in equity, amount to euro 17 thousand and are essentially related to the change in the economic parameters of reference (discount rate and inflation rate).

In accordance with national legislation, the amount due to each employee accrues based on the service provided and is paid when the employee leaves the company. The treatment due to the termination of the employment relationship is calculated based on its duration and the taxable remuneration of each employee. The liability, annually revalued on the basis of the official cost of living and statutory interest rate, is not associated with any accrual condition or period, nor with any financial funding obligation; therefore, there is no activity at the service of the fund.

The discipline was supplemented by Legislative Decree no. 252/2005 and by Law no. 296/2006 (Finanziaria 2007) which, for companies with at least 50 employees, has established that the portions accrued since 2007 be allocated, on the employees’ option, either to the INPS Treasury Fund or to supplementary pension schemes, assuming the nature of “Defined contribution plan”. In any case, for all companies, the revaluations of the amounts outstanding at the option dates are still accounted for under staff severance indemnities as well as, for companies with less than 50 employees, also the portions accrued and not allocated to supplementary pensions.

The principal actuarial assumptions used at December 31, 2017 are as follows:

2017	
Discount rate	1.6%
Inflation rate	1.5%

The principal actuarial assumptions used at December 31, 2016 were as follows:

2016	
Discount rate	1.5%
Inflation rate	1.0%

Hired employees at December 31, 2017 amount to 141 units (134 units at December 31, 2016).

In other conditions being equal, a hypothetical change of 0.25% in the discount rate would result in a decrease in liabilities equal to 1.78%, in the case of an increase (2.45% at December 31, 2016), and an increase in liabilities of 1.84%, in the case of a decrease (2.51% at December 31, 2016).

22. TRADE PAYABLES

The breakdown of trade payables is as follows:

(in thousands of euro)	**12/31/2017**	**12/31/2016**
Payables to subsidiaries	4,755	605
Payables to associates	64	975
Payables to other companies	24,875	30,845
Total trade payables	**29,694**	**32,425**

The carrying amount of trade payables is considered to approximate their fair value.

23. OTHER PAYABLES

The breakdown of other payables is as follows:

(in thousands of euro)	12/31/2017			12/31/2016		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Payables to subsidiaries	27,491	-	27,491	11,196	-	11,196
Payables to social security and welfare institution	3,067	-	3,067	2,480	-	2,480
Payables to employees	8,303	-	8,303	10,032	-	10,032
Other payables	35,377	211	35,166	9,798	311	9,487
Accrued liabilities	1,177	-	1,177	250	-	250
Deferred income	8	-	8	3,681	-	3,681
Total other payable	**75,423**	**211**	**75,212**	**37,437**	**311**	**37,126**

Payables to subsidiaries mainly refer to receivables related to VAT consolidation.

Payables to pension and social security institutions are mainly constituted by contributions to be paid to the INPS [National Social Welfare Institute] and INAIL [National Institute for Insurance against Industrial Accidents].

Payables towards employees refer to contributions for fees to be paid to employees. The item mainly includes the payable related to the 2016-2018 Long-Term Incentive Plan, with respect to the early closing thereof approved by the Board of Directors of Pirelli & C. S.p.A. on July 28, 2017, which will be paid in 2018.

The item Other payables includes payables for fees to be paid to directors and Statutory Auditors, for withholding taxes on income from self-employed and employed work and payables to advisors for commissions related to the IPO.

For other current payables it is considered that the carrying value approximates their fair value.

24. PROVISION FOR DEFERRED TAX LIABILITIES

The provision for deferred tax liabilities amounted to euro 554,828 thousand at December 31, 2017 (euro 633,330 thousand at December 31, 2016).

The breakdown of deferred tax provisions gross of the offsets made is as follows:

(in thousands of euro)	12/31/2017	12/31/2016
Deferred tax assets	**85,983**	**-**
- of which within 12 months	52,964	-
- of which over 12 months	33,019	-
Provision for deferred tax liabilities	**(640,811)**	**(633,330)**
- of which within 12 months	-	-
- of which over 12 months	(640,811)	(633,330)
Total	**(554,828)**	**(633,330)**

The tax effect of temporary differences and of tax losses carried forward which make up the item is shown in the following table:

(in thousands of euro)	12/31/2017
Deferred tax assets	
Provision for risk and charges	2,103
Property, plant and equipment	422
Employees provision	189
Provision for bad debt	1,009
Tax losses carried forward	35,421
ACE Benefit	30,913
Interests	14,218
Derivatives	1,708
Total deferred tax assets	**85,983**
Provision for deferred tax liabilities	
Brand	(633,330)
Exchange differences not realised	(7,481)
Total provision for deferred tax liabilities	**(640,811)**
Total	**(554,828)**

25. TAX PAYABLES

These amounted to euro 18,636 thousand (euro 20,043 thousand at December 31, 2016) and mainly include payables for withholding taxes incurred abroad (WHT), transferred from subsidiaries that adhere to the tax consolidation by the Company.

INCOME STATEMENT

26. REVENUES FROM SALES AND SERVICES

Revenues from sales and services amount to euro 42,084 thousand for 2017 compared to euro 55,991 thousand in 2016 and the breakdown is as follows:

(in thousands of euro)	1/1-12/31/2017	1/1-12/31/2016
Sales of services to subsidiaries	40,070	55,270
Sales of services to other companies	2,014	721
Total revenues from sales and services	**42,084**	**55,991**

Revenues from subsidiaries refer to services provided through Corporate functions.

27. OTHER INCOME

Other income amounted to euro 105,778 thousand (euro 149,849 thousand in 2016) and the breakdown is as follows:

(in thousands of euro)	**1/1-12/31/2017**	**1/1-12/31/2016**
Other income from subsidiaries	98,903	110,524
Other revenues from third parties	6,875	39,325
Other income from other companies	**105,778**	**149,849**

Other revenues from subsidiaries include royalties paid by the Group's companies for the use of Pirelli Brand (euro 71,897 thousand in 2017 compared to euro 79,879 thousand in 2016), recovery of expenses and other revenues (euro 23,019 thousand in 2017 compared to euro 23,045 thousand in 2016), rents and recoveries of management fees on rents (euro 5,731 thousand in 2017 compared to euro 10,275 thousand in 2016).

Revenues from other companies mainly include royalties paid by other companies for the use of the Pirelli brand (euro 2,221 thousand in 2017 compared to euro 2,882 thousand in 2016).

In 2016, other revenues from other companies also included the capital gain deriving from the sale of the Research and Development building located in Milan Bicocca for euro 27,199 thousand and of the building located in San Donato for euro 2,199 thousand.

28. RAW MATERIALS AND CONSUMABLES USED

They amount to euro 183 thousand in 2017 (euro 209 thousand in 2016) and include purchases of advertising material, fuels and various materials.

29. PERSONNEL COSTS

Personnel costs amount to euro 26,710 thousand (euro 26,827 thousand in 2016) and the breakdown is as follows:

(in thousands of euro)	**1/1-12/31/2017**	**1/1-12/31/2016**
Wages and salaries	19,969	20,450
Social security and welfare contributions	5,129	4,799
Employees' leaving indemnities (TFR)	1,027	950
Retirement and similar obbligations	232	280
Other costs	353	348
Total personnel expenses	**26,710**	**26,827**

The average staff headcount is the following:

- Executives 37
- Employees 102
- Workers 2

Personnel costs in 2017 include non-recurring events for a total of euro 1,691 thousand for retention plan.

30. DEPRECIATION, AMORTIZATION AND WRITE-DOWNS

The breakdown of the item is as follows:

(In thousands of euro)	**1/1-12/31/2017**	**1/1-12/31/2016**
Amortisation - intangible assets	2,514	2,798
Depreciation - property, plant and equipment	2,386	4,925
Impairment of tangible assets	-	1,518
Total depreciation, amortisation and impairments	**4,900**	**9,241**

31. OTHER COSTS

The breakdown of other costs is as follows:

(in thousands of euro)	**1/1-12/31/2017**	**1/1-12/31/2016**
Services rendered by subsidiaries	16,032	6,904
Advertising	33,249	28,181
Consultancy and collaboration services	11,863	11,377
Accruals to provisions	3,931	7,954
Legal and notarial expenses	4,434	2,996
Travel expenses	10,653	10,746
Remuneration of Directors and supervisory bodies	2,515	2,719
Membership fees and contributions	1,484	1,532
Rental and lease instalments	10,662	8,187
IT expenses	2,946	2,457
Energy, gas and water expenses	1,483	1,717
Security service	2,863	2,477
Insurance premiums	3,796	3,428
Patents and trademarks expenses	719	640
Cleaning and property ordinary maintenance expenses	1,381	1,618
Property maintenance	901	1,009
Bank charges for IPO	44,274	-
Other	13,874	12,401
Total other costs	**167,060**	**106,343**

Other costs include non-recurring costs for an amount of euro 62,390 thousand and refer mainly to costs related to the IPO.

32. NET INCOME (LOSS) FROM EQUITY INVESTMENTS

32.1. Gains on equity investments

They amount to euro 2,752 thousand in 2017 (euro 464 thousand in 2016) and the breakdown is as follows:

(In thousands of euro)	**1/1-12/31/2017**	**1/1-12/31/2016**
Capital gain on disposal of investment in Prelios S.p.A.	2,564	-
Other gains on equity investments	188	464
Total	**2,752**	**464**

For further details, reference shall be made to note 11 – Investments in associated companies.

32.2. Losses from investments

They amount to euro 13,833 thousand (euro 107,159 thousand in 2016) and the breakdown is as follows:

(In thousands of euro)	**1/1-12/31/2017**	**1/1-12/31/2016**
Impairment losses on equity investments in subsidiaries:		
- Pirelli & C. Ambiente S.r.l.	1,128	8,354
- Hb Servizi S.r.l.	1,134	1,236
Impairment losses on equity investments in associates:		
- Prelios S.p.A.	-	28,278
- Focus Investments S.p.A.	2,648	-
- Fenice S.r.l.	6,570	19,131
- Eurostazioni S.p.A.	-	46,666
- International Media Holding S.p.A.	-	679
Impairment losses on other financial assets:		
- Alitalia S.p.A.- Compagnia Aerea Italiana S.p,A,	781	1,881
- Movincom Servizi S.p.A.	120	16
- GWM Renewable Energy II S.p.A.	-	519
- Emittente Titoli S.p.A.	1,441	-
- Others	11	399
Total	**13,833**	**107,159**

For further details, reference shall be made to the notes related to investments in subsidiaries (note 10), associates (note 11) and other financial assets (note 12).

32.3 Dividends

They amount to euro 215,497 thousand in 2017 compared to euro 279,143 thousand in 2016 and the breakdown is as follows:

(In thousands of euro)	**1/1-12/31/2017**	**1/1-12/31/2016**
From subsidiaries:		
- Pirelli Tyre S.p.A. - Italy	200,000	169,000
- Pirelli Group Reinsurance Company SA - Switzerland	-	3,209
- Pirelli Sistemi Informativi S.r.l. - Italy	300	-
From associates:		
- Eurostazioni S.p.A. - Itay	-	100,353
- Fenice Srl - Italy	8,556	-
- International Media Holding S.p.A.- Italy	15	-
From other financial assets:		
- Mediobanca S.p.A. - Italy	5,829	4,254
- ECA Ltd - United the Kingdom	10	11
- Fin. Priv. S.r.l. - Italy	757	554
- Emittenti Titoli S.p.A. - Italy	30	1,727
- Euroqube S.A. (in liquidation) - Belgium	-	35
Total	**215,497**	**279,143**

The dividends collected by Fenice S.r.l refer to the reduction of the company’s capital, implemented by distribution to shareholders of the amount collected by Fenice S.r.l. as fee for the sale of the investment held in Prelios S.p.A. to the Burlington fund, in accordance with the preferential allocation criteria as provided for by the Articles of Association.

33. Financial income

The breakdown is as follows:

(in thousands of euro)	**1/1-12/31/2017**	**1/1-12/31/2016**
Interests	1,686	10,703
Other financial income	4,744	227
Net gains on derivative financial instruments	-	39,009
Net gains on exchange rates	110,315	-
Total financial income	**116,745**	**49,939**

Interests mainly refer to interest accrued on financial receivables from group companies.

The item **other financial income** mainly includes guarantee fees charged to other Group companies.

Net exchange rate gains of euro 110,315 thousand refer to the adjustment to the exchange rate at the end of the period of the items expressed in the currency other than the functional one still in effect at the closing date of the Financial Statements and the net profits on items closed during the year.

34. FINANCIAL COSTS

The breakdown is as follows:

(in thousands of euro)	**1/1-12/31/2017**	**1/1-12/31/2016**
Interests	136,839	237,367
Commissions	1,147	14,798
Net losses on exchange rates	-	34,669
Net interest costs on employee benefit obligations	24	36
Net losses on derivative financial instruments	102,108	-
Total financial expenses	**240,118**	**286,870**

Interests include euro 112,036 thousand for the unsecured financing line ("Facilities") granted to Pirelli & C. S.p.A. and entered into on June 27, 2017 and euro 23,223 thousand for the secured financing line ("Senior Facilities") granted to Pirelli & C. S.p.A. repaid early on June 29, 2017, of which euro 41,967 thousand related to the subsequent reversal to the Income Statement of the portion of costs not amortized at the closing date. Interest on the financing is shown net of interest income accrued on hedging instruments on interest rates and exchange rates equal to euro 7,720 thousand.

Net expenses on derivatives refer to forward purchases/sales of foreign currencies to hedge financial payables in currency of the Company, in accordance with the Group foreign exchange risk management policy. For transactions outstanding at the end of the period, the fair value is determined using the forward exchange rate at the reporting date. The fair value measurement includes two elements: the interest component linked to the interest rate spread between the currencies subject to the individual hedges, a net revenue of euro 8,793 thousand, and the exchange rate component, a net cost of euro 110,218 thousand.

Comparing net foreign exchange gains, equal to euro 110,315 thousand, with the exchange rate component of net expenses on derivatives, the impact is almost nil.

Financial expenses include non-recurring events for euro 41,967 thousand relating to the early closing of the secured financing ("Senior Facilities") as described under the item interest.

35. TAXES

The breakdown of taxes is as follows:

(in thousands of euro)	**1/1-12/31/2017**	**1/1-12/31/2016**
Current taxes	64,005	69,741
Deferred tax assets/(liabilities)	76,794	-
Total income taxes	**140,799**	**69,741**

The positive balance of current taxes for the year 2017 is mainly due to the benefits deriving from the tax consolidation (euro 72,140 thousand), offset by a negative effect of foreign withholding taxes of previous years (euro 4,120 thousand) and taxes related to previous years (euro 3,992 thousand).

Deferred tax assets benefit from the recognition of deferred tax assets on previous tax losses, exceedances of interest expenses not deducted and ACE benefit for euro 80,552 thousand, deferred tax assets on temporary differences for a total of euro 3,723 thousand, offset by deferred tax liabilities on unrealized exchange rate difference gains for euro 7,481 thousand.

The item includes non-recurring income for € 96,108 thousand, which includes € 80,552 thousand for the recognition of deferred tax assets previously described and € 15,556 thousand for the tax impact of non-recurring charges for the year (note 36).

The table below shows the reconciliation of the effective tax rate with the theoretical rate of the Parent Company:

(in thousands of euro)	**1/1-12/31/2017**	**1/1-12/31/2016**
A) Profit/(loss) before taxes	30,052	(1,264)
B) Theoretical taxes	**7,212**	**(348)**
Main causes that give rise to changes between theoretical and effective taxes:		
Income not subject to taxation	(57,760)	(88,766)
Non-deductible costs	20,088	33,872
Uses losses previous years not booked	(37,648)	(20,885)
Deferred tax assets on previous tax losses and other temporary differences	(80,552)	-
Taxes relating to previous years	8,112	(9,268)
Deferred tax assets not recognized on temporary differences of the year	-	26,127
Release of provisions	-	(7,399)
Other	(251)	(3,074)
C) Effective taxes	**(140,799)**	**(69,741)**
Theoretical tax rate (B/A)	24%	27.5%
Effective tax rate (C/A)	-468.5%	5517.5%

Consolidated tax return

It is noted that starting from the 2004 financial year, the Company exercised the option for consolidated taxation as consolidating company, pursuant to article 117 et seq of the t.u.i.r. (Italian Income Tax Code), with regulation of relationships arising from the consolidation through specific “Regulations”, which provide for a common procedure for the application of laws and regulations.

These regulations were updated in subsequent years as a result of changes concerning the companies involved in the agreement and the shareholding structure relating thereto, as well as in view of the corrective and supplementary actions of the reference legislation.

The aforementioned changes concerned in particular the remuneration of tax losses used by the companies participating in the consolidation. The adoption of the consolidation makes it possible to compensate, with regard to the parent company Pirelli & C. S.p.A., the taxable income or loss of the same parent company with those of its resident subsidiaries which have exercised the option, given that the tax losses accrued during periods prior to the introduction of Group taxation can be used by those companies which are eligible.

36. NON-RECURRING EXPENSES AND INCOME

Pursuant to Consob Communication no. DEM/6064293 of July 28, 2006, information is provided below regarding the economic impacts of non-recurring events and transactions of the Company equal to net expenses of euro 9,940 thousand in 2017 and net income of euro 15,194 thousand in 2016:

(in thousands of euro)	**1/1 -12/31/2017**	**1/1 -12/31/2016**
Other income:		
- Gains on property sales	-	*29,398*
Personnel costs:		
- Retention Plan	*(1,691)*	-
Other costs:		
- IPO costs	*(62,390)*	-
- Other	-	*(7,250)*
Impact on operating result	**(64,081)**	**22,148**
Financial expenses:		
- Refinancing impact June 2017 transaction costs	(41,967)	-
Impact on result before taxes	**(106,048)**	**22,148**
Taxes:		
- Recognition of deferred tax assets on previous losses and other temporary differences	80,552	-
- Tax impact on operating result adjustments and financial expenses	15,556	(6,954)
Impact on net result	**(9,940)**	**15,194**

37. RELATED PARTY TRANSACTIONS

Transactions between Pirelli & C. S.p.A. and the subsidiaries mainly concern:

- services (technical, organizational, general) provided by the headquarters to subsidiaries;
- royalties for the use of patents for Group companies benefiting from them.

All the transactions listed above are part of the ordinary management of relations between the Parent Company and its subsidiaries.

Transactions with related parties also included the fees paid to Directors and Key Managers.

The following table summarises the items from the Statement of Financial Position and the Income Statement, which include the related party transactions and their relative impact.

(in thousands of euro)	12/31/2017	*of which related parties*	% share	12/31/2016	*of which related parties*	% share
BALANCE SHEET						
Current assets						
Trade receivables	52,045	*43,722*	84.0%	61,692	*56,915*	92.3%
Other receivables	45,164	*13,973*	30.9%	651,850	*635,262*	97.5%
Tax receivables	110,632	*104,054*	94.1%	84,621	*77,840*	92.0%
Derivative financial instruments	95	95	100.0%	515	515	100.0%
Non-current liabilities						
Payables to banks and other financial lenders	2,331,647	-	0.0%	4,103,996	*561*	0.0%
Derivative financial instruments	29,716	*29,716*	100.0%	-	-	0.0%
Current liabilities						
Payables to banks and other financial lenders	16,856	*9,412*	55.8%	192,055	*6,453*	3.4%
Trade payables	29,694	*4,820*	16.2%	32,425	*1,582*	4.9%
Other payables	75,213	*27,491*	36.6%	37,126	*14,876*	40.1%
Tax payables	18,637	*18,408*	98.8%	20,043	*19,814*	98.9%
Derivative financial instruments	146	*146*	100.0%	-	-	0.0%

(in thousands of euro)	2017	*of which related parties*	% share	2016	*of which related parties*	% share
INCOME STATEMENT						
Revenues from sales and services	42,084	*41,349*	98.3%	55,991	*55,270*	98.7%
Other income	105,778	*99,323*	93.9%	149,849	*110,524*	73.8%
Personnel expenses	(26,710)	*(4,780)*	17.9%	(26,827)	*(4,482)*	16.7%
Other costs	(167,060)	*(18,618)*	11.1%	(106,343)	*(9,246)*	8.7%
Gain on equity investments	2,753	*2,564*	93.1%	464	-	0.0%
Losses on equity investments	(13,833)	*(11,480)*	83.0%	(107,159)	*(104,344)*	97.4%
Dividends	215,496	*208,871*	96.9%	279,143	*272,563*	97.6%
Financial income	116,745	*10,681*	9.1%	49,939	*49,714*	99.5%
Financial expenses	(240,118)	*(103,275)*	43.0%	(286,870)	*(6,878)*	2.4%

Balance sheet transactions with related parties

The tables below shows the main balance sheet transactions with related parties for the years ended December 31, 2017 and December 31, 2016.

(in thousands of euro)	Subsidiaries	Associates	Other related parties	Total 31 December 2017
Trade receivables	42,159	3	1,560	43,722
Other current receivables	13,973	-	-	13,973
Tax receivables	104,054	-	-	104,054
Derivative financial instruments (current assets)	95	-	-	95
Payables to banks and other lenders (current liabilities)	9,412	-	-	9,412
Trade payables	4,755	64	-	4,820
Other payables	26,814	-	677	27,491
Tax payables	8,513	-	9,895	18,408
Derivative financial instruments (current liabilities)	146	-	-	146
Derivative financial instruments (non-current liabilities)	29,716	-	-	29,716

(in thousands of euro)	**Subsidiaries**	**Associates**	**Other related parties**	**Total 31 December 2016**
Trade receivables	55,822	1,093	-	56,915
Other receivables (current)	633,533	1,729	-	635,262
Tax receivables	77,840	-	-	77,840
Derivative financial instruments (current assets)	515	-	-	515
Payables to banks and other lenders (non-current)	-	561	-	561
Payables to banks and other lenders (current)	5,681	772	-	6,453
Trade payables	754	826	2	1,582
Other payables	14,876	-	-	14,876
Tax payables	19,814	-	-	19,814

Trade receivables amounted to euro 43,722 thousand (euro 56,915 thousand at December 31, 2016) and mainly refer to receivables for services/provisions provided to Group companies (euro 34,596 thousand from Pirelli Tyre S.p.A., euro 5,625 thousand from Limited Liability Company Pirelli Tyre Russia, euro 532 thousand from Pirelli Sistemi Informativi S.r.l., euro 481 thousand from Pirelli International Plc, euro 400 thousand from Pirelli Tyre Trading (Shanghai Co. Ltd.). The item also includes, for euro 1,560 thousand, trade receivables due from Prometeon group companies.

Other current receivables amounted to euro 13,973 thousand (euro 635,262 thousand at December 31, 2016) and mainly refer for euro 4,082 thousand to the intra-group current account with Pirelli International Plc; euro 4,711 thousand in guarantee fees charged to Pirelli International Plc, for euro 3,122 thousand to the interest accrual accrued on CCIRS stipulated with Pirelli International Plc; for euro 2,040 thousand to VAT receivables transferred to the consolidation (euro 1,431 thousand from Pirelli Industrie Pneumatici S.r.l., euro 317 thousand from Pirelli Sistemi Informativi S.r.l., euro 226 thousand from Pirelli Servizi Amministrazione e Tesoreria S.p.A.)

Tax receivables amounted to euro 104,054 thousand (euro 77,840 thousand at December 31, 2016) and refer to receivables from Group companies that adhere to tax consolidation (mainly euro 98,716 thousand from Pirelli Tyre S.p.A., euro 2,828 thousand from Pirelli Sistemi Informativi S.r.l., euro 2,420 thousand from Pirelli Industrie Pneumatici S.r.l.)

Derivative financial instruments (current assets) for euro 95 thousand (euro 515 thousand at December 31, 2016) refer to hedging transactions with Pirelli International Plc.

Borrowings from banks and other financial institutions (current) amounted to euro 9,412 thousand (euro 6,453 thousand at December 31, 2016) and refer to the financing and related accruals with Pirelli International Plc.

Trade payables amounted to euro 4,820 thousand (euro 1,582 thousand at December 31, 2016) and mainly refer to payables for the provision of services. The main ones are: euro 2,500 thousand to HB Servizi S.r.l., euro 716 thousand to Pirelli Sistemi Informativi S.r.l., euro 646 thousand to Pirelli Tyre S.p.A., euro 619 thousand to TP Trading (Beijing) Co. Ltd., euro 313 thousand to Pirelli Amministrazione e Tesoreria S.p.A..

Other payables amounted to euro 27,491 thousand (euro 14,876 thousand at December 31, 2016) and mainly refer to payables with Group companies that adhere to the VAT consolidation.

The main ones are: euro 24,603 thousand to Pirelli Tyre S.p.A., euro 210 thousand to Driver Servizi Retail S.r.l.

Tax payables amounted to euro 18,408 thousand (euro 19,814 thousand at December 31, 2016) and refer for euro 8,338 thousand to payables to subsidiaries that adhere to the tax consolidation and for euro 9,895 thousand) to the payable to Prometeon Tyre Group S.r.l. for adhesion to the tax consolidation.

The amount of euro 146 thousand (nil at December 31, 2016) of **derivative financial instruments – current liabilities** refers to hedging transactions with Pirelli International Plc.

The amount of euro 29,716 thousand of **derivative financial instruments (non-current liabilities)** refers to the fair value of other derivatives outstanding with Pirelli International Plc.

Profit and loss transactions with related parties

The tables below show the main financial transactions with related parties for the years 2017 and 2016.

(in thousands of euro)	**Subsidiaries**	**Associates**	**Other related parties**	**Total 2017**
Revenues from sales and services	40,070	-	1,279	41,349
Other income	98,903	384	36	99,323
Personnel expenses	-	-	(4,780)	(4,780)
Other costs	(15,773)	(259)	(2,586)	(18,618)
Gains on equity investments	-	2,564	-	2,564
Losses from investments	(2,262)	(9,218)	-	(11,480)
Dividends	200,300	8,571	-	208,871
Financial income	10,681	-	-	10,681
Financial expenses	(103,275)	-	-	(103,275)

(in thousands of euro)	**Subsidiaries**	**Associates**	**Other related parties**	**Total 2016**
Revenues from sales and services	55,270	-	-	55,270
Other income	109,223	1,301	-	110,524
Personnel expenses	-	-	(4,482)	(4,482)
Other costs	(5,954)	(950)	(2,342)	(9,246)
Losses from investments	(9,590)	(94,754)	-	(104,344)
Result from investments - Dividends	172,209	100,353	-	272,563
Financial income	49,709	5	-	49,714
Financial expenses	(6,878)	-	-	(6,878)

Revenues from sales and services amounted to euro 41,349 thousand in 2017 (euro 55,270 thousand in 2016) and mainly refer to service contracts. The main relations with subsidiaries are: euro 38,600 thousand - Pirelli Tyre S.p.A., euro 451 thousand - Pirelli & C. Ambiente S.r.l., euro 402 thousand - Pirelli Sistemi Informativi S.r.l., euro 298 thousand - HB Servizi S.r.l.

Relations with other related companies refer for euro 1,279 thousand to the service/provisions contract with Prometeon Tyre Group S.r.l.

Other income for euro 99,323 thousand in 2017 (euro 110,524 thousand in 2016) mainly refers to: royalties (euro 69,826 thousand with Pirelli Tyre S.p.A., euro 2,053 thousand with Limited Liability Company Pirelli Tyre Russia); other recoveries (euro 19,964 thousand from Pirelli Tyre S.p.A., euro 1,007 thousand from Pirelli International Plc, euro 4 thousand from Pirelli Tyre Trading (Shanghai) Co.Ltd.); lease contracts (euro 4,889 thousand with Pirelli Tyre S.p.A., euro 255 thousand with Pirelli Servizi Amministrazione e Tesoreria S.p.A.)

The amount shown in associates for euro 384 thousand refers to maintenance costs on rents with Prelios S.p.A.

Other costs for euro 16,032 thousand in 2017 (euro 7,596 thousand in 2016) mainly refer to charges for services and miscellaneous costs (euro 9,309 thousand Pirelli Sistemi Informativi S.r.l., euro 2,524 thousand HB Servizi S.r.l., euro 1,025 thousand Pirelli Servizi Amministrazione e Tesoreria S.p.A., euro 1,263 thousand TP Trading (Beijing) Co. Ltd, euro 822 thousand Pirelli Tyre S.p.A., euro 371 thousand Servizi Aziendali Pirelli S.C.p.a.)

In the item associates, the amount shown refers to relations with the Consortium for Research on Advanced Materials – Corimav.

The gain on equity investments for euro 2,564 thousand in 2017 mainly refers to the capital gain realized on the disposal of Prelios S.p.A.

Losses from investments for euro 11,480 thousand in 2017 (euro 104,345 thousand in 2017) mainly refer to the write-downs of investments in Pirelli & C. Ambiente S.r.l., HB Servizi S.r.l., Fenice and Focus. For further details, reference is made to note 32.

Dividends for euro 208,871 thousand in 2017 (euro 272,563 thousand in 2016) refer to dividends received in 2017 (euro 200,000 thousand from Pirelli Tyre S.p.A. and euro 300 thousand from Pirelli Sistemi Informativi S.r.l.).

The amount shown in the item associates mainly refers to the distribution of reserves made by Fenice S.r.l. (euro 8,556 thousand).

Financial income for euro 10,681 thousand in 2017 (euro 49,714 thousand in 2016) refers to euro 4,711 thousand for the charge-back of fees to Pirelli International Plc, euro 1,878 thousand to interest income on receivables from subsidiaries and for the remaining amount to net exchange rate gains.

Financial expenses amounted to euro 103,275 thousand (euro 6,878 thousand at December 31, 2016) and mainly refer to net expenses on derivatives for euro 102,108 thousand and for euro 1,167 thousand to interest accrued on existing relationships with Pirelli International Plc.

Benefits for key managers

At December 31, 2017, remuneration payable to key managers amounted to euro 7,367 thousand. The portion relating to employee benefits was recognized in the Income Statement item “personnel costs” for euro 4,780 thousand and for euro 2,587 thousand in the Income Statement item “other costs”.

38. REMUNERATION FOR DIRECTORS AND STATUTORY AUDITORS

The fees due to Directors of Pirelli & C. S.p.A. amounted to euro 2,133 thousand in 2017 and euro 1,373 thousand in 2016. The fees due to the Statutory Auditors for the function performed at Pirelli & C. S.p.A. amounted to euro 296 thousand in 2017 (euro 280 thousand in 2016).

39. COMMITMENTS AND RISKS

Guarantees

On November 18, 2014, a bond for a total of euro 600 million was issued by Pirelli International Plc at a price equal to 99.498% of the nominal value and originally placed with institutional investors, interest-bearing at a fixed rate of 1.75% on a annual basis and maturing on November 18, 2019. It is specified that the aforementioned bond was originally guaranteed, on the basis of an independent first demand guarantee, by Pirelli Tyre S.p.A., to which Pirelli & C. S.p.A. was subsequently added on July 26, 2016 as additional guarantor.

On June 27, 2017, Pirelli International Plc and Pirelli & C. S.p.A. (simultaneously as financed party and guarantor of the other party and also the “Beneficiaries”) together with Pirelli Tyre, Pirelli Deutschland GmbH, S.C. Pirelli Tyres România S.r.l. and Pirelli Pneus Ltda (the “Original Guarantors” and, together with the Beneficiaries, the “Obliged Parties”), on the one hand, J.P. Morgan Europe Limited, as Agent (the “Agent”) and a series of financing banks including J.P.Morgan Limited, Banca IMI S.p.A., and The Bank of Tokyo-Mitsubishi UFI, Ltd. on the other, have signed a financing contract, regulated by English law, for a maximum amount of euro 4.2 billion. Of the aforementioned banking line, the portion of lines granted in favour of Pirelli & C. S.p.A. at December 31, 2017 equal to euro 2.5 billion, of which euro 2.4 billion used; the lines granted in favour of Pirelli International Plc instead amounted to euro 1.6 billion used for euro 1 billion. Pirelli & C. S.p.A. has undertaken a solid commitment with the Original Guarantors to guarantee the reimbursement of all uses made by Pirelli International Plc under and for the entire duration of the new unsecured financing, which is not backed by real guarantees.

40. INFORMATION PURSUANT TO ART. 149 – DUODECIES OF THE CONSOB ISSUERS' REGULATION

Pursuant to Art. 149 – duodecies of the Consob Issuers' Regulation, the following table shows the fees pertaining to 2017 for the auditing activities and other services rendered by the Auditing Company PricewaterhouseCoopers S.p.A. and by the companies of the PricewaterhouseCoopers network:

(In thousands of euro)	**Company that provided the service**	**Company that received the service**	**Partial fees**	**Total fees**	
Independent auditing services (1)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	1,920		45%
Independent certification services (2)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	1,973		46%
Services other than auditing (3)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	405		9%
				4,298	100%

(1) the item "Independent auditing services" includes 1.850 thousands of euro paid for the audit of the Interim carve out consolidated financial statements of the Pirelli of the Consumer Business included in the Registration Document released for the IPO of Pirelli & C. S.p.A. in the Milan Stock Exchange, successfully completed on October 4, 2017.

(2) the item "Independent certification services" includes amounts paid for certification services for the IPO of Pirelli & C. S.p.A. in the Milan Stock Exchange, successfully completed on October 4, 2017 (1.973 thousands of euro).

(3) the item "Services other than auditing" include amounts paid for services other than auditing awarded before October 4, 2017, date of completion of the IPO of Pirelli & C. S.p.A. In the Milan Stock Exchange.

41. SIGNIFICANT EVENTS SUBSEQUENT TO THE YEAR-END

On **January 10, 2018**, Pirelli initiated the sale of the ordinary shares held in Mediobanca S.p.A. reserved to "qualified investors" in Italy and institutional investors abroad, pursuant to Regulation S of the United States Securities Act of 1933 as subsequently amended, and in the United States of America limited to "Qualified Institutional Buyers" pursuant to the Rule 144 A of the United States Securities Act of 1933, through an accelerated bookbuilding procedure. On January 11, 2018, Pirelli announced that it had successfully completed the sale - through the aforementioned procedure - of 15,753,367 ordinary shares held in Mediobanca - corresponding to approximately 1.8% of the share capital with voting rights and representing the entire investment held directly by Pirelli in Mediobanca. Total net proceeds for Pirelli deriving from the transaction amounted to approximately euro 152.8 million.

On **January 22, 2018**, under the EMTN program approved at the end of 2017 and entered into on January 10, 2018, Pirelli placed a bond at international institutional investors for a nominal amount of euro 600 million with a five-year term at fixed rate. The issue, with a yield of 110 basis points on the reference rate, allows the debt to be optimized by extending the maturities and reducing the cost. As evidence of investor confidence towards Pirelli, the loan saw collection of orders at closing for euro 2.4 billion from around 280 international investors. The effective yield at maturity is 1.479% and the securities are admitted to listing on the Luxembourg Stock Exchange.

On **February 26, 2018** the Board of Directors of Pirelli, in line with that which was announced during the IPO, approved the adoption of a new 3-year 2018-2020 monetary incentive plan (LTI Plan) – destined to all management (about 290 people) – correlated to the targets for the period 2018/2020 contained in the 2017/2020 industrial plan.

The LTI (*Long Term Incentive*) Plan was approved – also in accordance with article 2389 of the civil code – at the proposal of the Remuneration Committee and with the favourable opinion of the Board of Statutory Auditors, in relation to the subjects for whom this opinion is requested. In the part linked to *Total Shareholder Return*, the LTI Plan will be submitted for approval at the Shareholders' meeting called to approve results for the 12 months ended on 31 December 2017.

The LTI Plan, in line with the mechanisms of variable retribution adopted at the international level, is also based on the performance of Pirelli shares (*Total Shareholder Return*) allowing in this way the alignment of management and shareholder interests. The LTI Plan – as in the past totally self-financed, in so far as the relative charges are included in the economic figures of the industrial plan – includes an on/off condition, represented by the company's deleveraging (*Net Financial Position/Ebitda Adjusted* ratio below 2 times on 31 December 2020) and the following targets:

- *Group Return on Sales* (ROS), with a weight at target of 30% of the LTI premium;
- *Group "absolute" Total Shareholder Return*, with a weight at target of 40% of the LTI premium;
- *Group "relative" Total Shareholder Return* compared with a selected panel of peers, with a weight at target of 20% of the LTI premium;
- Position of Pirelli on the *Dow Jones Sustainability World Index* ATX Auto Components sector, with a weight at target of 10% of the LTI premium.

The LTI Plan terminates on 31 December 2020 and sets in the second quarter of 2021 the date of the eventual payment of the medium/long term incentive matured, on condition that, on 31 December 2020, the relationship as an employee of the participant has not ended.

The participants in the LTI plan include, among others, the *Executive Vice Chairman and Chief Executive Officer* of Pirelli & C. S.p.A., Marco Tronchetti Provera, the *Executive Vice President and Chief Financial Officer*, Francesco Tanzi; the *Executive Vice President and Chief Planning and Controlling Officer*, Maurizio Sala; the *Executive Vice President and Strategic Advisor Technology*, Maurizio Boiocchi; the *Executive Vice President and Chief Commercial Officer* Roberto Righi; the *Senior Vice President Manufacturing*, Francesco Sala; the E*xecutive Vice President Business Unit Prestige & Motorsport & COO Region Europe*, Andrea Casaluci and the *Executive Vice President Pirelli Digital*, Luigi Staccoli. The LTI plan also applies to senior managers and Executives of the Group (including board member Giovanni Tronchetti Provera) and can be also extended to those who, during the course of the 3-year period, assume, either through internal career growth or new hiring, an Executive position.

The LTI Plan is also aimed at retention. In the event that the employee relationship ends before the end of the 3-year period, with the exception of natural circumstances, the recipient's ceases to participate in the LTI Plan and as a consequence the LTI premium will not be provided, not even pro-quota. In the case of Board Members holding particular roles to whom specific attributions are delegated (it is the case of the Executive Vice Chairman and Chief Executive Officer Mr. Marco Tronchetti Provera) who cease in the role because their mandate has been completed and are not subsequently nominated, not even as board members, pro-quota payment of the LTI premium is foreseen.

For further information on the operation of the LTI Plan, please refer to the Remuneration Report which will be submitted (for the part relating to the Pirelli Remuneration Policy for 2017) to the advisory vote of the Shareholders' Meeting called to approve the Annual Financial Report at December 31, 2017, as well as the illustrative report and the informative document related to the LTI Plan that will be made available to the public, within the terms and according to the procedures envisaged by the regulations, also regulatory, in force.

– ANNEXES TO THE EXPLANATORY NOTES

MOVEMENTS OF INVESTMENTS IN SUBSIDIARIES FROM 12/31/2016 TO 12/31/2017

	12/31/2016				CHANGES		12/31/2017			
	Number of shares	Carrying amount in thousands of euro	% holding	of which direct	Number of shares	(in thousands of euro)	Number of shares	Carrying amount in thousands of euro	% holding	of which direct
INVESTMENTS IN SUBSIDIARIES										
ITALY										
Unlisted:										
Pirelli Servizi Amministrazioni e Tesoreria S.p.A.	2,047,000	3,237	100	100	-	-	2,047,000	3,237	100	100
Maristel S.p.A. - Milan	1,020,000	1,315	100	100	-	-	1,020,000	1,315	100	100
TP Industrial Holding S.p.A. - Milan	203,666,000	364,351	100	100	(203,666,000)	(364,351)	-	-	-	-
Pirelli Sistemi Informativi S.r.l. - Milan	1 quota	1,655	100	100	-	-	1 quota	1,655	100	100
Pirelli & C. Ambiente S.r.l.	1 quota	-	100	100	-	2,096	1 quota	2,096	100	100
Pirelli Tyre S.p.A. - Milan	558,154,000	4,521,792	100	100	-	-	558,154,000	4,521,792	100	100
Servizi Aziendali Pirelli S.C.p.A. - Milan	95,940	103	100	92.3	(962)	(3)	94,978	101	100	91,3
HB Servizi Srl	1 quota	364	100	100	-	(134)	-	230	100	100
Total investments in Italian subsidiaries		4,892,819				(362,392)		4,530,427		

	12/31/2016				CHANGES		12/31/2017			
	Number of shares	Carrying amount in thousands of euro	% holding	of which direct	Number of shares	(in thousands of euro)	Number of shares	Carrying amount in thousands of euro	% holding	of which direct
FOREIGN COMPANIES										
Brazil										
Pirelli Ltda - Sao Paulo	14,000,000	9,666	100	100	-	-	14,000,000	9,666	100	100
Pirelli Latam Participações Ltda.	1	-	-	-	-	-	1	-	-	-
Pirelli Pneus Ltda	1	-	-	-	(1)	-	-	-	-	-
Pirelli Comercial de Pneus Brasil Ltda.	1	-	-	-	(1)	-	-	-	-	-
UK										
Pirelli UK Ltd. - London	163,991,278	21,871	100	100	-	-	163,991,278	21,871	100	100
Switzerland										
Pirelli Group Reinsurance Company S.A.	800,000	6,346	100	100	-	-	800,000	6,346	100	100
Total investments in foreign subsidiaries		37,883				-		37,883		
Total investments in subsidiaries		4,930,701				(362,392)		4,568,309		

MOVEMENTS OF INVESTMENTS IN ASSOCIATES FROM 12/31/2016 TO 12/31/2017

	12/31/2016				CHANGES		12/31/2017			
	Number of shares	Carrying amount in thousands of euro	% holding	of which direct	Number of shares	(in thousands of euro)	Number of shares	Carrying amount in thousands of euro	% holding	of which direct
INVESTMENTS IN ASSOCIATES										
ITALY										
Listed:										
Prelios S.p.A. - Milano	148,127,621	13,643	12.9	12.9	(148,127,621)	(13,643)	-	-	-	-
Total listed Italian companies		13,643				(13,643)		-		
Unlisted:										
Fenice Srl	1 share	9,048	69.9	69.9	-	(6,571)	1 share	2,478	69.9	69.9
Consorzio per le Ricerche sui Materiali Avanzati (CORIMAV)	1 share	104	100	100	-	-	1 share	104	100	100
Eurostazioni S.p.A. - Roma	523,328	6,271	32.7	32.7	-	-	52,333,333	6,271	32.7	32.7
International Media Holding S.p.A.	12,500	13	28	28	(12,500)	(13)	-	-	-	-
Focus Investments S.p.A.	111,111	4,000	8.3	8.3	-	(2,648)	111,111	1,352	8.3	8.3
Total unlisted companies		19,435				(9,231)		10,204		
Total investments in associates - Italy		33,078				(22,874)		10,204		
Total investments in associates - foreign entities										
Total investments in associates		33,078				(22,874)		10,204		

MOVEMENTS OF OTHER FINANCIAL ASSETS FROM 12/31/2016 TO 12/31/2017

	12/31/2016				Changes		12/31/2017			
	Number of shares	Carrying amount (in thousands of euro)	% holding	of which direct	Number of shares	(in thousands of euro)	Number of shares	Carrying amount (in thousands of euro)	% holding	of which direct
INVESTMENTS IN OTHER COMPANIES										
ITALIAN LISTED COMPANIES										
Mediobanca S.p.A. - Milan	15,753,367	122,167	1.8	1.8	-	26,860	15,753,367	149,027	1.8	1.8
RCS Mediagroup S.p.A. - Milan	23,135,668	19,307	4.4	4.4	1,559,250	10,871	24,694,918	30,177	4.7	4.7
Intek Group S.p.A. (Ex Fin Breda S.p.A. in liquidation) - Milan	11,825	2	0.0	0.0	(11,825)	(2)	-	-	-	-
Total other Italian listed companies		141,477				37,728		179,204		
Total other foreign listed companies		-				-		-		
Total other listed companies		141,477				37,728		179,204		

	12/31/2016				Changes		12/31/2017			
	Number	Carrying amount (in thousands of euro)	%	of which	Number of shares	(in thousands of euro)	Number of shares	Carrying amount (in thousands of euro)	%	of which
ITALIAN UNLISTED COMPANIES										
Aree Urbane S.r.l. (in liquidation) - Milan	1 share	-	0.3	0.3	-	-	1 quota	-	-	-
C.I.R.A. - Centro Italiano di Ricerche Aerospaziali S.c.p.A. - Capua (CE)	30	-	0.1	0.1	-	-	30	-	0.1	0.1
Alitalia Compagnia Aerea Italiana S.p.A. - Rome	1,087,543,374	-	1.7	1.5	74,555,289	-	1,162,098,663	-	1.7	1.7
CEFRIEL - Società Consortile a Responsabilità limitata	1 share	-	5.2	5.2	-	-	1 share	-	4.9	4.9
Consorzio DIXIT (in liquidation) - Milan	1 share	-	14.3	14.3	-	-	1 share	-	14.3	14.3
MIP Politecnico di Milano - Graduate School of Business società consortile per azioni già Consorzio per L'Innovazione nella Gestione di Azienda -Mip -(Master Imprese Politecnico) Milan	12,000	-	3.4	3.4	-	-	12,000	-	3.1	3.1
Consorzio Milano Ricerche - Milan	1 share	-	7.1	7.1	-	-	1 share	-	9.0	9.0
Societa' Generale per la Progettazione Consulenze e Partecipazioni (ex Italconsult) S.p.A. - Rome	1,100	-	3.7	3.7	-	-	1,100	-	3.7	3.7
Emittenti Titoli S.p.A. - Milan	229,000	2,729	2.8	2.8	-	19	229,000	2,748	2.8	2.8
F.C. Internazionale Milano S.p.A. - Milan	55,805,625	-	0.5	0.5	-	-	55,805,625	-	0.4	0.4
Fin. Priv. S.r.l. - Milan	1 share	16,472	14.3	14.3	-	3,437	1 share	19,909	14.3	14.3
Istituto Europeo di Oncologia S.r.l. - Milan	1 share	6,231	6.1	6.1	-	368	1 share	6,599	6.1	6.1
Nomisma - Società di Studi Economici S.p.A. - Bologna	959,429	236	3.3	3.3	-	9	959,429	245	3.3	3.3
Redaelli Sidas S.p.A. (in liquidation) - Milan	750,000	-	4.6	4.6	-	-	750,000	-	4.6	4.6
Consorzio Movincom scrl	1	6	5.9	5.9	-		1	6	5.9	5.9
Movincom Servizi S.p.A.	135,102	120	4.4	4.4	-	(120)	135,102	-	4.4	4.4
Tiglio I S.r.l. - Milan	1 share	98	0.6	0.6	-	(11)	1 share	87	0.6	0.6
Genextra S.p.A.	592,450	513	0.6	0.6	-	(32)	592,450	481	0.6	0.6
Total other Italian unlisted companies		26,404				3,670		30,075		

MOVEMENTS OF OTHER FINANCIAL ASSETS FROM 12/31/2016 TO 12/31/2017 (CONTINUED)

	12/31/2016				Changes		12/31/2017			
	Number	Carrying amount (in thousands of euro)	% holding	of which direct	Number of shares	(in thousands of euro)	Number of shares	Carrying amount (in thousands of euro)	% holding	of which direct
FOREIGN COMPANIES										
Libia										
Libyan-Italian Joint Company - ordinary shares B	300	32	1.0	1.0	-	-	300	32	1.0	1.0
Belgium										
Euroqube S.A. (in liquidation)	67,570	13	17.8	17.8	-	-	67,570	13	17.8	17.8
U.S.A.										
Gws Photonics Inc - Wilmington - private shares B	1,724,138	-	-	-	-	-	1,724,138	-	-	-
Gws Photonics Inc - Wilmington - private shares C	194,248	-	-	-	-	-	194,248	-	-	-
UK										
Eca International	100	-	2.8	2.8	-	-	100	-	2.8	2.8
Total other foreign companies		45				-		45		
OTHER PORTFOLIO SECURITIES										
Fondo Comune di Investimento Immobiliare - Anastasia	53 shares	14,636	-	-	-	633	53 shares	15,270	-	-
TOTAL OTHER PORTFOLIO SECURITIES		14,636				633		15,270		
TOTAL OTHER FINANCIAL ASSETS		182,562				42,031		224,593		

LIST OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES (PURSUANT TO ART. 2427 OF THE CIVIL CODE)

(in thousand of euro)	Legal address	Carrying amount	Share %	Share capital	Attributable equity	Attributable net income
INVESTMENTS IN SUBSIDIARIES - ITALY						
Pirelli Servizi Amministrazioni e Tesoreria S.p.A.	Milan	3,237	100.0%	2,047	3,675	563
Maristel S.p.A.	Milan	1,315	100.0%	1,020	2,039	(70)
Pirelli Ambiente S.r.l.	Milan	2,096	100.0%	10	2,083	(1,141)
Pirelli Sistemi Informativi S.r.l.	Milan	1,655	100.0%	1,010	8,031	5,802
Pirelli Tyre S.p.A.	Milan	4,521,792	100.0%	558,154	1,444,381	329,438
Servizi Aziendali Pirelli S.c.p.a.	Milan	101	91.3%	104	285	7
HB Servizi S.r.l	Milan	230	100.0%	10	94	(1,270)
Total investments in subsidiaries - Italy		**4,530,426**				
INVESTMENTS IN FOREIGN SUBSIDIARIES						
Switzerland						
Pirelli Group Reinsurance Company S.A.	Lugano	6,346	100.0%	6,836	19,816	5,468
Brasil						
Pirelli Ltda	Sao Paulo	9,666	100.0%	3,527	1,054	(783)
UK						
Pirelli UK Ltd.	London	21,871	100.0%	184,835	20,863	(660)
Total investments in foreign subsidiaries		**37,883**				
Total investments in subsidiaries		**4,568,309**				
INVESTMENTS IN ASSOCIATES - ITALY						
Consortium for the Reserach into Advanced Materials (CORIMAV)	Milan	104	100.0%	104	104	0
Eurostazioni S.p.A. **	Rome	6,271	32.7%	16,000	6,266	(16)
Fenice S.r.l.	Milan	2,477	69.9%	*	*	*
Focus Investments S.r.l.	Milano	1,352	8.3%	*	*	*
Total investments in associates - Italy		**10,204**				
Total investments in associates		**10,204**				

* Data not yet available
** balance sheet at July 31, 2017

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

To the Shareholders,

The Board of Statutory Auditors is required to report to the Shareholders' Meeting, called to approve the Financial Statements, on the supervisory activities performed during the financial year and on any omissions or misconduct which it might have identified, pursuant to Article 153 of Legislative Decree No. 58/1998 ("TUF"). The Board of Statutory Auditors may also make proposals regarding the financial statements and their approval and other matters under its responsibility.

The Board of Statutory Auditors performed its supervisory activities during the financial year in accordance with the requirements envisaged by law and taking into account the code of conduct recommended by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili), Consob's regulations governing corporate controls and the activities of the Board of Statutory Auditors, as well as recommendations of the Self-Governance Code of listed companies, which Pirelli & C. S.p.A (hereafter "Pirelli" or the "Company") has adopted.

The Board of Statutory Auditors and its members performed their supervisory roles, as well as by participating to the Board of Directors meetings and to the internal Board Committees meetings, also via a continuous exchange of information with relevant corporate administrative, audit and compliance functions and with members of the Board of Statutory Auditors of key subsidiaries and of firms entrusted with statutory audit services.

* * *

The 2017 financial year was marked by significative corporate events. Two years after the company's delisting, following the take over bid by China National Chemical Corporation for the acquisition of Camfin S.p.A shareholding, Pirelli was listed again on October 4, 2017. Trading on the Stock Exchange followed a reorganisation process which led to the stripping off of the Industrial segment and to a stronger focus on the Consumer business. The company incorporated new functions and set up new business lines (Consumer Marketing, Digital, data Science, Cyber and Velo). Following the reorganisation process, the Company presents itself as a "pure consumer tyre player".

The Board of Statutory Auditors acknowledges that Pirelli, during the period when the Company was not listed on regulated markets, maintained its risk control and management functions as well as the organisational governance and compliance structure, which are typical of a listed company, thus facilitating the supervisory function of the Board of Statutory Auditors.

* * *

It is important to note that the financial statements of Pirelli were prepared in accordance with the IAS/IFRS International accounting standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, in force at December 31, 2017, and also in compliance with the provisions issued in implementation of Article 9 of Legislative Decree No. 38/2005.

The Management Report on Operations summarises the principal risks and uncertainties and outlines the business outlook.

The Company's Financial Statements consist of the Statement of Financial Position, the Income Statement, the Statement of Other Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flow and the Explanatory Notes.

The Financial Statements are accompanied by the Management Report on Operations, and include the Report on Corporate Governance and the Structure of Share Ownership – prepared pursuant to Article 123-bis of the TUF – as well as the Supply Chain Sustainable Management System Report (non financial consolidated statement pursuant to articles 3 and 4 of Legislative Decree 254, December 30, 2016).

Pirelli's 2017 Separate Financial Statements and Consolidated Financial Statements include statements of compliance by the CEO and by Officer responsible for drafting the Company's accounting documents, as required by prevailing legislation.

As a result of the assignment of the shares of TP Industrial Holding S.p.A (company owned by the same entity owning Pirelli) to the controlling shareholder, the Financial Statements qualify the Industrial business as "discontinued operation" and results are reclassified to the Income Statement as a single item "net income (loss) related to discontinued operations".

2017 Financial Statements:

Revenues	euro 5,352.3 mill
Operating Income (EBIT)	euro 673.6 mill
adjusted EBIT margin before start-up costs	euro 926.6 mill
Consolidated net income (including divested assets)	euros 175.7 mill

At December 31, 2017 the item income (loss) from equity investments was negative to the amount of euro 6.9 million and mainly refers:

- to the negative pro-rata share of the results for the 2017 financial year for the Indonesian Joint Venture PT Evoluzione Tyres
- to the negative pro-rata share of the results for the fourth quarter of 2016 and the first nine months of Prelios S.p.A (negative to the amount of euro 3.1 million)

- partially offset by the positive pro-rata result of Fenice S.r.l (positive at euro 5.0 million) which indirectly includes proceeds deriving from the disposal of the investment in Prelios S.p.A by Fenice S.r.l.

- to the euro 7,6 million impairments of the investment in Pirelli de Venezuela C.A (negative to the amount of euro 7.6 million), whose residual value at December 31, 2017 was equal to euro 2.6 million;

- to the capital gain deriving from the disposal at December 28, 2017 of the total investment in Prelios S.p.A. (a capital gain net of the cost of the sale of euro 5.8 million);

- to dividends received from Mediobanca S.p.A. (euro 5.8 million) and Fin. Priv. S.r.l. (euro 0.8 million).

The consolidated net financial (liquidity)/debt position was negative to the amount of euro 3,218.5 million (euro 4,912.8 million at December 31, 2016).

Pirelli closed the 2017 financial year with positive net income to the amount of euro 171 million (euro 68 million in 2016)

APPOINTMENT OF THE BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors in office at the date of the Report was appointed by the Shareholders' Meeting held on May 14, 2015 and integrated during the mandate, following changes to its composition and the expansion of the total number of Statutory Auditors (currently five Effective Statutory Auditors and three Substitute Auditors).

The Annual Report on Corporate Governance and Structure of Share Ownership included in the Financial Statements gives details concerning the changes in the Board of Statutory Auditor composition, from its appointment to the date of the report.

As of today, following the Shareholders' Meeting decisions taken in 2017 (August 1, 2017 and September 5, 2017) the Board of Statutory Auditors consists of five Standing Statutory Auditors: Mr Francesco Fallara (Chairman), Mr Fabio Artoni, Ms Antonella Carù, Mr. Luca Nicodemi and Mr. Alberto Villani and two Alternate Auditors: Mr. Fabio Facchini and Ms Giovanna Maria Carla Oddo (one Alternate Auditor remains to be appointed considering that the entire Board of Statutory Auditors will expire at the Shareholders' Meeting convened for the approval of the financial statements at 31 December 2017.

SIGNIFICATIVE EVENTS OF 2017

The Management Report on Operations gives a detailed account of the most significant events of 2017. Specific attention is given to the following transactions:

- on **January 13, 2017**, the disposal to Cinda of 38% of the capital of Pirelli Industrial S.r.l. was finalised as part of the wider reorganisation and integration project of the Industrial business. (today known as the Prometeon Tyre Group S.r.l.) pursuant to the agreement signed on December 28, 2016 between Pirelli Tyre S.p.A. and Cinda. The sale took place at a value of approximately 266 million euro;

- during the month of **March 2017**, for the purpose of ensuring autonomous growth paths and independent development strategies, the two business areas - Consumer and Industrial - were definitively separated as a result of the assignment to the sole shareholder Marco Polo International Holding Italy S.p.A., of all TP Industrial Holding S.p.A. shares previously held by Pirelli & C. S.p.A.. TP Industrial Holding S.p.A., the company which holds 52% of the share capital of Pirelli Industrial S.r.l. (today called Prometeon Tyre Group S.r.l.), is the company that owns Pirelli's Industrial assets;

- On **April 27, 2017** the Board of Directors of the Company decided to accelerate the listing process in order to take advantage of the market opportunities of the fourth quarter of 2017. This decision was made in the light of the positive results which had been achieved by the Company, the implemented focus on the Consumer business. In context of the listing, the CNRC confirmed its willingness to lower its share in Pirelli to below 50% of the capital, this without prejudicing the requisite conditions for the continued consolidation of Pirelli;

- At the **end of June 2017**, Marco Polo International Italy S.p.A. - a direct shareholder of Pirelli following the incorporation by merger of Marco Polo International Holding Italy S.p.A. – underwrote capital increase, which including the premium amounted to approximately euro 1.2 billion. It is also to be noted is that on **June 27, 2017** (with a closing date of June 29), Pirelli & C. S.p.A. and Pirelli International Plc underwrote a new unsecured refinancing contract for a total amount of euro 4.2 billion with a pool of leading international banks, whose first drawdowns were used, together with the proceeds from the aforementioned capital increase, to repay in full, on June 29, 2017, the financing underwritten in 2016 for the amount of euro 6.4 billion, and thus cancelling all collateral securities issued under this new financing. The refinancing operation was completed with improved conditions compared to the previous financing completed in 2016, particularly through the reduction of the all-in cost but also thanks to the lengthening of its average life, thus contributing to the improvement of Pirelli's financial profile;

- At the **end of July 2017**, Burlington Loan Management DAC, an Irish investment vehicle managed by Davidson Kempner Capital Management LP, signed a purchase contract with Pirelli, Intesa Sanpaolo S.p.A., UniCredit S.p.A. and Fenice S.r.l. for the acquisition of 44.86% of the capital of Prelios S.p.A. amounting to 611,910,548 shares in total. The trade was set at euro 0.116 per share, which equalled a total of approximately euro 70.9 million, of which approximately euro 17.2 million was due to Pirelli, approximately euro 24.5 million euro to Fenice S.r.l, the vehicle invested in by Pirelli, and the remainder - in proportion to the investment held – due to Intesa Sanpaolo and Unicredit. The closing of the operation - with simultaneous collection - was finalised on **December 28, 2017.**

- On **August 1, 2017** the Shareholders' Meeting of Pirelli approved a number of resolutions aimed at implementing the previously announced process of listing the Company shares on the stock exchange. Amongst other things, the adoption of a new text for the Articles of Association was approved (effective as of the listing date) which expressly provides for, amongst other things, a *"corporate governance based on best international practice".*

- Also on August 1, 2017 (effective as of August 31, 2017), the Shareholders Meeting renewed the Board of Directors, pursuant to the new Shareholders' Agreement signed on July 28, 2017 by the China National Chemical Corporation, the China National Tire & Rubber Corporation, Ltd., the Silk Road Fund Co.,Ltd., the CNRC International Limited (HK), the CNRC International Holding (HK) Limited, Fourteen Sundew S.à r.l., Camfin S.p.A., Long-Term Investments Luxembourg S.A. and Marco Tronchetti Provera & C. S.p.A.. The Board of Directors appointed by the aforementioned Shareholders' meeting are still effective and their mandate will expire with the Shareholders' meeting called to approve the financial statement at 31 December 2019. The same aforesaid Shareholders' Meeting also (i) appointed Antonella Carù as the new Statutory Auditor of the Company, replacing Fabrizio Acerbis, (ii) conferred the role for the statutory audit of accounts for the nine-year period from 2017 to 2025 to the independent auditing firm PricewaterhouseCoopers S.p.A. (the new role become effective starting from October 4, 2017);

- On **August 31, 2017** Pirelli's Board of Directors deliberated on the governance structure of the Company, and approved, in particular, the constitution of the Board Committees and the establishment of procedures in view of the listing of the Company on the stock exchange.n addition, the Board of Directors appointed Marco Tronchetti Provera as Executive Vice Chairman and Chief Executive Officer, conferring to him the same powers of management of the Company, consistent with those of the previous mandate and with the Shareholders' Agreements signed on 28 July 2017;

- On **September 1, 2017**, as part of the preparatory process for re-listing the Company, Pirelli's announced its new strategy of focusing on the High Value segment (Prestige, New Premium, Specialties and Super Specialties, and Premium Moto), as well as released the forecast data for the new 2017-2020 Industrial Plan, plus carve-out consolidated Interim Financial Statements at June 30, 2017, and a carve-out consolidated Financial Statements for 2016, 2015 and 2014;

- On **September 5, 2017**, the Shareholders' Meeting appointed Luca Nicodemi and Alberto Villani as Statutory Auditors for the Company, replacing Giovanni Bandera and David Reali, who had resigned from the role for professional reasons;

- On **September 12, 2017**, Pirelli, consistent with focusing its activities on its core business, notified the Chairman of the Agreement to invest in the capital of Mediobanca S.p.A., the decision to exercise the right of cancellation from the agreement for all shares held and conferred to the Agreement itself, approximately 1.8% of Mediobanca's share capital;

- On **September 15, 2017**, in context of the listing process, CONSOB approved the registration document, the disclosure notes for the financial instruments and the related summary note for the offer of sale and admission to the listing on the Mercato Telematico Azionario (screen-based stock exchange), organised and managed by Borsa Italiana S.p.A., of the Pirelli shares offered by Marco Polo International Italy S.p.A.. The offer of sale was carried out from September 18, 2017 to September 28, 2017;

- On **October 4, 2017** Pirelli & C. S.p.A. shares were launched on the Milan Stock Exchange on the Mercato Telematico Azionario (MTA or screen-based stock exchange) which is organised and managed by Borsa Italiana S.p.A. With the start of trading all management and coordination activities by Marco Polo International Italy S.p.A. ceased. As part of the Global Sales Offer, 350 million ordinary shares, were offered at a price of euro 6.5 per share for a capitalisation of euro 6.5 billion. The Greenshoe Option, granted as part of the transaction by Marco Polo International Italy S.p.A. to the placement consortium for 50 million shares, was partially exercised on November 2, 2017 for a total of 18,904,836 shares. With the inclusion of the Greenshoe Option, the Offer of Sale therefore concerned 368,904,836 ordinary Pirelli shares and, consequently, the total proceeds deriving from the Sales Offer which were exclusively due to Marco Polo International Italy S.p.A. amounted to approximately euro 2.4 billion. As a result of the partial exercise of the Greenshoe Option, Marco Polo International Italy S.p.A. holds 631,095,164 ordinary Pirelli shares which correspond to approximately 63.11% of the share capital;

- On **December 21, 2017** the Board of Directors of Pirelli approved an EMTN (Euro Medium Term Note) for the issuance of senior unsecured non-convertible bonds for an amount equal to a maximum of euro 2.0 billion. The adoption of the EMTN program responds the objective of the constant optimisation of the Pirelli financial structure, and allows for the favourable and timely seizure of windows of opportunity available on the bond market. As part of this program, the Board of Directors authorised the issue, to be executed by January 31, 2019, of one or more bonds, to be placed with institutional investors, for a total maximum amount of up to euro 1.0 billion.

UNUSUAL OR EXCEPTIONAL TRANSACTIONS

The most significant transactions in the 2017 financial year are reported in detail in the Management Report on Operations. No unusual or exceptional transactions were executed, according to the definition provided for in Consob communication DEM/6064293 dating July 28, 2006.

INTRACOMPANY OR TRANSACTIONS WITH RELATED PARTIES

On August 31, 2017, pursuant to Article 2391-bis of the Italian Civil Code and Consob Resolution No. 17221 dated March 12, 2010 containing the "Regulations on Related Party Transactions," subsequently amended by Consob Resolution No. 17389 dated June 23, 23 2010, the Board of Directors of Pirelli unanimously approved the "Procedure regulating Related Party Transactions" effective from October 4, 2017, when listing of the Company's ordinary shares started on the Mercato Telematico Azionario which is organised and managed by Borsa Italiana S.p.A.

In line with what described on the listing prospectus, on November 6, 2017, the Board of Directors of Pirelli, subject to the favourable opinion of the relevant Committee, comprised exclusively of Independent Directors (and entrusted with this duty under Article 4 of the cited Regulation in a specific resolution passed by the Board of Directors) unanimously confirmed the text of the "Procedure governing Related Party Transactions" which had been approved before the listing.

It is important to note that the Procedure adopted by the Company, pursuant to Article 4, paragraph 6 of the cited Regulation, (i) is consistent with the principles set out in the Regulation itself, (ii) is published on the Company website (www.pirelli.com).

Related party transactions with Pirelli Group companies and with third parties were executed in the 2017 financial year.

The intercompany transactions which we examined were ordinary transactions, essentially consisting of the mutual exchange of administrative, financial and organisational services. These transactions were settled on an arm's length basis at conditions determined according to standard benchmarks which reflect actual use of the services and were performed in the Company's interests, since aimed at streamlining the use of the Group's resources.

The non-intercompany related party transactions which we examined also involved ordinary transactions (since included in the ordinary operating activities or related financial transactions) and/or concluded at conditions equivalent to an arm's length basis or standard conditions, and were performed in the Company's interests. The Company reported these transactions to us periodically.

We attended the meetings of the Committee for Transactions with Related Parties during which we expressed a favourable opinion on some related party transactions of "minor importance", the

Committee having assessed the Company's interests in carrying out the transaction, as well as the advantage and substantial fairness of the respective terms and conditions.

We supervised compliance with the Procedure for Transactions with Related Parties adopted by the Company and the appropriateness of procedures implemented by the Board of Directors and by the relevant Committee for Transactions with Related Parties and we have no observations to make in this regard.

Transactions with Related Parties are indicated in the Explanatory Notes to the Company's financial statements and to the consolidated financial statements, which also report the consequent economic effects. Given the size of the transaction and pursuant to what stated in the registration documents submitted for Pirelli's admission to listing, a specific section of the Financial Statements is devoted to activities with Prometeon Group, as part of the wider reorganisation which led to the stripping off of the Industrial segment.

IMPAIRMENT TEST PROCEDURE

It is important to note that, as suggested in the joint document issued by the Bank of Italy, Consob and ISVAP dated March 3, 2010, the Board of Directors confirmed that the impairment test complied with the provisions of IAS 36, after being approved by the Audit, Risks, Sustainability and Corporate Governace Committee and by the Statutory Auditors; this confirmation was given independently and prior to the date of the Board of Directors' meeting held on February 26, 2018 to approve the financial statements.

In particular, the Company conducted the impairment test procedures on the goodwill allocated to the Consumer cash generating units and on the brand Pirelli.

The Explanatory Notes to the Financial Statements contain the information and results of the assessment process, carried out also with the assistance of a highly qualified expert.

The Board of Statutory Auditors is of the opinion that the procedure adopted by the Company is adequate.

SUPERVISORY ACTIVITY, PURSUANT TO LEGISLATIVE DECREE 39/2010 "STATUTORY INDEPENDENT AUDITOR"

The Board of Statutory Auditors, in collaboration with Audit, Risks, Sustainability and Corporate Governance Committee and pursuant to changes to the regulations introduced by Legislative Decree 135/2016, supervised:

- the financial reporting process;
- the effectiveness of the internal control, internal audit and risk management systems;

- the statutory audits of the annual and consolidated accounts;
- the independence of the independent auditor, in particular with regard to the provision of non-auditing services;
- the results of the statutory audit with specific reference to the additional report, pursuant to article 11 of EU regulation 537/2014

* * *

SUPERVISORY ACTIVITY OF THE FINANCIAL REPORTING PROCESS

The Board of Statutory Auditors, having verified the existence of adequate rules and processes governing the process to prepare and report financial information, gives its favorable opinion on the adequacy of the process to prepare the financial information and deems that there are no objections to report to the Shareholders' Meeting in this regard.

Following its listing and pursuant to relevant regulations, the Company has informed the public that, in line with procedures adopted to date and with a view to guaranteeing continuity in the information disclosed to the public, will continue, on a voluntary basis, to disclose additional financial information on a periodic basis, in line with article 82-ter of Consob Regulation 1197/99 (see interim operating reports).

The Company did not avail itself of the right to omit information concerning upcoming developments and transactions which are the object of negotiations, as provided for in Article 3, paragraph 8 of Legislative Decree 254/2016.

SUPERVISORY ACTIVITY OF THE NON-FINANCIAL REPORTING PROCESS

The Board of Statutory Auditors, having verified the adherence to provisions laid down by Legislative Decree 254/2016 relating to non financial reporting documents ("DNF"), and having monitored the existence of adequate rules and processes governing the preparation and dissemination of non-financial information, gives its favorable opinion on the adequacy of the process to prepare non-financial information documents and deems that there are no objections to report to the Shareholders' Meeting in this regard.

SUPERVISING THE EFFECTIVENESS OF INTERNAL CONTROL, INTERNAL AUDIT AND RISK MANAGEMENT SYSTEMS AND OF THE STATUTORY AUDITS OF ANNUAL AND CONSOLIDATED ACCOUNTS

The Board of Statutory Auditors, in collaboration Audit, Risks, Sustainability and Corporate Governance Committee, met with the Internal Audit Director once every quarter. At those meetings, the Board of Statutory Auditors received information about the results of the audits designed to determine the adequacy and operations of the Internal Control System, compliance with the laws, business procedures and processes, as well as implementation of the related improvement plans. The Board also received the Audit Plan for the financial year, its final results as well as the risk analysis.

Once every six months, the Board also received reports from the Audit, Risks, Sustainability and Corporate Governance Committee and from the Supervisory Body on the activities performed.

The Board of Statutory Auditors has also acknowledged the report from the Responsible Officer. When the draft financial statements were approved, the Responsible Officer confirmed the adequacy and appropriateness of the powers and resources conferred on him by the Board of Directors, and also confirmed that he had been given direct access to all the information necessary to produce accounting data, without needing to obtain any authorisation. The Board of Statutory Auditors also acknowledged that the Responsible Officer had reported having participated in the internal information flows for accounting purposes and having approved all corporate procedures which impacted the Company’s economic, equity and financial position.

Accordingly, the Board of Statutory Auditors expresses a positive opinion on the adequacy of the internal control system and risk governance system, as a whole, and has no objections to report to the Shareholders’ Meeting in this regard.

The Board of Statutory Auditors met with the independent auditor at least once every quarter. No critical issues arose at those meetings with regard to audits or significant shortcomings in the internal control system related to the financial reporting process, also with regard to the provisions set out in Article 19, paragraph 3 of Legislative Decree 39/2010.

On March 8, 2018 pursuant to Article 14 of Legislative Decree 39/2010 and of Article 10 of EU Regulation 537/2014, PricewaterhouseCoopers S.p.A published its reports on the Financial Statements and Consolidated Financial Statements as of December 31, 2017. On the same date independent auditor published its Additional Report for the Internal Control and Internal Audit Committee pursuant to Article 11 of the UE Regulation number 537/2014. On March 8, 2018, pursuant to article 3, paragraph 10 D of Legislative Decree 254/2016, PWC also published its Report on the Consolidated non-Financial Statements. The Report was drafted in compliance with the latest provisions laid down in the Legislative Decree 39/2010 as modified by Legislative Decree 135/2016.

SUPERVISING THE INDEPENDENCE OF THE INDEPENDENT AUDITOR, IN PARTICULAR WITH REGARD TO THE PROVISION OF NON-AUDITING SERVICES

PricewaterhouseCoopers S.p.A. is the firm entrusted with the task of providing auditing services. The company was appointed by the Shareholders’ meeting, on the basis of a reasoned proposal submitted by the Board of Statutory Auditors during the meeting held on April 27, 2017, in accordance with the provisions applicable to non-listed companies.

Subsequently and following the start of the re-listing procedure, during the meeting held on August 1, 2017, the firm was entrusted with the task of providing auditing services for a nine-year period (2017-2025), in compliance with the provisions applicable to listed companies (the appointment being effective as of October 4, 2017, date upon which Pirelli was admitted to trading on the Stock Exchange).

The Board of Statutory Auditors supervised the independence of the Independent Auditor and in particular, the Board received periodic information on the non-auditing assignments to be attributed (or actually attributed based on specific regulatory provisions) to the Independent Auditor.

A detailed procedure was issued at Group level with reference to the independence of the independent auditor that, in compliance to provisions laid down in Legislative Decree 39/2010 (as modified by Legislative Decree 135/2016) prohibits all Pirelli Group companies from assigning work, different from auditing services, to member companies of the same network as the Independent Auditor appointed by the Group without obtaining prior and express authorisation from the Board of Statutory Auditors. The Board of Statutory Auditors with the support of the Chief Financial Officer and of the Secretary of the Board of Directors is responsible for verifying that the assignment to be given is not included in the activities prohibited by Article 5 of EU Regulation number 537/2014 and that, in any event, given its characteristics, does not impact the independence of the independent auditor.

During the 2017 financial year PricewaterhouseCoopers S.p.A. performed the activities summarised below on behalf of the Group:

ESTERNAL AUDITORS FEES 2017

(thousand Euro)	**from**	**to**	**partial fees**	**total fees**	
Independent Audit fees (1)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	1.920		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	708		
	Network PricewaterhouseCoopers	Subsidiaries	1.351	**3.979**	*53%*
Independent Certification services (2)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	1.973		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	63		
	Network PricewaterhouseCoopers	Subsidiaries	43	**2.079**	*28%*
Non Audit fees(3)	PricewaterhouseCoopers S.p.A.	Pirelli & C. S.p.A.	405		
	PricewaterhouseCoopers S.p.A.	Subsidiaries	297		
	Network PricewaterhouseCoopers	Subsidiaries	759	**1.461**	*19%*
				7.519	*100%*

(1) Are included 1.850 migliaia Euro oaid for the audit of Interim carve out consolidated financial statements of Pirelli consumer business included into the Registration Document released for the listing of Pirelli & C. S.p.A. in the Milan Stock Exchange Market, successfully completed on October 4, 2017

(2) The item independent certification services incudes the fee paid for the certification and auditing services referring to the project of the listing of the company, successfully completed on October 4, 2017 (1973 thousand Euro)

(3) In the item non audit fees are included the fees paid for services other than the audit ones, in particular for mandates signed before October 4, 2017 (listing date) - 1,444 thousands euro

The Board of Statutory Auditors considers that the above-mentioned fees are proportionate with the quantity, complexity and characteristics of the work performed and also believes that the assignments (and related fees) for non-auditing services do not compromise the Independent Auditor's independence. The Board of Statutory Auditors has taken note that, as stated in the above table which is also included in the Explanatory Notes, almost all non-auditing assignments were entrusted to the independent auditor before Pirelli's admission to listing. The Board was also informed that some of those assignments relate to the final implementation of assignments entrusted before PricewaterhouseCoopers S.p.A was chosen the independent audit firm.

On this last point, it is important to note that the Board of Directors shares this opinion, following assessment by the Audit, Risks, Sustainability and Corporate Governance Committee.

ORGANISATIONAL STRUCTURE

The Board of Statutory Auditors has found that the Company's organisational structure adequately satisfies its requirements and guarantees compliance with the principles of fair management.

The Report on Corporate Governance and the Structure of Share Ownership describes powers given to the Chairman and to the CEO Mr Marco Tronchetti Provera.

It is to be noted that, following listing of the Company's ordinary shares on the Mercato Telematico Azionario which is organised and managed by Borsa Italiana S.p.A., all management and coordination activities by Marco Polo International Italy S.p.A. ceased.

Notably, in its meeting on August 31, 2017, the Board of Directors took notice of the fact that Marco Polo ended its management and coordination activities on the initial date of trading, without prejudice to the right of CNRC to consolidate Pirelli.

More specifically, the Board of Directors of Pirelli took note that, based on factual circumstances, starting from its initial date of trading, Pirelli is no longer subject to any of the management and coordination activities performed by Marco Polo or by any other company or body (including CRNC and CehmChina) and that therefore, by way of example and not limited to:

(i) Pirelli has full autonomy with reference to relations to be maintained with customers and suppliers, with no outside interference in this respect.

(ii) Pirelli is to autonomously prepare strategic, business, financial and/or budget plans for the Company and for the Group;

(iii) Pirelli is not subject to Group's regulations

(iv) There is no organisational and functional link between Pirelli, on one hand, and Marco Polo, CNRC and/or ChemChina on the other.

(v) There are non decisions, resolutions or communications by Marco Polo, CNRC and/or ChemChina that might lead to the assumption that decisions taken by Pirelli are the result of an imperative and compulsory will expressed by Marco Polo, CNRC and/or ChemChina;

(vi) Marco Polo, CNRC and/or ChemChina will not centrally manage neither Treasury activities nor any other financial assistance and coordination functions;

(vii) Marco Polo, CNRC and/or ChemChina will not issue dispositions or instructions - and will not coordinate any initiative, having any effect on Pirelli's decisions concerning financial and credit matters.

(viii) Marco Polo, CNRC and/or ChemChina will not issue any guidelines concerning the execution of extraordinary transactions by Pirelli, such as for example, listing of financial instruments, acquisitions, disposals, transfer of assets, mergers and demergers, etc;

(ix) Marco Polo, CNRC and/or ChemChina will not adopt decisions affecting Pirelli's operating strategies, nor will they provide Group's strategic guidelines.

It is worth mentioning that Pirelli exercises management and coordination activities over a number of subsidiaries, having disclosed information as envisaged under Article 2497-bis of the Italian Civil Code.

REMUNERATION OF DIRECTORS AND EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

During the financial year, the Board of Statutory Auditors expressed the opinions requested by law on the remuneration of Directors holding special offices, expressing the opinions envisaged under Article 2389 of the Italian Civil Code.

In particular, the Board of Statutory Auditors found that the existing remuneration system foresees the compensation broken down into a fixed component and an additional (variable) component linked to the financial results achieved by the Group also in the long-term and related to the attainment of specific objectives set by the Board of Directors, as proposed by the Remuneration Committee. The remuneration system also envisages a four-year retention plan aimed at a selected group of managers; the Chairman and the CEO are not to benefit from such retention scheme.

The Board of Directors, based on a proposal by the Remuneration Committee and subject to the favourable opinion of the Board of Statutory Auditors, resolved in favour of the early termination of the 2016-2018 LTI plan and decided to approve a "new" three-year 2018-2020 incentive plan linked to achieving the targets set out in the 2017-2020 industrial business plan.

As in the past, this three-year incentive plan is extended to all the Pirelli management and will be submitted for approval to the Shareholders' Meeting that will be held on May 15, 2018, in the part that foresees that a portion of the incentive is determined on the basis of a Total Shareholder Return target.

Furthermore, the LTI Plan envisages a rolling deferment mechanism of part of the accrued MBO and an increase of the accrued MBO on achieving given targets the following year.

With reference to the extraordinary incentive Plan (Special Award) adopted within the framework of the IPO process and aimed at a selected group of executives and senior managers, including the Chairman and the CEO, the Board of Statutory Auditors acknowledges that the Company has duly verified and communicated to the market that the Equity Value target, whose attainment was prejudicial to the awarding of the incentive plan, was not achieved.

ADDITIONAL ACTIVITIES BY THE BOARD OF STATUTORY AUDITORS AND DISCLOSURES REQUIRED BY CONSOB

While performing its functions as prescribed by Article 149 of the TUF, the Board of Statutory Auditors supervised:

- compliance with the law and the articles of incorporation;

- application of the principles of fair management;

- the adequacy of the Company’s organisational structure, for those aspects under its responsibility, governing internal audit and the administrative and accounting systems, and the reliability of the administrative and accounting system in adequately recording operating results;

- the procedures for the effective implementation of the corporate governance rules envisaged by codes of conduct which the company has publicly declared to comply with. In this regard it is important to note that, pursuant to Article 123-bis of the TUF, the Company has prepared the annual Report on Corporate Governance and the Structure of Share Ownership for the 2017 financial year providing information about (i) the corporate governance practices effectively applied by the Company beyond the obligations foreseen in legislative or regulatory rules, (ii) the principal characteristics of the existing risk management and internal control systems in relation to the financial reporting process, also referred to consolidated information, (iii) the operating mechanisms of the Shareholders’ Meeting, its principal powers, shareholders rights and the procedures to exercise such rights, (iv) the composition and functioning of management and supervisory bodies and their committees, as well as the other information envisaged in Article 123-bis of the TUF;

- the adequacy of the instructions issued to subsidiaries, pursuant to Article 114, paragraph 2 of Legislative Decree No. 58/1998, having confirmed that the Company is capable of promptly and regularly satisfying its statutory reporting obligations, as provided by the cited Article 114, paragraph 2 of Legislative Decree No. 58/1998. This is also achieved by collecting information from the managers of organisational functions and periodic meetings with the independent auditor, for the mutual exchange of important data and information. We have no specific observations to make in this regard.

Moreover, it is to be noted that the Management Report on Operations includes a paragraph which describes the principal characteristics of the existing risk management and internal control systems in relation to the financial reporting process, also referred to the consolidated information.

The Board of Statutory Auditors acknowledges:

- that the Management Report on Operations complies with the applicable laws and regulations and is consistent with the resolutions passed by the administrative body and with the results reported in the financial statements and includes adequate information concerning the financial year's activities and intercompany transactions. The section containing disclosures concerning related party transactions has been included in the Explanatory Notes to the financial statements, in compliance with the IFRSs;

- that the Explanatory Note is compliant with existing regulations in providing indication of criteria used for the assessment of items in the Financial Statements and for value adjustments;

- that the Company's financial statements and the consolidated financial statements were prepared in accordance with the structure and formats imposed by applicable laws and regulations. The financial statements specifically indicate the effects of related party transactions in the equity and financial position and in the income statement, pursuant to Consob Resolution No. 15519/2006;

- that the Boards of Directors of the main subsidiaries include Directors and/or managers of the Parent Company that guarantee a coordinated management and an adequate flow of information, also supported by adequate accounting information.

Furthermore, it is important to note that the Board of Statutory Auditors:

- received information from the Directors at least once every quarter concerning the Company's activity and the transactions having the greatest impact on its strategy, earnings, financial position and equity, and that it has received this information in compliance with the specific procedure approved by the Board of Directors in its meeting of 31 August, 2017. The Board of Statutory Auditors can give a reasonable assurance that the resolved and executed transactions comply with the law and the Company Byylaws, and are not manifestly imprudent, reckless or in conflict of interest, or in violation of the resolutions passed by the Shareholders' Meeting, or capable of compromising the integrity of corporate assets;

- received from the Supervisory Body, established pursuant to Legislative Decree No. 231 dated June 8, 2001, of which the Statutory Auditor Ms. Antonella Carù is a member, information about the results of its own control activity, which did not reveal anomalies or misconduct;

- held periodic meetings with representatives of the independent auditor in order to exchange important data and information for the performance of its duties, as prescribed by Article 150, paragraph 3 of the TUF. In this regard, no important data and information were identified which would require a mention in this report;

- obtained information from the corresponding bodies of the main subsidiaries with regard to their management and control systems and their general operating performance (pursuant to paragraphs 1 and 2 of Article 151 of Legislative Decree No. 58/1998);

- during the 2017 financial year, issued opinions pursuant to Article 2386 and opinions pursuant to Article 2389 of the Italian Civil Code:

  (i) opinion regarding the adoption of the Procedure for Transactions with Related Parties, as previously described in detail;

  (ii) reasoned proposal for the appointment of the independent auditor during the Shareholders' Meeting held on April 27, 2017 and later during the Shareholders' Meeting on August 1, 2017 with a view to change the appointment of the independent auditor following admission of the Company's ordinary shares to listing on the Mercato Telematico organised and Managed by Borsa Italiana S.p.A.

  (iii) opinion, in compliance with instructions accompanying the Rules of the Markets organised and managed by Borsa Italiana S.p.A., concerning the approval of a memorandum related to the internal audit system required for the purpose of the Company's listing

Lastly, the Board of Statutory Auditors did not express any opinion concerning the confirmation of Mr Francesco Tanzi as the Manger responsible for preparing corporate financial reports.

During the 2017 financial year the Board of Statutory Auditors did not receive any complaints.

The Board of Statutory Auditors reports that, following the company's listing, it received a complaint pursuant to article 2408 of the Italian Civil Code, from a shareholder invoking that Board Member Ms Laura Cioli was not compliant with the independence prerequisite.

The Board of Statutory Auditors examined the complaint, performed investigations and analysis deemed necessary and acquired evidence from the Company's relevant bodies. Based on the investigative work performed, the Board considered there was no need to pursue the complaint, deeming it as unfounded.

With regard to PricewaterhouseCoopers S.p.A., the Board of Statutory Auditors notes that:

- the independent auditor, pursuant to article 14 of Legislative Decree 39/2010 and article 10 of UE Regulation 537/2014, on March 8, 2018 issued a report containing its unqualified opinion stating that the statutory financial statements and the consolidated financial statements provide a truthful and accurate representation of the equity and financial position of Pirelli and of the Group as of December 31, 2017 and of the economic results and cash flow for the financial year closing at the same date, in compliance with applicable accounting standards, and gave evidence of key aspects of the auditing exercise;

- the independent auditor issued its unqualified opinion stating that the Report on Operations accompanying the Financial Statements and the Consolidated Financial Statements as of December 31, 2017, as well as specific information contained in the Report on Corporate Governance and the Structure of Share Ownership, as laid down in article 123-bis, paragraph 4 TUF have been drafted pursuant to current legislation;

- the independent auditor stated that, as regards possible material errors in the Report on Operations, based on the knowledge and understanding of the company and its market acquired in the course of the auditing activities, no objections were raised;

- the independent auditor confirmed the Company's statement regarding the fact that no other assignments have been given to persons or entities related to each other by on-going relationships with the independent auditor;

- on March 8, 2018 the independent auditor provided the Board of Statutory Auditors with the Additional Report, pursuant to article 11 of the EU regulation 537/2014, resulting in no significant shortcoming concerning the internal audit system for financial reporting that needed to be brought to the attention of persons responsible for "governance" activities;

- on March 8, 2018 the independent auditor, pursuant to article 3, paragraph 10 of Legislative Decree 254/2016, issued the Report on the consolidated non-financial statements, concluding that all elements confirmed that the non-financial statements relating to the financial year closing at December 31, 2018 had been drafted, in all its significant parts, in compliance with the requirements laid down by Legislative Decree 254/2016 and by the GRI Standards;

- pursuant to article 6 of the UE regulations 537/2014 the independent auditor provided the Board of Statutory Auditors with a statement, accompanying the Additional Report, that does not give evidence of any circumstance that could jeopardising the audit firm's independence (for more details concerning assignments different from auditing services, refer to paragraph "supervisory activity on the independence of the independent auditor, in particular with regard to the provision of non-auditing services" of this report).

Lastly, the Board of Statutory Auditors took note of the Transparency Report drafted by the independent auditor and published on its web site, pursuant to article 18 of Legislative Decree 39/2010.

Furthermore, with regard to the corporate bodies, the Board of Statutory Auditors reports that:

- the current Board of Directors - appointed on August 1, 2017, with effect from August 31, 2017 and falling from office with the Shareholders' Meeting called to approve the financial statements for the financial year closed at December 31, 2019 - comprises 14 Directors at the date of the Report, including 13 Non-executive Directors and, of these, 7 Directors who satisfy the independence requirements envisaged in the Self-Regulatory Code and in the TUF. In compliance with the registration document drafted upon request for admission to listing, the Board of Directors will be integrated by one further Independent Director to be nominated by the minorities at the first Shareholders' meeting following the start of trading (coinciding with the Shareholders' meeting for the approval of the financial statements) with the majorities required by the law without applying the list vote.

- during the 2017 financial year, the Board of Directors held 13 meetings (11 meetings before admission to listing);
- the Audit, Risks, Sustainability and Corporate Governace Committee comprises three independent Directors and held 2 meetings during the 2017 financial year (1 meeting after admission to listing);
- at the time of this Report, the Remuneration Committee is composed of three non-Executive Directors, most of them independent (the Chairman is an independent Director) and held 4 meetings during 2017 (1 meeting after admission to listing);
- The Committee for Transactions with Related Parties, at the time of this Report, is composed of three independent Directors and during the 2017 financial year held 2 meetings (following the Company's admission to listing);
- the Appointments and Succession Committee, at the time of this Report, is composed of four Directors, the majority of whom are non-executive Directors and, during the 2017 financial year, the Committee held no meeting;
- the Strategies Committee, at the time of this Report, is composed of seven, mostly non-executive, Directors (of whom two are Independent Directors) and, during the 2017 financial year, the Committee held no meeting;

The Board of Statutory Auditors has always attended the meetings of the Board of Directors and the Board of Directors' Committees. The Report on Corporate Governance and the Structure of Share Ownership provides information on the percentage attendance by individual members of the Board of Statutory Auditors at the meetings of the Board of Directors and its Committees, as from the first date of trading of Pirelli's shares on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. The Board of Statutory Auditors took part in the above meetings in its role as the Internal Control and Audit Committee, pursuant to Article 19 of Legislative Decree No. 39/2010.

The Board of Statutory Auditors attended the Shareholders' Meetings (both ordinary and extraordinary meetings) held in 2017 on the following dates: March 6, March 15, April 27, June 19, August 1 and September 5. The Board of Statutory Auditors also attended the Special Meeting held on June 19, 2017 which approved the conversion of all special shares into ordinary shares.

Lastly, the Board of Statutory Auditors acknowledges that:

- it supervised the fulfillment of obligations related to the “Market Abuse” and “Investor Protection” regulations with regard to corporate disclosures and internal dealing, and particularly with regard to the treatment of privileged information and the procedure for issuance of press releases and public disclosures;

- as recommended by the Self-Regulatory Code of the Italian Stock Exchange (Borsa Italiana) it verified, upon its appointment and later during the meeting held on February 26, 2018, that its own members satisfy the same requirements for independence, where applicable, as the foregoing Code requires for Directors;

- it found that the criteria and procedures for ascertaining the requirements for independence adopted by the Board of Directors were applied correctly for the annual assessment of the independence of its members, and it has no observations to make in this regard;

- it confirmed that the Directors’ Report enclosed with the Company’s Financial Statements describes the principal risks and uncertainties to which the Company is exposed;

- with reference to the provisions of Article 15 of the Consob Regulations 20249 of December 28, 2017 concerning market regulations, it has verified that the corporate organisation and the procedures adopted enable Pirelli to ascertain that the companies controlled and incorporated by it and regulated by the law of non-European Union States subject to compliance with Consob regulations, have in place an adequate administrative and accounting system that is able to regularly provide the Company’s management and the independent auditor with the economic, equity and financial information necessary to prepare the consolidated financial statements. We note that at December 31, 2017, the non-EU companies which were directly or indirectly controlled by Pirelli and of material interest pursuant to Article 15 of the Market Regulations were as follows: Limited Liability Company Pirelli Tyre Russia (Russia); Pirelli Pneus Ltda - (Brazil); Pirelli Commercial de Pneus Brasil Ltda (Brazil); Pirelli Tire LLC (USA); Pirelli Tyre Co. Ltd. (China); Pirelli Otomobil Lastikleri A.S. (Turkey); Pirelli Neumaticos S.A.I.C. (Argentina); Pirelli Neumaticos S.A. de C.V. (Mexico); Pirelli Asia Pte Ltd (Singapore).

During the course of the supervisory and audit activities and on the basis of the information obtained from the independent auditor, no omissions, misconduct, irregularities or material facts were found which are worthy of being reported or mentioned in this report.

The activities described above, conducted both on a collegial and an individual basis, are documented in the minutes of the 12 Board of Statutory Auditors’ meetings held during 2017.

PROPOSALS TO THE SHAREHOLDERS' MEETING

FINANCIAL STATEMENTS AT DECEMBER 31, 2017

The Board of Statutory Auditors expresses its favourable opinion on the approval of the Financial Statements at December 31, 2017 and has no objections to raise with regard to the motions submitted by the Board of Directors concerning the allocation of the profit.

GROUP REMUNERATION POLICY AND THREE-YEAR INCENTIVE PLAN 2018-2020

We inform you that the Board of Statutory Auditors has expressed a favourable opinion on the Remuneration Policy for 2018 submitted for consultation to the Shareholders' Meeting convened on May 15, 2018, and on the adoption of the new 2018-2020 LTI plan, submitted for approval to the Shareholders' Meeting pursuant to Article 114-bis of Legislative Decree 58/1998 ("TUF"), as it envisages, among other things, that part of the incentive will be calculated based on a Total Shareholder Return target.

APPOINTMENT OF THE BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors will fall from office after having completed its mandate.

We wish to thank you for placing your trust in us and we remind you that Shareholders will be asked to appoint a new Board of Statutory Auditors for the next triennium using the list vote mechanism.

OTHER ISSUES SUBMITTED FOR APPROVAL BY THE SHAREHOLDERS' MEETING

The Board of Statutory Auditors has no comments to make on the other matters submitted for your approval (appointment of one Director and authorisation for signing a D&O liability insurance policy).

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Pursuant to Article 144-*quinquiesdecies* of the Issuer Regulations, duly approved by Consob with Resolution No. 11971/99, as subsequently amended and supplemented, the list of positions held by members of the Board of Statutory Auditors in the companies listed in Book V, Title V, Chapters V, VI and VII of the Italian Civil Code is published by Consob on its website (www.consob.it).

It is important to observe that Article 144-*quaterdecies* (Consob reporting obligations) establishes that members of the supervisory body of just one issuer are not subject to the reporting obligations envisaged in this Article, and therefore, in this case, they do not appear in the lists published by Consob.

In its Report on Corporate Governance and the Structure of Share Ownership, the Company lists the main positions held by the members of the Board of Statutory Auditors.

The Board of Statutory Auditors here acknowledges that all its members were in full compliance of the regulatory provisions laid down by Consob governing the “maximum number of positions to be held”.

Milan, March 12, 2018

Mr. Francesco Fallacara

Mr. Fabio Antoni

Ms. Antonella Carù

Mr. Luca Nicodemi

Mr. Alberto Villani

PROPOSAL FOR THE APPROVAL OF THE FINANCIAL STATEMENTS AND FOR THE ALLOCATION OF THE RESULT OF THE FINANCIAL YEAR

Dear Shareholders,

The financial year at December 31, 2017 closed with a result of Euro 170,850,918.00.

The Board of Directors, having taken into account that, following the shareholders' meeting resolutions taken during 2017, the legal reserve was completed and reached the limit as provided for by Art. 2430 of the Italian Civil Code, proposes to carry forward the total result of the financial year.

If you agree with our proposal, we invite you to approve the following:

RESOLUTIONS

The Shareholders' Meeting,

- having examined the Annual Financial Report as at December 31, 2017;
- having acknowledged the Statutory Auditors Report;
- having acknowledged the Independent Auditors' Report;

RESOLVES

a) to approve the Company's Financial Statements for the financial year closed at December 31, 2017, as presented by the Board of Directors in their entirety, and the individual entries and proposed allocations therein, which report a result of Euro 170,850,918.00;

b) to carry forward the result equal to Euro 170,850,918.00.

APPOINTMENT OF A DIRECTOR SUBJECT TO AN INCREASE TO 15 IN THE NUMBER OF MEMBERS OF THE BOARD OF DIRECTORS.

Dear Shareholders,

the ordinary shareholders' meeting held on 1 August 2017 gave rise to the renewal of the Board of Directors of Pirelli & C. S.p.A. ("**Pirelli**" or the "**Company**"),determining as fourteen the number of members of the Board and setting the duration of the related mandate as three financial years, thus expiring at the meeting called to approve the financial statements of the Company as at 31 December 2019[41].

In this regard, it is recalled that:

- The aforementioned appointment of the new Board of Directors - which took effect from 31 August 2017 - was approved at the meeting by the shareholder Marco Polo International Italy S.p.A ("**Marco Polo**", at the time the Company's sole shareholder) before the stock market listing of the Pirelli shares finalised on 4 October 2017 (the "**Listing**");
- as reported in the documentation published in the Listing process[42] the current composition of the Board of Directors reflects the shareholders' agreement existing between Marco Polo shareholders[43] (the "**Shareholders' Agreement**"), pursuant to which the Board of Directors of Pirelli is envisaged as being initially composed of 14 members, 7 of which are independent, and that it comprises a further independent director, to be appointed at the first meeting of Pirelli subsequent to the Listing by the shareholders that are not Marco Polo (the "**Minorities.**");
- during the aforementioned meeting of 1 August 2017, Marco Polo undertook to ensure that Minorities can elect their representative on the Board during the first shareholders' meeting to be held after the Listing, following the determination of the new number of Directors as 15 ("**Meeting**").

It should be noted that, for the purposes of adopting the required shareholders' meeting resolutions, the statutory procedure of the voting list does not apply, as it is not a case of the full renewal of the Board of Directors. Therefore, pursuant to Article 10 of the Articles of Association, the appointment of Directors who, for any reason, are not appointed pursuant to the voting list procedure, is resolved by the Meeting with the majorities required by law.

As indicated in the Registration Document, drawn up upon the admission of the company's ordinary shares to trading on the Mercato Telematico Azionario (screen-based stock exchange)

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41 The Company's Articles of Association (article 10.1) provide the following: ***"****The company is managed by a Board of Directors composed of up to fifteen members who remain in office for three financial years and may be re-elected.".*

42 Cf. Registration Document accessed at the following Company web address: https://corporate.pirelli.com/corporate/it-it/investitori/pirelli-in-borsa/ipo-documentation.

43 Accessed at the following Company web address: https://corporate.pirelli.com/corporate/it-it/governance/patti.

Organised and managed by Borsa Italiana S.p.A., Marco Polo is committed to ensuring that minorities can elect their representative on the Board during the first shareholders' meeting to be held after the date of the start of negotiations, following the determination of 15 as the new number of Directors.

This commitment also concerns the shareholders of Marco Polo who are the recipients of shares held by the latter in case the demerger of the company contemplated in the Shareholders' Agreement is completed before the Meeting.The appointed Director will expire together with those currently in office, and therefore on the date of the shareholders' meeting called to approve the financial statements for the year ended 31 December 2019 and will be paid a remuneration for the position in line with that determined for the other members of the Board of Directors.

In particular, it should be noted that each member of the Board of Directors is entitled to a gross annual fee for the office of 60 thousand Euro, in addition to any supplementary remuneration set by the Board of Directors in the case of participation in advisory committees.

Finally, it should be noted that the new Director, as decided by the Board of Directors at the meeting held on 31 August 2017, will also be appointed as member of the Control, Risks, Sustainability and *Corporate Governance Committee* and of the Compensation Committee.

PROPOSAL OF THE BOARD OF DIRECTORS

In view of the foregoing, the Board of Directors proposes to approve the increase from fourteen to fifteen of the number of members of the Board and the appointment of a new Director meeting the independence requirements provided for by Legislative Decree 58/1998 and by the Self-Regulatory Code of the listed companies to which Pirelli has adhered[44].

* * *

The Board invites shareholders who wish to submit proposals for the candidacy for the office of member of the Board of Directors to take into account, in addition to the provisions of law and the Articles of Association, also that which is recommended on the matter by the Self-Regulatory Code.

In particular, the Board hopes that any candidacies may be made available to the public - also through the Company - accompanied by suitable documentation, as indicated in the appropriate section of the Pirelli website dedicated to the Shareholders' Meeting, at least 25 days before the date of the Shareholders' Meeting and therefore by 20 April 2018, and this in order to allow those entitled to vote in the Meeting to know in advance the personal and professional characteristics of the candidate(s), notwithstanding the right to file candidates during the Shareholders' meeting.

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[44] Accessed at the following web address: http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf

Finally, the Board invites shareholders to also take into account the proficiency and skills profiles necessary for the execution of the position of Director of Pirelli as well as the guidance regarding the maximum number of positions deemed compatible with the effective execution of the office of Director of the Company published on the Pirelli website www.pirelli.com – Governance *section*[45]. At this regard, the Board of Directors suggests to the Shareholders who shall file candidates, taking inot account that the newly appointed Director will be a member of the Audit, Risks, Sustainability and Corporate Governance Committee and of the Remuneration Committee and also considering the professional skills of the directors currently appointed (skills that grant the Board ofdirectors with a adeguate and balanced composition), to choose the candidate having the knowledge and the experience, also academic, accrued on the same topic of the focus of the abovementioned committees.

[45] It is to be noted that as of the date of this report, the Board of Directors of Pirelli & C. S.p.A. is made up of fourteen Directors, seven of whom are in possession of the requisites of independence, both pursuant to Legislative Decree 58/1998 and pursuant to the Self-Regulatory Code of the listed companies. It should also be noted that the current composition of the Board ensures compliance with legal and statutory provisions on gender balance.

BOARD OF STATUTORY AUDITORS:

- **APPOINTMENT OF SERVING AND SUBSTITUTE MEMBERS;**
- **APPOINTMENT OF THE CHAIRMAN;**
- **DETERMINATION OF MEMBERS' SALARIES.**

Dear Shareholders,

with the approval of the annual financial report as at 31 December 2017, the Board of Statutory Auditors of Pirelli & C. S.p.A., appointed by the Shareholders' Meeting on 14 May 2015 for the 2015/2017 three-year period, is nearing the completion of its full term.

Currently, also following the meeting resolutions of 1 August and 5 September 2017, the members of the Board of Statutory Auditors are as follows:

- Francesco Fallacara (Chairman of the Board of Statutory Auditors)
- Fabio Artoni (Serving Auditor)
- Antonella Carù (Serving Auditor)
- Luca Nicodemi (Serving Auditor)
- Alberto Villani (Serving Auditor)
- Fabio Facchini (Substitute Auditor)
- Giovanna Maria Carla Oddo (Substitute Auditor).

The Company's Bylaws, which sets the number of Substitute Auditors to three, entered in force at the date of Company's shares' listing on the Stock Exchange. As a result, one position as Substitute Auditor is vacant. Taking into account that one of the items in the Agenda of the Shareholders' Meeting, called to approve the Financial Report, concerns the renewal of the whole Board of Auditors, there has been no need for an immediate Board integration.

The Shareholders' Meeting is therefore called, pursuant to the applicable provisions of law and regulations and of Art. 16 of the Articles of Association (available in full at the end of this report) to:

- appoint five serving Auditors and three substitute Auditors;
- appoint the Chairman of the Board of Statutory Auditors, where it is not possible to identify him/her following the application of the voting list process;
- determine the salaries of the members of the Board of Statutory Auditors.

The appointment of the serving and substitute Auditors will take place by means of the application of the voting list process.

In this regard, it should be noted that shareholders who, alone or together with other shareholders, represent at least 1% of the share capital with voting rights in the ordinary Shareholders' Meeting (minimum threshold established by the Articles of Association, identical to that established by Consob with Resolution no. 20273 of 24 January 2018) have the right to submit the lists.

The lists of candidates - signed by the shareholders submitting them, indicating their identity and the percentage of their equity investment in the ordinary share capital of the Company - must be filed at the Company's registered office at least twenty-five days before the date set for the Meeting.

The shareholders can also submit the lists of candidates by sending them and the supporting documentation to the following certified e-mail box: assemblea@pec.pirelli.it.

If only one list has been submitted within the aforementioned deadline, or only lists submitted by shareholders that are connected to one another, pursuant to the regulations, including regulatory provisions, further lists may be submitted up to the third day following the list submission deadline (twenty-five days before the Meeting). In this case, the thresholds required for their submission are reduced by half, equal, therefore, to 0.5% of the share capital with voting rights in the ordinary Shareholders' Meeting.

The ownership of the overall equity investment is certified, pursuant to the current regulatory provisions, even after the filing of the lists, provided this occurs at least 21 days prior to the date of the Meeting.

The lists of candidates must be divided into two distinct sections: the first section must contain the list of candidates (marked by a progressive number) for the office of serving Auditor, while the second section must contain the list of candidates (marked with a progressive number) for the office of substitute Auditor. The first of the candidates of each section must be identified among those registered in the Register of Statutory Auditors who have carried out statutory audits for a period of no less than three years. In compliance with the provisions of the Articles of Association and the pro tempore legislation in force on gender balance, those lists which, when considering both sections, have a number of candidates equal to or higher than three, must include candidates of a different gender both in the section of the list relating to serving Auditors, as well as in that relating to substitute Auditors.

Furthermore, each list must be accompanied by the documentation required by Art. 16 of the Articles of Association and the applicable provisions of law and regulations. In particular, together with each list, the acceptances of the candidature by the individual candidates must be filed in conjunction with the declarations by means of which they attest, under their own responsibility, the non-existence of causes of ineligibility and incompatibility, as well as the existence of the requirements prescribed by the applicable provisions, including regulatory provisions, and by the Articles of Association to assume the office. The declarations must be accompanied by a *curriculum vitae for each candidate* containing exhaustive information regarding their personal and professional characteristics with information - also attached - of the administrative and supervisory positions held in other companies.

It should be noted that - pursuant to the Self-Regulatory Code of the Listed Companies ("**Code**")[46], to which the Company has adhered - the Statutory Auditors must be chosen from among persons who can be qualified as independent also on the basis of the criteria set by the aforementioned Code with reference to the Directors and, therefore, those who are entitled and intend to submit the lists are invited to take this into account when identifying candidates to be proposed.

Each shareholder may submit or participate in the submission of only one list and each candidate may appear on only one list, under penalty of ineligibility.

Lists submitted without observing the provisions contained in Article 16 of the Articles of Association will be considered as not submitted.

If only one list is submitted, the Shareholders' Meeting votes on it and, if the list obtains the relative majority, the candidates listed in the respective sections of the list are elected as serving Auditors; in this case, the chairmanship of the Board of Statutory Auditors lies with the person indicated in first place in the aforementioned list.

In the event that two or more lists are submitted, the election of the members of the Board of Statutory Auditors will be as follows:

– from the list that obtained the highest number of votes (the so-called majority list) are taken, in the order in which they are listed, four serving members and two substitutes;

– from the list that received the second highest number of votes during the Meeting (the so-called minority list) are taken, in the order in which they are listed, the remaining serving member and the other substitute member. In the event that more than one list obtains the same number of votes, a new ballot will be held between these lists by all the persons entitled to vote who are present at the meeting. The candidates on the list that obtains a simple majority of the votes are elected.

In the event of the submission of several lists, the Chairmanship of the Board of Statutory Auditors shall be assigned to the serving member indicated as the first candidate on the list which is the second by number of votes.

In the event that no lists of candidates are submitted, the Shareholders' Meeting will appoint the Board of Statutory Auditors with the majorities required by law, without prejudice, in any case, to compliance with the regulation on gender balance.

[46] Can be accessed at the following web address: http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf

In this regard, it is recalled that law no. 120 of 12 July 2011 introduced the gender quotas for the composition of the administrative and supervisory bodies of listed companies, establishing that these companies must guarantee, for at least three consecutive terms, compliance with a criterion of division between genders in the composition of the corporate bodies.

In fact, at least one third of the Directors and serving Auditors elected must belong to the less represented gender.The Legislator has, however, granted that at the time of the first application of the aforementioned law, the share of the less represented gender within the newly-appointed body is at least one fifth of the Directors and of the serving Auditors elected.

Therefore, in order to ensure a balance between the genders, Art. 16 of the Articles of Association establishes that the lists which, considering both sections, have a number of candidates equal to or higher than three, must include candidates of a different gender both in the section of the list relating to serving Auditors, as well as in that relating to substitute Auditors. Furthermore, the Articles of Association provide that if the application of the voting list process does not ensure, considering the serving Auditors and the substitute Auditors separately, the minimum number of Auditors belonging to the less represented gender envisaged by the law and/or pro tempore regulation in force, the candidate belonging to the most represented and elected gender, indicated with the highest progressive number of each section in the list that has reported the highest number of votes, will be replaced by the candidate belonging to the less represented and unelected gender, taken from the same section of the same list according to the progressive submission order.

Outgoing Auditors are re-eligible.

In view of the above, the Board of Directors invites those shareholders who intend to submit lists for the election of members of the Board of Statutory Auditors to comply with the aforementioned provisions, recommending in this regard that the first two candidates of each section of the list are of different genders.

The Company will make available to the public the lists of candidates submitted, accompanied by the information required by the applicable regulations, at its registered office, the authorised storage process and by publication on the website www.pirelli.com, in the appropriate section dedicated to the Meeting.

Finally, we invite shareholders who intend to submit lists for the appointment of members of the Board of Statutory Auditors to view the specific documentation published on the Company's website www.pirelli.com and, in particular, the recommendations contained in Consob communication no. DEM/9017893 of 26 February 2009 and the current Consob provisions regarding the limits on the aggregation of offices of the members of the supervisory bodies of listed companies.

In addition to the appointment of the Board of Statutory Auditors, it is also necessary to decide on the allocation of the gross annual salary due to the members of the Board of Statutory Auditors, currently set at 75,000 euro for the Chairman of the Board of Statutory Auditors and 50,000 euro for each of the serving Auditors (the member of the Board of Statutory Auditors called to be part of the Supervisory Body of the Company is now allocated an additional salary of 40,000 euro).

In determining the salary to be attributed to the members of the Board of Statutory Auditors, we invite you, as already happened on the occasion of the previous renewal of the supervisory body, to *consider - in addition to what is envisaged by the current regulatory provisions regarding the responsibilities of the Board of Statutory Auditors* - also the additional tasks assigned to this body by Legislative Decree of January 27 2010 no. 39 containing the "Implementation of Directive 2006/43/EC on statutory audits of annual and consolidated accounts and of the fact that pursuant to art. 6, paragraph 4-*bis*, of Legislative Decree of 8 June 2011 no. 231 containing the "Provisions on the administrative liability of legal persons, companies and associations, including those without legal personality, pursuant to Article 11 of the Law of 29 September 2000, no. 300" the functions of Supervisory Body envisaged by the aforementioned legislative decree can be attributed to the Board of Statutory Auditors.

Finally, it is recalled that the serving Auditors participate in the meetings of the Board of Directors and its members (in whole or in part) are invited to participate in the Committees established within the Board.

In view of the aforementioned, the Board of Directors, pursuant to and in compliance with the Company Articles of Association and the regulations applicable to the matter, invites you to submit lists of candidates for the appointment of the members of the Board of Statutory Auditors and proposals concerning the determination of the relative salaries and to resolve on:

- the appointment of the members of the Board of Statutory Auditors (five serving Auditors and three substitute Auditors) for the financial years 2018, 2019 and 2020, by voting the lists of candidates submitted;
- the appointment of the Chairman of the Board of Statutory Auditors, unless it is possible to proceed with his/her identification in accordance with the provisions of the Articles of Association;
- the determination of the salary due to the members of the Board of Statutory Auditors.

BOARD OF STATUTORY AUDITORS

Article 16

16.1 The Board of Statutory Auditors shall be composed of five effective and three alternate auditors, who must be in possession of the requisites established under applicable laws and regulations; to this end, it shall be borne in mind that the fields and sectors of business closely connected with those of the Company are those stated in the Company's purpose, with particular reference to companies or corporations operating in the financial, industrial, banking, insurance and real estate sectors and in the services field in general.

16.2 The ordinary shareholders' meeting shall elect the Board of Statutory Auditors and determine its remuneration. The minority shareholders shall be entitled to appoint one effective auditor and one alternate auditor.

16.3 The Board of Statutory Auditors shall be appointed in compliance with applicable laws and regulations and with the exception of the provisions of paragraph 17 of this article 16, on the basis of slates presented by the shareholders in which candidates are listed by consecutive number.

16.4 Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.

16.5 Shareholders who, alone or together with other shareholders, represent at least 1 percent of the shares with voting rights in the ordinary shareholders' meeting or the minor percentage, according to the regulations issued by Commissione Nazionale per le Società e la Borsa for the submission of slates for the appointment of the Board of Directors shall be entitled to submit slates.

16.6 Each shareholder may present or take part in the presentation of only one slate.

16.7 The slates of candidates, which must be undersigned by the parties submitting them, shall be filed in the Company's registered office at least twenty five days prior to the date set for the shareholders' meeting that is required to decide upon the appointment of the members of the Board of Statutory Auditors, except for those cases in which the law and/or the regulation provide an extension of the deadline They are made available to the public at the registered office, on the Company website and in the other ways specified by Commissione Nazionale per la Società e la Borsa regulations at least 21 days before the date of the general meeting.

Without limitation to any further documentation required by applicable rules, including any regulatory provisions, a personal and professional curriculum including also the offices held in management and supervisory bodies of other companies, of the individuals standing for election must accompany the slates together with the statements in which the individual candidates agree to:

- their nomination
- declare, under their own liability, that there are no grounds for their ineligibility or

incompatibility, and that they meet the requisites prescribed by law, by these By-laws and by regulation for the position.

Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.

16.8 Any slates submitted without complying with the foregoing provisions shall be disregarded.

16.9 Each candidate may appear on only one slate, on penalty of losing the right to be elected.

16.10 The slates shall be divided into two sections: one for candidates for the position of standing Auditor and one for candidates for the position of alternate Auditor. The first candidate listed in each section must be selected from among the persons enrolled in the Register of Auditors who have worked on statutory audits for a period of no less than three years. In compliance with the current provisions relating to gender balance, slates that - taking account of both sections - present a number of candidates equal to or exceeding three, must include candidates of each gender both in the section for standing statutory auditors and in the section for alternates.

16.11 Each person entitled to vote may vote for only one slate.

16.12 The Board of Statutory Auditors shall be elected as specified below:

a) four effective members and two alternate members shall be chosen from the slate which obtains the highest number of votes (known as the majority slate), in the consecutive order in which they are listed thereon;

b) the remaining standing member and the other alternate member shall be chosen from the slate which obtains the highest number of votes cast by the shareholders after the first slate (known as the minority slate), in the consecutive order in which they are listed thereon; if several slates obtain the same number of votes, a new vote between said slates will be cast by all those entitled to vote attending the meeting, and the candidates on the slate which obtains the simple majority of the votes will be elected.

16.13 The chair of the Board of Statutory Auditors shall pertain to the standing member listed as the first candidate on the minority slate.

16.14 If, considering the standing statutory auditor and the alternates statutory auditors separately, the application of the slate voting procedure fails to secure the minimum number of statutory auditors of the less represented gender as required by law and/or regulation in force at the time, the appointed candidate of the more represented gender indicated with the higher progressive number in each section of the slate that attracts most votes shall be substituted by the non-appointed candidate of the less represented gender drawn from the same section of the same slate on the basis of their progressive order of presentation.

16.15 The position of a standing auditor which falls vacant due to his/her death, forfeiture or resignation shall be filled by the first alternate auditor chosen from the same slate as the former. If filling the position in this way fails produce a composition of the Board of Statutory Auditors that complies with the rules in force even on gender balance, the position will be filled by the second alternate auditor drawn from the same slate. If, subsequently, there is a need to substitute another statutory auditor from the same slate that obtained most votes, the other alternate auditor drawn from the same slate shall fill the position, whatever the outcome. In the event of the replacement of the Chairman of the Board of Statutory Auditors, the chair shall pertain to the statutory auditor of the same slate as the outgoing Chairman, following the order contained in the slate, subject in all cases to observance of the requirements in law and/or in the Company By-laws for holding that office and to compliance with gender balance as provided by law and/or regulation currently in force; if it proves impossible to effect substitutions and replacements under the foregoing procedures, a shareholders' meeting shall be called to complete the Board of Statutory Auditors which shall adopt resolutions by relative majority vote.

16.16 When the shareholders' meeting is required, pursuant to the provisions of the foregoing paragraph or to the law, to appoint the standing and/or alternate members needed to complete the Board of Statutory Auditors, it shall proceed as follows: if auditors elected from the majority slate have to be replaced, the appointment shall be made by relative majority vote without slate constraints, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time; if, however, auditors elected from the minority slate have to be replaced, the shareholders' meeting shall replace them by relative majority vote, selecting them where possible from amongst the candidates listed on the slate on which the auditor to be replaced appeared and in any event in accordance with the principle of necessary representation of minorities to which this By-Laws ensure the right to take part to the appointment of the Board of Statutory Auditors, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time.

The principle of necessary representation of minorities shall be considered complied with in the event of the appointment of Statutory Auditors nominated before in the minority slate or in slates different other than the one which obtained the highest number of votes in the context of the appointment of the Board of Statutory Auditors.

16.17 In case only one slate has been presented, the shareholders' meeting shall vote on it; if the slate obtains the relative majority of the share capital, the candidates listed in the respective section shall be appointed to the office of standing auditors and alternate auditors; the candidate listed at the first place in the slate shall be appointed as Chairman of the Board of Statutory Auditors.

16.18 When appointing auditors who, for whatsoever reason, were not appointed under the procedures established herein, the shareholders' meeting shall vote on the basis of the majorities required by law, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time.

16.19 Outgoing members of the Board of Statutory Auditors may be re-elected to office.

16.20 Meetings of the Board of Statutory Auditors may, if the Chairman or whoever acts in his/her stead verifies the necessity, be attended by means of telecommunications systems that permit all attendees to participate in the discussion and obtain information on an equal basis.

CONSULTATION ON THE POLICY OF PIRELLI GROUP ON REMUNERATION

Dear Shareholders,

Pursuant to art.123-ter, paragraphs 3 and 6 of the Italian Consolidated Law on Finance ("TUF") we called this meeting also with the purpose of submitting to your consultation vote the first section of the Remuneration Report which states the Remuneration Policy of the members of the governing bodies and of the Executives with strategic responsibilities to which Pirelli refers for defining the remuneration of Senior Managers and Executives.

The Policy is submitted to the Pirelli Shareholders' Meeting for the first time after the admission to listing of the Company which was granted on 04 October 2017 ("**Listing**").

The Policy which is to be voted by you was prepared on the base of the past application experiences and takes in due consideration the statutory requirements adopted by CONSOB, and the adoption, occurred in 2018 of a new Long Term Incentive Cash Plan for 2018-2020 ("LTI Plan") and of a Retention Plan intended to provide support for the new Industrial Plan 2017-2020, which was disclosed to the market at the time of Pirelli's Listing.

As established under art. 123-Ter of the TUF, the Remuneration Report which we are hereby submitting to you is organized in two separate sections:

I. the first section presents:

   a. the Remuneration Policy of Directors and Executives with strategic responsibilities and to which Pirelli refers for defining the remuneration of Senior Managers and Executives;

   b. the procedures employed for adopting and implementing the Policy thereof.

II. the second section, which concerns namely the members of the governing and supervisory bodies, and also, in aggregate form, the Executives with strategic responsibilities presents:

   a. the items which form the remuneration, including the sums due in case of termination of the office or of the labour contract;

   b. the salaries paid by the Company, its subsidiaries or affiliates at any title and in any form during Year 2017, highlighting any component of said remuneration which may be allocated to services provided during years preceeding the reference one and highlighting, furthermore, the salaries due during one or more following years in consideration of the services provided during the reference year, possibly stating an estimation for the items which cannot be objectively measured during the reference year.

As established by the Italian Consolidated Law on Finance, we hereby ask you to express your consultation vote on the part of the Remuneration Report under the first section.

THREE-YEAR MONETARY INCENTIVE PLAN (2018-2020) FOR PIRELLI'S GROUP MANAGEMENT. RELATED AND CONSEQUENT RESOLUTIONS

Dear Shareholders,

During the meeting held on February 26, 2018, the Board of Directors approved the adoption of a new 2018-2020 three-year monetary incentive plan for the Management of the Pirelli Group ("LTI Plan"). The Plan is linked to the objectives of the 2018/2020 period included in the 2017/2020 Business Plan. The guidelines of the LTI Plan were previously approved by the Board of Directors in the meeting held on July 28 2017, as announced to the Market within the framework of the Initial Public Offering ("IPO") transaction concluded with the listing of Pirelli & C. shares on the Stock Exchange. The new LTI Plan was also approved pursuant to Art. 2389 of the Italian Civil Code, following proposal by the Remuneration Committee and with the favourable opinion expressed by the Board of Statutory Auditors on the subjects for whom the above-mentioned opinion is requested. The LTI Plan is subject to the approval of the Shareholders' Meeting pursuant to art. 114-bis of Legislative Decree 58/1998 ("TUF," the Consolidated Financial Act), as it sets out, inter alia, that part of the incentive is to be determined on the basis of the Total Shareholder Return objectives calculated with respect to Pirelli's performance and with respect to an index composed by a selected panel of "peers" belonging to the Tyre sector.

Below, please find the highlights of the LTI Plan. For a more detailed description we invite you to refer to the Disclosure Document drafted pursuant to art. 84-bis, first paragraph, of Consob resolution no. 11971 of May 14, 1999 (the "Issuers Regulations"), available to the public at the registered office of Pirelli & C. S.p.A. ("Pirelli") - located in Milan, viale Piero and Alberto Pirelli 25- and on Pirelli's website (www.pirelli.com) as well as on the authorized eMarket storage (eMarket Storage.com) mechanism in accordance with legal requirements and at the Borsa Italiana SpA (Milan, Piazza degli Affari n.6) alongside the current Report.

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RATIONALE FOR PLAN ADOPTION[47]

In line with national and international best practices, the Remuneration Policy for the year 2018 adopted by Pirelli (the "2018 Policy")[48]. Is based upon Pirelli's goal of attracting, motivating and retaining those resources possessing the professional skills required to successfully pursue the Group's objectives.

The 2018 Policy and the 2018-2020 LTI Plan (which forms an integral part of it) are defined in such a way as to align the interests of Management with those of Shareholders, pursuing the primary objective of creating sustainable medium to long term value, through the creation of an effective

[47] Information pursuant to art. 114-bis, par. 1, a) of the legislative decree 58/1998.

[48] The 2018 Policy is made available to the public along with this Report.

and proven correlation between remuneration on the one hand, and individual and Pirelli's performances on the other.

The 2018 Policy was drawn up based on past experience, in order to allow for a full understanding of the link between the Management's remuneration structure and the creation of value in the medium to long term horizon. The 2018 Policy also takes into account the regulatory provisions adopted by Consob with resolution no. 18049 of December 23, 2011.

The LTI Plan was adopted in support of the new 2018/2020 Business Plan with consequent early closure of the 2016-2018 LTI Plan, with pro-rata payment of the three-year incentive envisaged therein.

RECIPIENTS OF THE PLAN[49]

The LTI Plan is addressed to Pirelli's Management (consisting of Executive Directors of Pirelli & C. and by the Group's executives) and may also be extended to those who, over the three-year period, become part of the Group's Management or take on an Executive role. In such cases, inclusion in the Plan is subject to the condition of participating in the LTI Plan for at least a full year and the incentive percentages are calculated on the basis of the number of months of actual participation in the Plan.

In particular, the LTI Plan includes, amongst others, the Executive Vice Chairman and Chief Executive Officer of Pirelli & C. Marco Tronchetti Provera, and the Managers having strategic responsibilities[50] Maurizio Boiocchi (EVP and Strategic Advisor Technology), Andrea Casaluci (EVP Business Unit Prestige & Motorsport & COO Region Europe), Roberto Righi (EVP and Chief Commercial Officer), Francesco Sala (Senior Vice President Manufacturing), Maurizio Sala (EVP and Chief Planning and Controlling Officer), Luigi Staccoli (EVP Pirelli Digital) and Francesco Tanzi (EVP and Chief Financial Officer). The LTI plan is also addressed to senior managers and to the Group's executives (including Director Giovanni Tronchetti Provera, exclusively as a Group's executive) and may also be extended to those who, over the three-year period, for internal career growth or as newly hired, take on Executive positions.

PERFORMANCE OBJECTIVES AND CALCULATION OF AWARD[51]

Pirelli's Management remuneration structure is composed by three elements:

- a fixed component;

[49] Information pursuant to art. 114-bis, par. 1, b) and b-bis of the legislative decree 58/1998.

[50] It should be noted that Mr. Gustavo Bracco, Executive with strategic responsibilities, is not among the LTI Plan recipients.

[51] Information pursuant to art. 114-bis, par. 1, c) of the legislative decree 58/1998.

- an annual variable component (MBO): this is a percentage of the fixed component increasing in relation to the position held by the beneficiary and taking into account the different roles' reference benchmarks. If target objectives are achieved, this percentage may vary from a minimum of 20% for Executives (executives of the Italian Pirelli Company or employees of the Group's foreign Companies, with a position or role that is equivalent to that of an Italian executive) up to a maximum of 125% for Directors holding special offices who are assigned specific duties, and is aimed to reward, depending on the position held, the annual performance of the Group, of the Company and / or of the function to which they belong. A cap to the maximum attainable MBO award is set which amounts to twice the incentive payable at target level. For the sake of continuity of results over time, payment of 25% of the potentially accrued MBO is deferred to the following year, its payment being subject to the accrual of the MBO award in such following year (and therefore potentially at "risk" of disbursement), in addition to a possible "reward" mechanism of increase of the total MBO award, in accordance with the degree of achievement of the MBO objectives in the following year (for the valuation of the Annual Total Direct Compensation, this deferral and "bonus" component is classified as a medium-long term variable component).

- a medium-long term variable component: consisting of the incentive of the LTI Plan, aimed at rewarding the Group's performance for the 2018-2020 period, and the aforementioned component of MBO deferral and increase reward mechanism.

As with the MBO incentive, also the LTI incentive is established as a percentage of the fixed component increasing on the basis of the position held and of the reference benchmarks for each role. If target objectives are reached, this percentage may vary from a minimum of 50% for Executives up to a maximum of 250% for Directors holding special offices who are assigned specific duties. A limit has been set to the maximum LTI incentive that is equal to twice the incentive that can be attained at target.

The LTI Plan, which is monetary and does not provide for the assignment of shares or options on shares, is subject to the achievement of the three-year objectives and is determined as a percentage of the gross annual fixed component /Gross Annual Salary (RAL) received by the beneficiary on the date at which participation of the subject to the Plan was established. The 2018-2020 LTI Plan envisages an access threshold consisting in a Deleveraging (calculated as the NFP / EBITDA adjusted ratio) lower than 2 as calculated at December 31st 2020.

Furthermore, the following four types of objectives have been established, the first three of which are independent from each other, with relative weightings:

- Return on Sales target (calculated as the ratio between the three-year cumulative Group Adjusted EBIT and the cumulative net sales for the three-year period) with a weighting equal to 30% of the total LTI award;

- Absolute Group Total Shareholder Return ("TSR") target with a weighting on the total LTI award equal to 40%. In the document made available at the Shareholders' Meeting, more detailed information on the implementation of the TSR target and on the peer group composition is available;

- Relative TSR target, with a weighting of 20%, relative to a panel of selected peers. In the document made available at the Shareholders' Meeting, more detailed information on the implementation of the TSR target is available;

- the remaining 10% is calculated on the basis of a Sustainability indicator in relation to the positioning of Pirelli in the Dow Jones Sustainability Index AX Auto Components sector. This objective is subject to the achievement of the minimum value of at least one of the above-mentioned economic / financial objectives.

For all of the three objectives (TSR, ROS and Sustainability) a minimum value (access threshold) has been set corresponding to a payout equal to 75% of the respective portion – with reference to each objective - of the incentive achievable at target performance.

In the event of failing to achieve the minimum established value (access threshold) for any objective, the beneficiary does not accrue any right to payment of the relevant portion of the incentive.

In relation to the TSR and ROS targets, the final calculation of the incentive for intermediate results between the access threshold and the *target* or between the *target* and the maximum, is carried out using linear interpolation.

AWARD PAY-OUT PERIOD

If objectives are met, pay-out ("Pay-Out Date") of the medium to long term incentive (so-called LTI award) to participants of the LTI Plan will be carried out in the first half of 2021, provided that for the participants, as of 31 December 2020, the employment relationship has not ceased.

In the event of termination of the employment relationship, which may have occurred for any reason before the end of the three-year period, the recipient ceases to participate in the LTI Plan and, consequently, the LTI Bonus will not be paid, not even pro-rata. For Directors holding special offices who are assigned specific duties (as is the case for the Executive Vice Chairman and Chief Executive Officer Mr. Marco Tronchetti Provera) who cease to hold office because their term has expired and are not subsequently appointed as directors the pro-rata payment of the LTI bonus will be provided for.

DURATION OF THE PLAN AND CHANGES

The Plan, referred to the financial years 2018-2020, ends on the Pay-Out Date. In compliance with existing procedures in order to proceed with a review of the LTI Plan, reference should be made to the Disclosure Document.

SPECIAL FUND TO INCENTIVIZE WORKERS' PARTICIPATION IN COMPANIES[52]

The Plan receives no support from the Special Fund to incentivize workers' participation in companies, pursuant to Art. 4, Par. 112 of Law n. 350 dated December 24, 2003.

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The LTI Plan is to be considered "of particular relevance" as it is addressed, amongst others, to the Executive Vice Chairman and Chief Executive Officer of Pirelli & C. and to subjects having strategic responsibilities as they have regular access to classified information and hold the power to adopt decisions that may affect the Group's evolution and future prospects.

Taking into account that the LTI Plan is monetary and does not provide for the allocation of shares or options on shares or stocks, but exclusively a cash incentive partially related to the performance of Pirelli's ordinary share, the Disclosure Document, drafted in compliance with the current legislation, does not contain the information required for mechanisms regarding the assignment of shares or options on shares.

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Dear Shareholders,

On the basis of the above, we ask you to:

1. approve - pursuant to art. 114-bis of Legislative Decree n. 58 dated February 24, 1998, as subsequently amended and integrated - the adoption of a 2018-2020 three-year monetary incentive plan (so-called LTI Plan) for the Management of the Pirelli Group in the part in which it is also based on the performance of Pirelli's share, in the terms illustrated in this Report and, as better described, in the Disclosure Document relating to the LTI Plan (prepared pursuant to article 84-bis, 1st Paragraph, of the Issuers' Regulation). In fact, the LTI Plan envisages, inter alia, that a portion of the LTI Award will be determined on the basis of the Total Shareholder Return objective calculated according to Pirelli's performance and to an index composed of selected "peers" in the Tyre sector;

[52] Information pursuant to art. 114-bis, par. 1, d) of the legislative decree 58/1998.

2. confer to the Board of Directors – and, on its behalf, to the Executive Vice Chairman and Chief Executive Officer - all powers necessary to proceed to the full and complete implementation of the LTI Plan.

"DIRECTORS AND OFFICERS LIABILITY INSURANCE" POLICY. RELATED AND CONSEQUENT RESOLUTIONS.

Dear Shareholders,

The use of insurance coverage to cover the civil liability of members of corporate bodies and executives, is a widespread international practice nowadays in the most advanced financial markets, so as to provide protection for members of management and control bodies, enabling them to carry out their assigned tasks calmly and in the interests of the Company, limiting risks associated with exercising their duties.

Such policies - commonly defined as *"Directors' and Officers' Liability Insurance"* or more simply *"D&O"* - actually allow members of corporate bodies (and Group executives as well as Statutory Auditors) to be indemnified from the cost of compensating for financial damages deriving from civil liability, as well as for legal expenses related to any liability actions brought by third parties damaged by acts carried out by members of the above-mentioned corporate bodies in exercising their duties, obviously with the exception of cases of intentional breach by the aforementioned subjects of the obligations inherent to exercising their duties and therefore to protect the assets of the members of corporate bodies and companies that make up the Pirelli Group.

The Company, which has adopted these practices for years, considers it appropriate to propose to its Shareholders, at the first Shareholders' Meeting after the new listing of the Company, to renew the D&O to cover the civil liability of members of corporate bodies and *management* against the risk that they, when exercising their duties, may unintentionally cause financial damage to third parties or anyone who has an interest in the Company.

Following renewal in October 2017, the D&O policy currently in force provides for the following main features:

- Term: 12 months;
- Upper limit: EUR 250 million[53]

There are a limited number of exclusions in the policy.

In order to assess Pirelli's position with respect to major companies that have already adopted similar cover, benchmarking activities were *carried out* with companies with comparable characteristics to Pirelli.

Set out below are the main terms and conditions of the new D&O policy, which in addition to taking into account best market practices and Pirelli's positioning in relation to major companies that have

[53] An increase of Euro 100 million compared to last year in order to ensure adequate coverage of liability under the IPO Prospectus carried out in October 2017 and for the bond issue in January 2018.

adopted similar cover, also takes into account the characteristics and international vocation of the Group.

- Term: 12 months
- Annual award: EUR 2-2.5 million
- Upper limit: EUR 250 million

Deductibles related to associated risks and automatic coverage mechanisms are foreseen for new subjects taking on positions within the group or for newly acquired entities. No coverage is provided for if the insured party's conduct is based, originates or results from a) the acquisition of profit or advantage to which the Insured was not entitled b) any criminal, dishonest or fraudulent act.

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For all of the above, we invite you to authorise the Board of Directors to renew the D&O insurance policy, in accordance with the terms and conditions illustrated above, and therefore, to approve the following

RESOLUTION

“The Ordinary Shareholders’ Meeting, having noted the proposal of the Directors;

RESOLVES

a) to authorise the Board of Directors to renew the *Directors & Officers Liability insurance policy*, according to the terms and conditions illustrated above;

b) to confer on the Board of Directors, and for their part, on the Executive Vice Chairman and Chief Executive Officer, all the necessary powers to renew the D&O policy, and in any case, to also implement the aforesaid resolution by means of proxies

c) to entrust the Board of Directors with the task of renewing the Directors & Officers Liability insurance policy in accordance with the standard terms and conditions of the insurance market”.

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

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

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

   of the administrative and accounting procedures for preparation of the consolidated financial statements, during the period January 1, 2017 – December 31, 2017.

2. In this regard it should be noted that the adequacy of the administrative and accounting procedures for preparation of the consolidated financial statements for the year ended December 31, 2017 was determined on the basis of an assessment of the internal control system. This assessment was based on a specific process defined in accordance with the criteria laid down in the "Internal Control – Integrated Framework" guidelines issued by the "Committee of Sponsoring Organizations of the Treadway Commission" (COSO), which is a reference framework generally accepted at the international level.

3. We also certify that:

3.1 the consolidated financial statements:

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

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

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

3.2 The report on operations includes a reliable analysis of the performance and results of operations, and of the situation of the reporting entity and of the Group of companies included in the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

February 26, 2018

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

Pirelli & C SpA

Independent auditor's report

in accordance with article 14 of Legislative Decree 39 of 27 January 2010 and article 10 of Regulation (EU) 537/2014

Consolidated financial statements as of 31 December 2017

Independent auditor's report

in accordance with article 14 of Legislative Decree 39 of 27 January 2010 and article 10 of Regulation (EU) 537/2014

To the shareholders of Pirelli & C SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Pirelli & C SpA and its subsidiaries (Pirelli group), which comprise the statement of financial position as of 31 December 2017, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Pirelli group as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in section Auditor's Responsibilities for the Audit of the Consolidated Financial Statements of this report. We are independent of Pirelli & C SpA (the Company) based on ethic and independence regulations and standards applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matters	*How our audit addressed the key audit matter*
Recoverability of brands with indefinite useful life and goodwill	
Note 10 "Intangible assets". As of 31 December 2017 the indefinite-lived intangible assets Pirelli brand and goodwill amount to € 2,270 million and € 1,877 million, respectively. Recoverability of the carrying amount of Pirelli brand and goodwill were tested for impairment at the year-end, in accordance with IAS36 – Impairment of Assets. The recoverable amount of Pirelli Brand is measured using its fair value, based on an income approach. This requires the use of estimates for revenue projections, implied royalty rates and discount rate. The recoverable amount of goodwill, entirely allocated to the Consumer segment, is measured using its fair value, based on the market price of the Company shares. The recoverable amount of Pirelli Brand is compared with its carrying amount. The recoverable amount of the Consumer segment is compared with the carrying amount of segment assets and liabilities, including brand and goodwill. Considering the magnitude of the carrying amounts and the subjective judgment in some of the assumptions used for the calculation of the fair values, recoverability of the carrying amounts of Pirelli brand and goodwill represented a key matter in the audit of the consolidated financial statements.	We have performed an understanding and evaluation of the internal controls in place over the impairment testing of brand and goodwill. We have performed, with the support of PwC experts, the following audit procedures: • assessment over the adequacy of the impairment testing process in accordance with the requirement of the accounting standard; • assessment of the allocation of goodwill to the group of cash generating units – CGU; • assessment of the key assumptions used when determining the fair value, with focus to revenue projections , implied royalty rates and discount rate, including benchmarking e sensitivity analysis; • testing of the accuracy of the amounts of assets and liabilities directly attributable to the Consumer segment; • testing the mathematical accuracy of the calculation model used. We have assessed variances between projections used in previous years and actual results to evaluate the reliability and coherence with the market trend. We have assessed the accuracy and completeness of the disclosure presented in the notes to the consolidated financial statements.

Key Audit Matters	*How our audit addressed the key audit matter*
Revenue recognition	
Note 3 " Adopted Accounting Standards" Considering the magnitude and the high volume of sales transactions carried out through a global distribution network, different sales channels and logistic platforms, the revenue recognition represented a key matter in the audit of the consolidated accounts.	We have carried out our procedures to verifying existence, completeness, accuracy and proper period of sales transactions. For the main revenue streams we have performed an understanding and an evaluation of the internal controls over the revenue recognition, and a validation of relevant controls. We have tested samples of sales transactions obtaining appropriate supporting evidence, with specific attention to key contractual terms. We have tested samples of sales returns transactions, credit notes and year-end accruals.
Measurement of pension plans	
Note 22 "Employee benefit obligations". As of 31 December 2017 the net pension obligation amounts to € 183 million, representing the net balance of a gross pension obligation of € 1,397 million and the plan assets of € 1,214 million. The measurement of the net pension obligation at the balance sheet date has been performed in accordance with IAS19 - Employee Benefits, with the assistance of external actuaries. The measurement of the pension obligation requires the use of estimates based on actuarial assumptions. Considering the magnitude of the amounts and the subjective judgment in the actuarial assumptions used, the measurement of the pension obligation represented a key matter in the audit of the consolidated financial statements.	We have tested with the support of PwC actuarial experts the actuarial valuations carried out by the external experts engaged by the group, with specific reference to the reasonableness of the main actuarial assumptions used. We have tested the accuracy and completeness of the census data of the plan participants for the calculation of the pension obligation. We have tested the fair value of the plan assets, also considering third party confirmations. We have assessed the accuracy and completeness of the disclosure presented in the notes to the consolidated financial statements.

Other matters

The consolidated financial statements of Pirelli group for the year ended 31 December 2016 were audited by another auditor which, on 4 April 2017, issued an unqualified audit report. As explained in the notes, in accordance with IFRS5 – Non Current Assets Held for Sale and Discontinued Operations, comparative information has been restated as a result of the distribution of the Industrial business to the Company shareholder Marco Polo International Holding Italy SpA. The distribution was executed through the assignment of all the shares of TP Industrial Holding SpA, the group subsidiary owning the Industrial business.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the group ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management intends either to liquidate Pirelli & C SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the group financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional scepticism throughout the audit. Furthermore:

- we identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we design and perform audit procedures responsive to those risks; we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group internal control;
- we evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- we conclude on the appropriateness of management use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern;
- we evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that are of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report.

Additional Disclosures required by Article 10 of Regulation (EU) 537/2014

We were appointed by the shareholders of Pirelli & C SpA at the general meeting held on 1 August 2017 to perform the audit of the Company consolidated and separate financial statements for the years ending 31 December 2017 through 31 December 2025.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) 537/2014 and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree 39/10 and Article 123-bis, paragraph 4, of Legislative Decree 58/98

Management of Pirelli & C SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Pirelli group as of 31 December 2017, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) 720B to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree 58/98, with the consolidated financial statements of the Pirelli group as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Pirelli group as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree 39/10, issued on the basis of our knowledge and understanding of the group obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob Regulation implementing Legislative Decree 254 of 30 December 2016

Management of Pirelli & C SpA is responsible for the preparation of the non-financial disclosure pursuant to Legislative Decree 254 of 30 December 2016. We have verified that the non-financial disclosure was approved by the board of directors.

Pursuant to article 3, paragraph 10, of Legislative Decree 254 of 30 December 2016, the non-financial disclosure is subject to separate audit reporting by our firm.

Milan, 8 March 2018

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

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

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

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

   of the administrative and accounting procedures for preparation of the separate financial statements, during the period January 1, 2017 – December 31, 2017.

2. In this regard it should be noted that the adequacy of the administrative and accounting procedures for preparation of the separate financial statements for the year ended December 31, 2017 was determined on the basis of an assessment of the internal control system. This assessment was based on a specific process defined in accordance with the criteria laid down in the "Internal Control – Integrated Framework" guidelines issued by the "Committee of Sponsoring Organizations of the Treadway Commission" (COSO), which is a reference framework generally accepted at the international level.

3. We also certify that:

3.1 the separate financial statements:

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

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

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

3.2 The report on operations includes a reliable analysis of the performance and results of operations, and of the situation of the reporting entity, together with a description of the principal risks and uncertainties to which they are exposed.

February 26, 2018

The Executive Vice Chairman and Chief Executive Officer

(Marco Tronchetti Provera)

The Corporate Financial Reporting Manager

(Francesco Tanzi)

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Pirelli & C SpA

Independent auditor's report

in accordance with article 14 of Legislative Decree 39 of 27 January 2010 and article 10 of Regulation (EU) 537/2014

Separate financial statements as of 31 December 2017

Independent auditor's report

in accordance with article 14 of Legislative Decree 39 of 27 January 2010 and article 10 of Regulation (EU) 537/2014

To the shareholders of Pirelli & C SpA

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Pirelli & C SpA (the "Company"), which comprise the statement of financial position as of 31 December 2017, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of the Company as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in section Auditor's Responsibilities for the Audit of the Separate Financial Statements of this report. We are independent of the Company based on ethic and independence regulations and standards applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matters	How our audit addressed the key audit matter
Recoverability of brands with indefinite useful life	
Note 9 "Intangible assets". As of 31 December 2017 the indefinite-lived intangible asset Pirelli brand amounts to € 2,270 million. Recoverability of the carrying amount of Pirelli brand was tested for impairment at the year-end, in accordance with IAS36 – Impairment of Assets. The recoverable amount of Pirelli Brand is measured using its fair value, based on an income approach. This requires the use of estimates for revenue projections, implied royalty rates and discount rate. The recoverable amount of Pirelli Brand is compared with its carrying amount. Considering the magnitude of the carrying amount and the subjective judgment in some of the assumptions used for the calculation of the fair value, recoverability of the carrying amount of Pirelli brand represented a key matter in the audit of the separate financial statements.	We have performed an understanding and evaluation of the internal controls in place over the impairment testing of the brand. We have performed, with the support of PwC experts, the following audit procedures: • assessment over the adequacy of the impairment testing process in accordance with the requirement of the accounting standard; • assessment of the key assumptions used when determining the fair value, with focus to revenue projections , implied royalty rates and discount rate, including benchmarking e sensitivity analysis; • testing the mathematical accuracy of the calculation model used. We have assessed variances between projections used in previous years and actual results to evaluate the reliability and coherence with the market trend. We have assessed the accuracy and completeness of the disclosure presented in the notes to the separate financial statements.

Other matters

The separate financial statements of Pirelli & C SpA for the year ended 31 December 2016 were audited by another auditor which, on 4 April 2017, issued an unqualified audit report.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation of separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company ability to continue as a going concern and, in preparing the separate financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the separate financial statements, management uses the going concern basis of accounting unless management intends either to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Company financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional scepticism throughout the audit. Furthermore:

- we identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error; we design and perform audit procedures responsive to those risks; we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company internal control;
- we evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- we conclude on the appropriateness of management use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are

based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- we evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that are of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our report.

Additional Disclosures required by Article 10 of Regulation (EU) 537/2014

We were appointed by the shareholders of Pirelli & C SpA at the general meeting held on 1 August 2017 to perform the audit of the Company consolidated and separate financial statements for the years ending 31 December 2017 through 31 December 2025.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) 537/2014 and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the separate financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

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Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree 39/10 and Article 123-bis, paragraph 4, of Legislative Decree 58/98

Management of Pirelli & C SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Pirelli & C SpA as of 31 December 2017, including their consistency with the relevant separate financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) 720B to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree 58/98, with the separate financial statements of the Company as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the separate financial statements of the Company as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree 39/10, issued on the basis of our knowledge and understanding of the Company obtained in the course of the audit, we have nothing to report.

Milan, 8 March 2018

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

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	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	128-130, 192-193		Employment Governance and Responsibility
GRI 408: Child Labor 2016	GRI 103: Management Approach 2016	119-122, 192-193		
	408-1 Operations and suppliers at significant risk for incidents of child labor	128-130, 192-193		Sustainable Procurement
GRI 409: Forced or Compulsory Labor 2016	GRI 103: Management Approach 2016	119-122, 192-193		
	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	128-130, 192-193		Sustainable Procurement
GRI 410: Security Practices 2016	GRI 103: Management Approach 2016	-		
	410-1 Security personnel trained in human rights policies or procedures		Information Unavailable: % of security personnel trained on human rights currently not available	

GRI 411: Rights of Indigenous Peoples 2016	GRI 103: Management Approach 2016	164-166		
	411-1 Incidents of violations involving rights of indigenous peoples	102-103		
GRI 412: Human Rights Assessment 2016	GRI 103: Management Approach 2016	164-166		
	412-1 Operations that have been subject to human rights reviews or impact assessments	119-122, 192-193		
	412-2 Employee training on human rights policies or procedures	164	Information Unavailable: number of hours of training on human rights and % of employees trained currently not available	
	412-3 Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	120-121		
GRI 413: Local Communities 2016	GRI 103: Management Approach 2016	165		
	413-1 Operations with local community engagement, impact assessments, and development programs	93-94, 165	Information Unavailable: information currently not available	
	413-2 Operations with significant actual and potential negative impacts on local communities	165	Information Unavailable: information currently not available	

GRI 414: Supplier Social Assessment 2016	GRI 103: Management Approach 2016	119-122		
	414-1 New suppliers that were screened using social criteria	120-122, 128-130		Sustainable Procurement
	414-2 Negative social impacts in the supply chain and actions taken	128-130		Sustainable Procurement
GRI 415: Public Policy 2016	GRI 103: Management Approach 2016	105		
	415-1 Political contributions	105		
GRI 416: Customer Health and Safety 2016	GRI 103: Management Approach 2016	116-117		
	416-1 Assessment of the health and safety impacts of product and service categories	116-117		Product Performance & Safety Innovation
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	112		Product Performance & Safety Innovation
GRI 417: Marketing and Labeling 2016	GRI 103: Management Approach 2016	142-143		
	417-1 Requirements for product and service information and labelling	117, 146		
	417-2 Incidents of non-compliance concerning product and service information and labeling	112		
	417-3 Incidents of non-compliance concerning marketing communications	112		

GRI 418: Customer Privacy 2016	GRI 103: Management Approach 2016	98-101		
	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	112		
GRI 419: Socioeconomic Compliance 2016	GRI 103: Management Approach 2016	112		
	419-1 Non-compliance with laws and regulations in the social and economic area	112		Business Integrity

OTHER MATERIAL TOPICS IDENTIFIED (not covered by the GRI Standards)	
Material Topic	**Page Number**
Future Mobility	107-108, 208-209
Product Eco-Innovation	141-146
Raw Materials Eco and Safety Innovation	114-115, 140-141
Road Safety	211-214
Service to Customers	109-113

UNGC PRINCIPLES SUMMARY TABLE

Areas of the Global Compact	Global Compact Principles	Directly Relevant GRI Indicators	Indirectly Relevant GRI Indicators
Human Rights	**Principle 1** – Business should promote and respect internationally proclaimed human rights in their respective spheres of influence.	Disclosure 407: Freedom of Association and Collective Bargaining Disclosure 408: Child Labor Disclosure 409: Forced or Compulsory Labor Disclosure 410: Security Practices Disclosure 411: Rights of Indigenous Peoples Disclosure 412: Human Rights Assessment Disclosure 414: Supplier Social Assessment Disclosure 103-2: Grievance Mechanism	Disclosure 413: Local Communities
	Principle 2 – Business should ensure that they are not, albeit indirectly, complicit in human rights abuses.	Disclosure 410: Security Practices Disclosure 412: Human Rights Assessment Disclosure 414: Supplier Social Assessment	
Labour Standards	**Principle 3** – Businesses should uphold the freedom of association of workers and recognise the right to collective bargaining.	Disclosure 402: Labour/Management Relations Disclosure 403: Occupational Health and Safety Disclosure 407: Freedom of Association and Collective Bargaining Disclosure 410: Security Practices Disclosure 102-11: Precautionary Principle or Approach Disclosure 102-41: Collective Bargaining Agreements	
	Principle 4 – Business should uphold the elimination of all forms of forced and compulsory labour.	Disclosure 409: Forced or Compulsory Labor Disclosure 410: Security Practices	Disclosure 412: Human Rights Assessment

Areas of the Global Compact	Global Compact Principles	Directly Relevant GRI Indicators	Indirectly Relevant GRI Indicators
	Principle 5 – Business should uphold the effective elimination of child labour.	Disclosure 408: Child Labor Disclosure 410: Security Practices	Disclosure 412: Human Rights Assessment
	Principle 6 – Business should uphold the elimination of discrimination in respect of employment and occupation.	Disclosure 401: Employment Disclosure 404: Training and Education Disclosure 405: Diversity and Equal Opportunity Disclosure 406: Non-Discrimination Disclosure 410: Security Practices Disclosure 102-8: Information on Employees and other Workers	Disclosure 202: Market Presence Disclosure 401: Employment Disclosure 412: Human Rights Assessment Disclosure 414: Supplier Social Assessment Disclosure 102-41: Collective Bargaining Agreements
Environment	**Principle 7** – Businesses should support a precautionary approach to environmental challenges.	Disclosure 102-11: Precautionary Principle or Approach Disclosure 201: Economic Performance	Disclosure 301: Materials Disclosure 302: Energy Disclosure 303: Water Disclosure 304: Biodiversity Disclosure 305: Emissions Disclosure 306: Effluents and Waste Disclosure 307: Environmental Compliance
	Principle 8 – Business should undertake initiatives to promote greater environmental responsibility.	Disclosure 301: Materials Disclosure 302: Energy Disclosure 303: Water Disclosure 304: Biodiversity Disclosure 305: Emissions Disclosure 306: Effluents and Waste Disclosure 307: Environmental Compliance Disclosure 308: Supplier Environmental Assessment Disclosure 103-2: Grievance Mechanism	Disclosure 201: Economic Performance
	Principle 9 –	Disclosure 301: Materials	

Areas of the Global Compact	Global Compact Principles	Directly Relevant GRI Indicators	Indirectly Relevant GRI Indicators
	Businesses should encourage the development and diffusion of environmentally friendly technologies.	Disclosure 302: Energy Disclosure 303: Water Disclosure 305: Emissions	
Anti-Corruption	**Principle 10** – Businesses should work against corruption in all its forms, including extortion and bribery.	Disclosure 205: Anti-Corruption Disclosure 419: Socioeconomic Compliance Disclosure 102-16: Values, Principles, Standards, and Norms of Behavior Disclosure 102-17: Mechanism for Advice and Concerned about Ethics	Disclosure 205: Anti-Corruption Disclosure 419: Socioeconomic Compliance Disclosure 102-16: Values, Principles, Standards, and Norms of Behavior Disclosure 102-17: Mechanism for Advice and Concerned about Ethics

SDGs SUMMARY TABLE

Sustainable Development Goals (SDGs)	Paragraphs describing the Group's activities in support of the SDGs and relevant targets
1 - No Poverty	Company Initiatives for the External Community (Solidarity pp. 216-217)
2 - Zero Hunger	Company Initiatives for the External Community (Solidarity pp. 216-217)
3 - Good Health and Well-being	Welfare and Initiatives for the Internal Community (pp. 189-191) Occupational Health, Safety and Hygiene (pp. 195-202) Company Initiatives for the External Community (Road Safety pp. 211-214, Sport and Social Responsibility pp. 215-216, Health p. 218) Target: • Accident Frequency Index: -87% by 2020 compared to 2009
4 - Quality Education	Training (pp. 182-188) Company Initiatives for the External Community (Training pp. 213-214, Culture and Social Value pp. 219-220) Target: • Training: investment in employee training of at least an average of 7 man days
5 - Gender Equality	Diversity Management (pp. 172-177)
6 - Clean Water and Sanitation	Water Management (pp. 156-158) Target: • Specific withdrawal of water -66% by 2020 compared to 2009
7 - Affordable and Clean Energy	Energy Management (pp. 149-152) Management of Greenhouse Gas Emissions and Carbon Action Plan (pp. 152-156) Targets: • Specific Energy Consumption: -19% by 2020 compared to 2009
8 - Decent Work and Economic Growth	Our Suppliers (pp. 119-135) Internal Community (pp. 167-202)

9 - Industry, Innovation and Infrastructure	Company Initiatives for the External Community (Training pp. 213-214) Target: • For specific product segments it is foreseen, by 2025 and compared with 2017, the doubling of the weight of renewable materials used and the reduction by 30% of raw materials derived from fossils
10 - Reduced Inequalities	Diversity Management (pp. 172-177)
11 - Sustainable Cities and Communities	Main International Commitments for Sustainability (pp. 205-210) Company Initiatives for the External Community (Road Safety pp. 211-213, Solidarity pp. 216-217) Target: • Improvement of product performances in 2020: o Car products: -20% average rolling resistance, +15% on wet surfaces, -15% noise (vs 2009) o Moto products: -10% average rolling resistance, +40% performance on wet surfaces, +30% for mileage (vs 2009) o Velo: +5% braking performance, +10% wet surfaces (vs 2017)
12 - Responsible Consumption and Production	Energy Management (pp. 149-152) Management of Greenhouse Gas Emissions and Carbon Action Plan (pp. 152-156) Water Management (pp. 156-158) Waste Management (pp. 158-160) Company Initiatives for the External Community (Training pp. 213-214) Targets: • Specific Energy Consumption: -19% by 2020 compared to 2009 • Specific CO_2 Emissions: -17% in 2020 compared to 2009 • Water Specific Withdrawal: -66% by 2020 compared to 2009 • Waste Recovery: >95% by 2020
13 - Climate Action	CDP Supply Chain (pp. 131) Management of Greenhouse Gas Emissions and Carbon Action Plan (pp. 152-156) Main International Commitments for Sustainability (International Commitments against Climate Change pp. 209) Targets:

	• Specific Energy Consumption: -19% by 2020 compared to 2009
	• Specific CO_2 Emissions: -17% in 2020 compared to 2009
	• Green Performance Revenues: >50% of total revenues and >65% on High Value Product Revenues by 2020 compared to 2009
	• Improvement of product performances in 2020:
	  ○ Car products: -20% average rolling resistance, +15% performance on wet surfaces, -15% noise (vs 2009)
	  ○ Moto products: -10% average rolling resistance, +40% performance on wet surfaces, +30% for mileage (vs 2009)
	  ○ Velo: +5% braking performance, +10% wet surfaces (vs 2017)

14 - Life below Water	Water Management (pp. 156-158)
15- Life on Land	Sustainability of the Natural Rubber Supply Chain (pp. 122-124) Company Initiatives for the External Community (Training pp. 213-214)
16- Peace, Justice and Strong Institutions	Programs of Compliance 231, Anti-corruption, Privacy and Antitrust (pp. 98-101)
17 - Partnerships for the Goals	Sustainability of the Natural Rubber Supply Chain (pp. 122-124) Main International Commitments for Sustainability (pp. 205-210) Company Initiatives for the External Community (pp. 210-225)

CORRELATION TABLE WITH TOPICS LISTED IN ART. 2, D. LGS 254/2016

	Topics from D. Lgs 254/2016	Reference Paragraph	Page Number
Environmental Aspects	**Use of Energy Resources (from renewables and non-renewables)**	• Risks Related To Environmental Issues • Energy Management	69, 149-152
	Use of Water Resources	• Risks Related To Environmental Issues • Water Management	69, 156-158
	Greenhouse Gas Emissions and Air-Polluting Emissions	• Risks Related To Climate Change • Management Of Greenhouse Gas Emissions and Carbon Action Plan • Solvents • NO_x Emissions • Other Emissions and Environmental Aspects	64, 152-156, 160, 162-163
Social Aspects	**Health and Safety**	• Employee Health and Safety Risks • Health, Safety and Hygiene at Work	69, 195-202
	Training and Development	• Risks associated with Human Resources • Development • Training	68, 181-188
	Welfare	• Welfare and Initiatives for the Internal Community	189-191
	Dialogue with Employees	• Litigations Risks • Listening: Group Opinion Survey • Industrial Relations	69, 188, 191-195
	Actions for Gender Equality	• Diversity Management • Sustainability and Diversity Policies	172-177, 231-232
	Respect for Human Rights: Measures Taken and Prevention	• Risks in term of Corporate Social and Environmental Responsibility, Business Ethics, and Third-Party Audits	71-72, 164-166, 172-177

		• Human Rights Governance • Diversity Management	
Governance Aspects	**Fight against Active and Passive Corruption**	• Risks in term of Corporate Social and Environmental Responsibility, Business Ethics, and Third-Party Audits • Programs of Compliance 231, Anti-corruption, Privacy and Antitrust	71-72, 98-101

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Pirelli & C SpA

Independent auditor's report on the consolidated non-financial disclosure

pursuant to art. 3, paragraph 10 of Legislative Decree 254/2016 and to art. 5 of Consob Regulation 20267

for the year ended 31 December 2017

pwc

Independent auditor's report on the consolidated non-financial disclosure

pursuant to art. 3, paragraph 10 of Legislative Decree 254/2016 and to art. 5 of Consob Regulation 20267

To the board of directors of Pirelli & C SpA

Pursuant to article 3, paragraph 10 of the Legislative Decree 254 of 30 December 2016 (the Decree) and to article 5 of CONSOB Regulation 20267, we have performed a limited assurance engagement on the consolidated report on responsible management of the value chain / non-financial disclosure of Pirelli & C SpA and its subsidiaries (the Pirelli group) as of and for the year ended 31 December 2017, in accordance with article 4 of the Decree and included in the section Report on Responsible Management of the Value Chain of the annual report 2017 of Pirelli group, approved by the board of directors of Pirelli & C SpA on 26 February 2018 (the NFD).

Responsibility of the directors and of the board of statutory auditors for the NFD

The directors are responsible for the preparation of the NFD in accordance with article 3 and 4 of the Decree and with the Sustainability Reporting Standards, issued by Global Reporting Initiative in 2016 (GRI Standards), and with the process suggested in AA1000APS (AccountAbility Principles Standards).

The directors are responsible, in accordance with the law, for the implementation of internal controls necessary to ensure that the NFD is free from material misstatement, whether due to fraud or unintentional errors. The directors are responsible for identifying the content of the NFD, within the matters mentioned in article 3, paragraph 1 of the Decree, considering the activities and characteristics of the group and to the extent necessary to ensure the understanding of the group activities, its trends, its results and related impacts. The directors are responsible for defining the business and organisational model of the group and, with reference to the matters identified and reported in the NFD, for the policies adopted by the group and for the identification and management of risks generated and/or faced by the group.

The board of statutory auditors is responsible for overseeing, in accordance with the law, the compliance with the Decree.

Auditors' independence and quality control

We are independent in accordance with the principles of ethics and independence disclosed in the Code of Ethics for Professional Accountants published by the International Ethics Standards Board of Accountants, which are based on the fundamental principles of integrity, objectivity, competence and

PricewaterhouseCoopers SpA

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professional diligence, privacy and professional behaviour. Our audit firm adopts the International Standard on Quality Control 1 (ISQC Italy 1) and, accordingly, maintains an overall quality control system which includes processes and procedures for the compliance with ethical and professional standard and with applicable laws and regulations.

Auditors' responsibility

We are responsible for expressing, on the basis of the work performed, a conclusion regarding the compliance of the NFD with the Decree, with the GRI Standards and with the process suggested in the AA1000APS. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000 Revised), issued by the International Auditing and Assurance Standards Board (IAASB), for limited assurance engagements. The standard requires that we plan and perform procedures to obtain a limited assurance that the NFD does not contain material errors. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised and, therefore, do not provide us with a sufficient level of assurance to become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

The procedures performed on the NFD are based on our professional judgement and consisted of interviews, primarily with company personnel responsible for the preparation of the NFD, in the analysis of documents, recalculations and other procedures aimed at obtaining evidence as appropriate.

In particular, we have performed the following procedures:

1. analysis of the relevant matters reported in the NFD relating to the activities and characteristics of the group, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree, with the reporting standard adopted and considering AA1000SES (Stakeholder Engagement Standard);
2. analysis and assessment of the criteria used to identify the consolidation area, to assess its compliance with the Decree;
3. comparing the financial information reported in the NFD with the information reported in the group consolidated financial statements;
4. understanding of the following matters:
    - business and organisational model of the group, with reference to the management of the matters specified by article 3 of the Decree;
    - policies adopted by the group with reference to the matters specified by article 3 of the Decree, actual results and related key performance indicators;
    - main risks, generated and/or faced by the group, with reference to the matters specified in article 3 of the Decree.

    With reference to such matters, we have carried out some validation procedures on the information presented in the NFD and some controls as described under point 5 below;

5. understanding of the processes underlying the preparation, collection and management of the qualitative and quantitative material information included in the NFD. In particular, we have held meetings and interviews with the management of Pirelli & C SpA and with the management of S.C. Pirelli Tyres Romania Srl, Pirelli Deutschland GmbH, Pirelli Industrie Pneumatici Srl, Pirelli Tyre SpA e HB Servizi Srl and we have performed limited analysis and validation procedures, to gather information about the processes and procedures for the collection, consolidation, processing and submission of the non-financial information to the function responsible for the preparation of the NFD;
6. analysis of policies and procedures in place and of the coherence of the sustainability management model compared to ISO26000 principles, among which: governance, human rights, relationship and work conditions, and environment.

Moreover, for significant information, considering the activities and characteristics of the group:

- at a group level,
  - a) with reference to the qualitative information included in the NFD, and in particular to the business model, the policies adopted and the main risks, we carried out interviews and obtained supporting documentation to verify its consistency with available evidence;
  - b) with reference to quantitative information, we performed analytical procedures and limited tests, in order to assess, on a sample basis, the consolidation of the information;
- for the following industrial sites Breuberg (Germany), Slatina (Romania) e Settimo Torinese (Italy), which were selected on the basis of their activities, their contribution to the performance indicators at consolidated level and their location, we carried out site visits during which we met local management and gathered supporting documentation regarding the compliance with procedures and calculation methods used for the key performance indicators.

Conclusions

Based on the work performed, nothing has come to our attention that caused us to believe that the NFD of the Pirelli group as of 31 December 2017 and for the year then ended has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree, with the GRI Standards and with the principles of inclusivity, materiality and responsiveness of AA1000APS, as described in the Methodological note of the Report on responsible management of the value chain.

Other aspects

With respect to the year ended 31 December 2016, Pirelli group prepared a Report on Responsible Management of the Value Chain whose information has been included, for comparative purposes, in the NFD. Comparative information was subject to a voluntary limited assurance review performed by another auditor in accordance with ISAE 3000 Revised. The other auditor issued a limited assurance report on 4 April 2017, with no exception.

Milan, 8 March 2017

Signed by	*Signed by*
Paolo Caccini (Partner)	Paolo Bersani (Partner)

This report has been translated into English from the original version, which was issued in Italian, solely for the convenience of international readers.

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

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