



Pirelli & C. S.p.A.

Report on Remuneration

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, 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.

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 or 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 or 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
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		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 ¹	On/off condition

¹ 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.

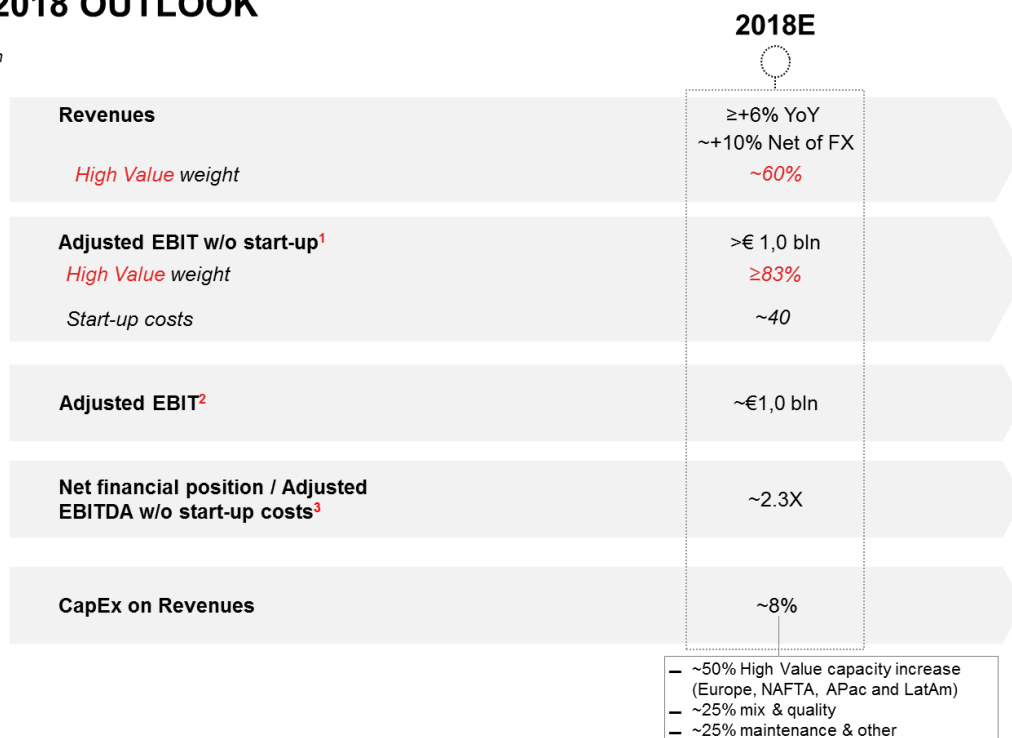
	Region/EU Adjusted Ebit	From 20% to 50%
	Functional objective/s with Region/BU/Group “scope”	From 20% to 50%
	Group EBT	From 10% to 20%

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.

Please find below the target disclosed to the market on February 26, 2018:

FY 2018 OUTLOOK

€ million



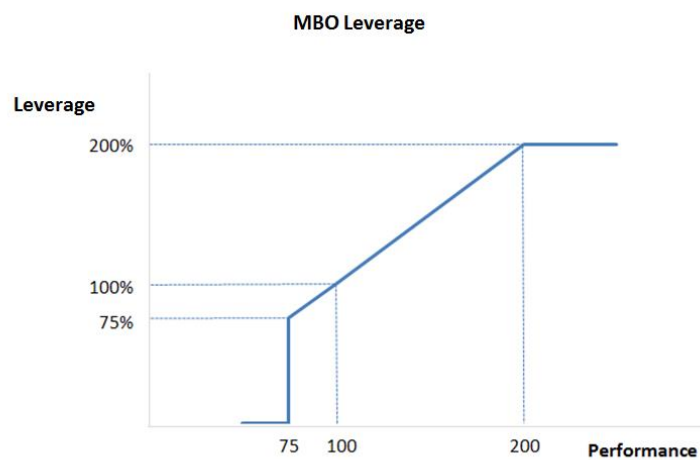
¹ EBIT adjusted excluding PPA amortization, non recurring, one-off, extraordinary items and start-up costs; ² EBIT adjusted excluding PPA amortization, non recurring, one-off and extraordinary items; ³ EBITDA adjusted excluding non recurring, one-off, extraordinary items and start-up costs

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

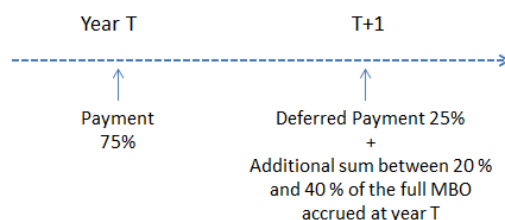
Managers with strategic responsibilities	75% of the incentive at target	From 50% to 75% of the GAS	200% of the incentive at target
Senior Manager/Executive	75% of the incentive at target	From 20% to 40% of the GAS based on the role	200% of the incentive at target

Deferred payment of the MBO

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 and maximum the increase of the MBO of the previous year shall be calculated by linear interpolation).

MBO Plan - Timeline



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 an 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 to the Plan thereof was granted. Said incentive percentage varies based on the role held and takes into due account the reference benchmarks for each role.

Each objective provides an 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	75% of the	From 50% to 167%	200% of the incentive

Manager/Executive	incentive target	at	of the GAS based on the role	at target
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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	Placing in the highest decile

	economic/financial objectives (if only such objective is met, then no pro-quota of any three year incentive shall be therefore paid)	
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Below the targets disclosed to the market for the three-years period 2018-2020

TARGETS_

€ Mln

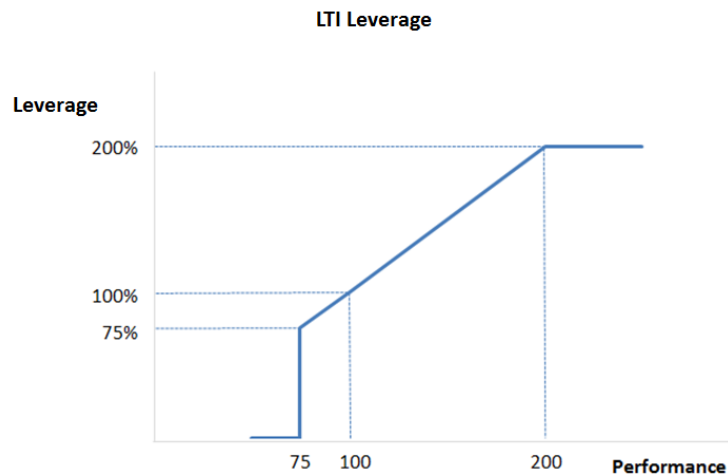
	2016A	2020E
Revenues	4,976	≥ 9% CAGR 16-20
<i>High Value weight on Revenues</i>	55%	~63%
Adjusted EBITDA margin ¹	21.7%	~ 23% + ~ 24%
Adjusted EBIT margin ^{2,3}	17.0%	~ 18.5% + ~ 19.5%
<i>High Value weight on EBIT</i>	81%	~ 85%
CapEx on Revenues	~ 6.8%	~ 7.0% on average '17-20
Net financial position/ 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 agreements² 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;
- (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

² 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.

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	<ul style="list-style-type: none"> - 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)	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - 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;

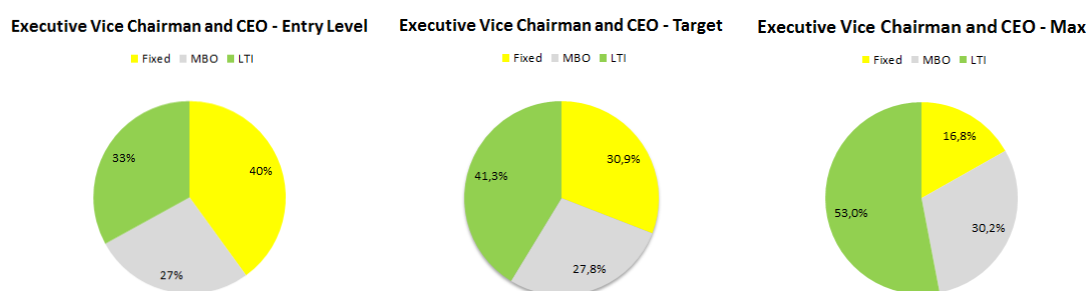
	- not lower than 50% of the overall variable component.
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As of the date of this Report the Executive Vice Chairman and CEO Mr. Marco Tronchetti Provera is the only director holding special offices who also has special responsibilities.

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).³

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.



³ 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.

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 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:

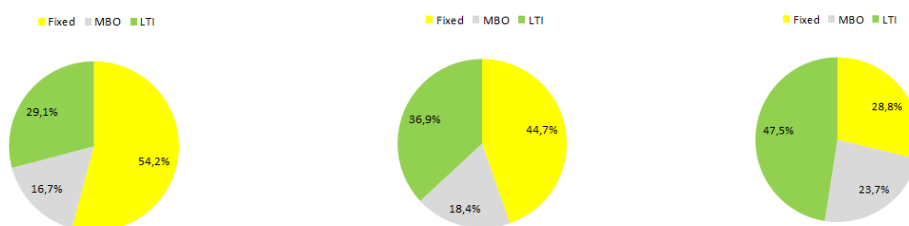
Role	Component	Criterion
Managers with strategic responsibilities	Gross annual fixed component	<ul style="list-style-type: none"> - established at the time recruitment, may be updated on a regular basis in order to take in due consideration the performance, any new responsibilities, the evolution of 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)	<ul style="list-style-type: none"> - 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.

Managers with strategic responsibilities - Entry Level Managers with strategic responsibilities - Target Managers with strategic responsibilities - Max



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:

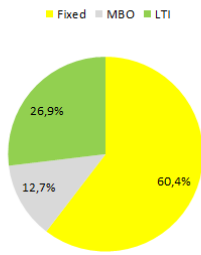
- supplementary pension funds which provide for the Company the payment to a pension fund of a sum equal to 4% of the gross annual salary received up to a gross cap of Euro 150 thousand;
- health and life insurance policy which are additional to the cover provided under the National Collective Labour 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:

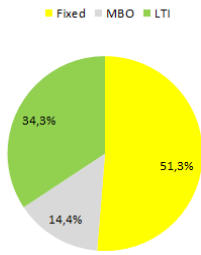
- a. the fixed component: (i) for Senior Managers its weight is generally 60% of the Annual Total Direct Compensation at Target and (ii) for Executives its weight generally does not exceed 75% of the Annual Total Direct Compensation at Target;
- b. an accrued yearly incentive (MBO) which, at target, represents a percentage of the GAS which is no lower of 20% of said remuneration;
- a. 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.

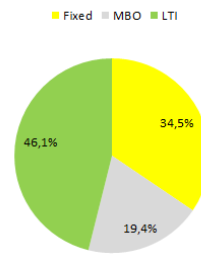
Senior Managers - Entry Level



Senior Managers - Target

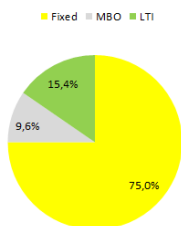


Senior Managers - Max

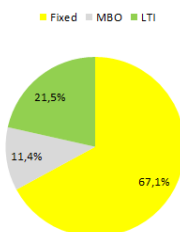


Annualized structure of the remuneration of the Senior Managers			
	Achievement of the objectives at access threshold	Achievement of the objectives at target	Achievement of the objectives at maximum level (cap)
Fixed component	60.4%	51.3%	34.5%
Annual variable component (MBO)	12.7%	14.4%	19.4%
Annualized medium-to-long term variable component	26.9%	34.3%	46.1%
Total	100%	100%	100%

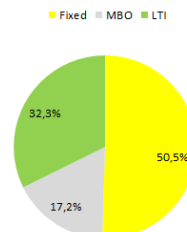
Executives - Entry Level



Executives - Target



Executives - Max



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.	<p>2. "Process" for defining and implementing the policies and involved entities</p> <p>3. Remuneration Committee</p>

<p>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;</p>	<p>2. "Process" for defining and implementing the policies and involved entities</p> <p>3. Remuneration Committee</p>
<p>c) the names of any independent advisor involved in the preparation of the Policy on Remuneration;</p>	<p>14. Other Information</p>
<p>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;</p>	<p>1. Principles and review of the risks</p> <p>13. Changes to the Policy on remuneration from the previous financial year.</p>
<p>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;</p>	<p>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</p> <p>5. MBO and LTI PLAN</p> <p>8. The remuneration of the Directors of Pirelli & C.</p> <p>9. The Board of Auditors</p> <p>10. Remuneration of the Directors holding special offices</p> <p>11. Managers with strategic responsibilities</p> <p>12. Senior Managers and Executives</p> <p>The following paragraphs provides a detail of the operation of the variable</p>

	components of the remuneration:
f) the policy followed for the non-monetary benefits;	<p>Paragraphs for the different roles</p> <p>8. The remuneration of the Directors of Pirelli & C.</p> <p>10. Remuneration of the Directors holding special offices</p> <p>11. Managers with strategic responsibilities</p> <p>12. Senior Managers and Executives</p>
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

<p>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;</p>	<p>1. Principles and review of the risks</p> <p>5. MBO and LTI PLAN</p> <p>And also for the different roles</p> <p>8. The remuneration of the Directors of Pirelli & C.</p> <p>9. The Board of Auditors</p> <p>10. Remuneration of the Directors holding special offices</p> <p>11. Managers with strategic responsibilities</p> <p>12. Senior Managers and Executives</p>
<p>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;</p>	<p>Pirelli does not currently provide any financial incentive scheme.</p> <p>As regards the deferral mechanisms for the monetary variable components please refer to Paragraph:</p> <p>5. MBO and LTI PLAN</p>
<p>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;</p>	<p>Pirelli does not currently provide any stock incentive scheme</p>
<p>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;</p>	<p>6. Indemnity in case of resignation, dismissal or termination of the contract</p> <p>7. Covenants to not compete and Retention Plan</p>

<p>m) information on the provision of any insurance, welfare or pension covers, which are not the statutory covers;</p>	<p>Paragraphs for the different roles</p> <p>8. The remuneration of the Directors of Pirelli & C.</p> <p>9. The Board of Auditors</p> <p>10. Remuneration of the Directors holding special offices</p> <p>11. Managers with strategic responsibilities</p> <p>12. Senior Managers and Executives</p>
<p>n) the remuneration policy optionally followed as regards: (i) to independent Directors, (ii) the participation to committees (iii) specific offices (chairman, vice chairman, etc.);</p>	<p>8. The remuneration of the Directors of Pirelli & C.</p>
<p>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</p>	<p>14. Other Information</p>

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 responsibilities¹. 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*)²).
- 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 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).

¹ 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".

² Starting from 1st January, 2018 Giorgio Luca Bruno no longer qualifies as Executive with strategic responsibilities

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
<i>Group PFN before dividends</i>	<i>on/off condition</i>
Group EBIT (<i>after</i> restructuring costs)	30%
<i>Group Net Cash Flow di Gruppo (before dividends)</i>	50%
Group Ebt	20%

Office	2017 MBO plan structure	Incentive score
Executive Vice Chairman and CEO	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - 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.

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		
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 health 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
- (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 *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/	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						
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/	No of shares sold	No of shares held at 31/12/2017
-		-	(1)	-	-	-

* 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.